

ADVANCE AUTO PARTS INC
Form 10-Q
June 01, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended April 23, 2011

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____.

Commission file number 001-16797

ADVANCE AUTO PARTS, INC.
(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

54-2049910
(I.R.S. Employer
Identification No.)

5008 Airport Road, Roanoke, Virginia 24012
(Address of Principal Executive Offices)
(Zip Code)

(540) 362-4911
(Registrant's telephone number, including area code)

Not Applicable
(Former name, former address and former fiscal year, if changed since last report).

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Registration S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/>	Smaller reporting company	<input type="checkbox"/>

(Do not check if a smaller reporting company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of May 27, 2011, the registrant had outstanding 76,637,258 shares of Common Stock, par value \$0.0001 per share (the only class of common stock of the registrant outstanding).

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
ADVANCE AUTO PARTS, INC. AND SUBSIDIARIESAdvance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
April 23, 2011, January 1, 2011 and April 24, 2010
(in thousands, except per share data)
(unaudited)

Assets	April 23, 2011	January 1, 2011	April 24, 2010
Current assets:			
Cash and cash equivalents	\$ 53,667	\$ 59,209	\$ 133,286
Receivables, net	115,424	124,227	110,471
Inventories, net	2,118,119	1,863,870	1,745,555
Other current assets	48,278	76,965	33,984
Total current assets	2,335,488	2,124,271	2,023,296
Property and equipment, net of accumulated depreciation of			
\$947,678, \$927,564 and \$925,389	1,151,926	1,143,170	1,095,935
Assets held for sale	707	1,472	1,552
Goodwill	34,387	34,387	34,387
Intangible assets, net	25,062	25,360	26,085
Other assets, net	25,813	25,557	21,553
	\$ 3,573,383	\$ 3,354,217	\$ 3,202,808
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portion of long-term debt	\$ 923	\$ 973	\$ 1,293
Financed vendor accounts payable	-	31,648	17,557
Accounts payable	1,574,347	1,292,113	1,185,782
Accrued expenses	386,552	404,086	424,961
Other current liabilities	114,508	119,229	68,122
Total current liabilities	2,076,330	1,848,049	1,697,715
Long-term debt	430,832	300,851	277,695
Other long-term liabilities	182,337	165,943	118,015
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, nonvoting, \$0.0001 par value	-	-	-
Common stock, voting, \$0.0001 par value	11	11	10
Additional paid-in capital	468,753	456,645	404,803
Treasury stock, at cost	(1,302,998)	(1,028,612)	(680,583)
Accumulated other comprehensive income (loss)	379	(1,597)	(6,230)
Retained earnings	1,717,739	1,612,927	1,391,383
Total stockholders' equity	883,884	1,039,374	1,109,383

\$	3,573,383	\$	3,354,217	\$	3,202,808
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The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Sixteen Week Periods Ended
April 23, 2011 and April 24, 2010
(in thousands, except per share data)
(unaudited)

	Sixteen Week Periods Ended	
	April 23, 2011	April 24, 2010
Net sales	\$ 1,898,063	\$ 1,830,606
Cost of sales, including purchasing and warehousing costs	939,862	919,829
Gross profit	958,201	910,777
Selling, general and administrative expenses	772,224	728,605
Operating income	185,977	182,172
Other, net:		
Interest expense	(9,719)	(5,956)
Other income, net	55	524
Total other, net	(9,664)	(5,432)
Income before provision for income taxes	176,313	176,740
Provision for income taxes	66,730	67,309
Net income	\$ 109,583	\$ 109,431
Basic earnings per share	\$ 1.37	\$ 1.20
Diluted earnings per share	\$ 1.35	\$ 1.19
Average common shares outstanding	79,468	90,712
Average common shares outstanding - assuming dilution	81,019	91,473

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Sixteen Week Periods Ended
April 23, 2011 and April 24, 2010
(in thousands, except per share data)
(unaudited)

	Preferred Stock	Common Shares	Additional Stock Amount	Paid-in Capital	Treasury Stock, at cost Shares	Amount	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
Balance, January 1, 2011	-	\$- 105,682	\$11	\$456,645	23,726	\$(1,028,612)	\$(1,597)	\$1,612,927	\$1,039,374
Net income								109,583	109,583
Changes in net unrecognized other postretirement benefit costs, net of \$90 tax							(140)		(140)
Amortization of unrecognized losses on interest rate swaps, net of \$1,374 tax							2,116		2,116
Comprehensive income									111,559
Issuance of shares upon the exercise of stock options		193		2,875					2,875
Tax benefit from share-based compensation				2,663					2,663
Issuance of restricted stock, net of forfeitures		4							-
Amortization of restricted stock balance				2,287					2,287
Share-based compensation				3,673					3,673
Stock issued under employee stock purchase plan		9		542					542
Treasury stock purchased					4,307	(274,386)			(274,386)

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Cash dividends								(4,771)	(4,771)
Other				68					68
Balance, April 23, 2011	- \$-	105,888	\$ 11	\$468,753	28,033	\$(1,302,998)	\$ 379	\$1,717,739	\$ 883,884
Balance, January 2, 2010	- \$-	104,251	\$ 10	\$392,962	10,628	\$(391,176)	\$(6,699)	\$1,287,268	\$1,282,365
Net income								109,431	109,431
Changes in net unrecognized other postretirement benefit costs, net of \$82 tax								(128)	(128)
Unrealized gain on hedge arrangement, net of \$637 tax								597	597
Comprehensive income									109,900
Issuance of shares upon the exercise of stock options		178		4,126					4,126
Tax benefit from share-based compensation				476					476
Issuance of restricted stock, net of forfeitures		(7)							-
Amortization of restricted stock balance				3,106					3,106
Share-based compensation				3,568					3,568
Stock issued under employee stock purchase plan		13		509					509
Treasury stock purchased					6,955	(289,407)			(289,407)
Cash dividends								(5,316)	(5,316)
Other				56					56
Balance, April 24, 2010	- \$-	104,435	\$ 10	\$404,803	17,583	\$(680,583)	\$(6,230)	\$1,391,383	\$1,109,383

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Sixteen Week Periods Ended
April 23, 2011 and April 24, 2010
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 23, 2011	April 24, 2010
Cash flows from operating activities:		
Net income	\$ 109,583	\$ 109,431
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	52,539	49,683
Share-based compensation	5,960	6,674
Loss on property and equipment, net	1,291	1,508
Other	235	304
Provision (benefit) for deferred income taxes	14,109	(1,883)
Excess tax benefit from share-based compensation	(2,692)	(809)
Net decrease (increase) in:		
Receivables, net	8,821	(17,911)
Inventories, net	(254,249)	(113,688)
Other assets	28,228	30,043
Net increase in:		
Accounts payable	282,234	219,508
Accrued expenses	20,941	51,348
Other liabilities	5,450	3,796
Net cash provided by operating activities	272,450	338,004
Cash flows from investing activities:		
Purchases of property and equipment	(88,883)	(60,675)
Proceeds from sales of property and equipment	1,021	93
Net cash used in investing activities	(87,862)	(60,582)
Cash flows from financing activities:		
Decrease in bank overdrafts	(4,471)	(9,526)
Decrease in financed vendor accounts payable	(31,648)	(14,535)
Borrowings under credit facilities	443,200	75,000
Payments on credit facilities	(313,000)	-
Payments on note payable	(239)	(232)
Dividends paid	(9,701)	(10,903)
Proceeds from the issuance of common stock, primarily exercise of stock options	3,485	4,691
Excess tax benefit from share-based compensation	2,692	809
Repurchase of common stock	(280,389)	(289,407)
Other	(59)	(51)
Net cash used in financing activities	(190,130)	(244,154)
Net (decrease) increase in cash and cash equivalents	(5,542)	33,268
Cash and cash equivalents, beginning of period	59,209	100,018

Cash and cash equivalents, end of period	\$ 53,667	\$ 133,286
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The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows - (Continued)
For the Sixteen Week Periods Ended
April 23, 2011 and April 24, 2010
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 23, 2011	April 24, 2010
Supplemental cash flow information:		
Interest paid	\$ 6,769	\$ 7,831
Income tax payments, net	14,185	16,508
Non-cash transactions:		
Accrued purchases of property and equipment	17,102	15,002
Repurchases of common stock not settled	8,991	-
Changes in other comprehensive income	1,976	469

The accompanying notes to the condensed consolidated financial statements are an integral part of these statements.

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Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
For the Sixteen Week Periods Ended April 23, 2011 and April 24, 2010
(in thousands, except per share data)
(unaudited)

1. Basis of Presentation:

The accompanying condensed consolidated financial statements include the accounts of Advance Auto Parts, Inc. and its wholly owned subsidiaries, or the Company. All significant intercompany balances and transactions have been eliminated in consolidation.

The condensed consolidated balance sheets as of April 23, 2011, January 1, 2011 and April 24, 2010, the condensed consolidated statements of operations for the sixteen week periods ended April 23, 2011 and April 24, 2010, the condensed consolidated statements of changes in stockholders' equity for the sixteen week periods ended April 23, 2011 and April 24, 2010 and the condensed consolidated statements of cash flows for the sixteen week periods ended April 23, 2011 and April 24, 2010, have been prepared by the Company. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's consolidated financial statements for the fiscal year ended January 1, 2011, or Fiscal 2010.

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 1 to the consolidated financial statements included in the Company's Annual Report on Form 10-K for Fiscal 2010 (filed with the Securities and Exchange Commission, or SEC, on March 1, 2011).

The results of operations for the interim periods are not necessarily indicative of the operating results to be expected for the full fiscal year.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ materially from those estimates.

New Accounting Pronouncements

In January 2010, the Financial Accounting Standards Board, or FASB, issued ASU No. 2010-06 "Fair Value Measurements and Disclosures – Improving Disclosures about Fair Value Measurements". ASU 2010-06 requires new disclosures for significant transfers in and out of Level 1 and 2 of the fair value hierarchy and the activity within Level 3 of the fair value hierarchy. The updated guidance also clarifies existing disclosures regarding the level of disaggregation of assets or liabilities and the valuation techniques and inputs used to measure fair value. The updated guidance is effective for interim and annual reporting periods beginning after December 15, 2009, with the exception of the new Level 3 activity disclosures, which are effective for interim and annual reporting periods beginning after

December 15, 2010. The adoption of ASU 2010-06 had no impact on the Company's condensed consolidated financial statements.

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Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
For the Sixteen Week Periods Ended April 23, 2011 and April 24, 2010
(in thousands, except per share data)
(unaudited)

2. Inventories, net:

Inventories are stated at the lower of cost or market. The Company used the LIFO method of accounting for approximately 95% of inventories at April 23, 2011, January 1, 2011 and April 24, 2010. Under LIFO, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs for inventories purchased in Fiscal 2011 and prior years. The Company's overall costs to acquire inventory for the same or similar products have generally decreased historically as the Company has been able to leverage its continued growth. Additionally, the Company's inventory costs have decreased in recent years as a result of the Company's execution of merchandise strategies and realization of supply chain efficiencies. As a result of utilizing LIFO, the Company recorded a reduction to cost of sales of \$4,083 and \$18,250 for the sixteen weeks ended April 23, 2011 and April 24, 2010, respectively.

An actual valuation of inventory under the LIFO method is performed by the Company at the end of each fiscal year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations are based on management's estimates of expected fiscal year-end inventory levels and costs.

Inventory balances at April 23, 2011, January 1, 2011 and April 24, 2010 were as follows:

	April 23, 2011	January 1, 2011	April 24, 2010
Inventories at FIFO, net	\$ 1,987,225	\$ 1,737,059	\$ 1,630,048
Adjustments to state inventories at LIFO	130,894	126,811	115,507
Inventories at LIFO, net	\$ 2,118,119	\$ 1,863,870	\$ 1,745,555

3. Goodwill and Intangible Assets:

Goodwill

The Company has goodwill recorded in both the AAP and AI segments. The AAP segment's goodwill balance was \$16,093 at April 23, 2011 and April 24, 2010. The AI segment's goodwill balance was \$18,294 at April 23, 2011 and April 24, 2010. The Company recorded no activity to its goodwill balance for the sixteen weeks ended April 23, 2011 and April 24, 2010, respectively.

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Advance Auto Parts, Inc. and Subsidiaries
Notes to the Condensed Consolidated Financial Statements
For the Sixteen Week Periods Ended April 23, 2011 and April 24, 2010
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Intangible Assets Other Than Goodwill

The gross and net carrying amounts of acquired intangible assets as of April 23, 2011, January 1, 2011 and April 24, 2010 are comprised of the following:

	Acquired intangible assets			Intangible Assets, net
	Subject to Amortization Customer Relationships	Other	Not Subject to Amortization Trademark and Tradenames	
Gross:				
Gross carrying amount at January 1, 2011	\$ 9,800	\$ 885	\$ 20,550	\$ 31,235
Additions	-	-	-	-
Gross carrying amount at April 23, 2011	\$ 9,800	\$ 885	\$ 20,550	\$ 31,235
Gross carrying amount at January 2, 2010				
Gross carrying amount at January 2, 2010	\$ 9,800	\$ 885	\$ 20,550	\$ 31,235
Additions	-	-	-	-