ADVANCE AUTO PARTS INC
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-K

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2011
OR
o 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	54-2049910
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
5008 Airport Road Roanoke, VA	24019
(Address of Principal Executive Offices)	(Zip Code)

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

Securities Registered Pursuant to Section 12(b) of the Act

Title of each class	Name of each exchange on which registered
Common Stock ($0.0001 par value)	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 x No o

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 x No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Registration S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to the Form 10-K. o

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 x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

As of July 15, 2011, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the 73,945,428 shares of Common Stock held by non-affiliates of the registrant was $4,095,837,257, based on the last sales price of the Common Stock on July 15, 2011, as reported by the New York Stock Exchange.

As of February 25, 2012, the registrant had outstanding 72,924,659 shares of Common Stock, par value $0.0001 per share (the only class of common stock of the registrant outstanding).

Documents Incorporated by Reference:

Portions of the definitive proxy statement of the registrant to be filed within 120 days of December 31, 2011, pursuant to Regulation 14A under the Securities Exchange Act of 1934, for the 2012 Annual Meeting of Stockholders to be held on May 15, 2012, are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

Certain statements in this report are "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements are usually identified by the use of words such as "anticipate," "believe," "could," "estimate," "expect," "forecast," "intend," "likely," "may," "plan," "position," "possible," "potential," "probable," "project," "projection," "should," "strategy," "will," or similar expressions. We intend for any forward-looking statements to be covered by, and we claim the protection under, the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

These forward-looking statements are based upon assessments and assumptions of management in light of historical results and trends, current conditions and potential future developments that often involve judgment, estimates, assumptions and projections. Forward-looking statements reflect current views about our plans, strategies and prospects, which are based on information currently available.

Although we believe that our plans, intentions and expectations as reflected in or suggested by any forward-looking statements are reasonable, we do not guarantee or give assurance that such plans, intentions or expectations will be achieved. Actual results may differ materially from our anticipated results described or implied in our forward-looking statements, and such differences may be due to a variety of factors. Our business could also be affected by additional factors that are presently unknown to us or that we currently believe to be immaterial to our business.

Listed below and discussed elsewhere in further detail in this report are some important risks, uncertainties and contingencies which could cause our actual results, performance or achievements to be materially different from any forward-looking statements made or implied in this report. These include, but are not limited to, the following:

- a decrease in demand for our products;
- competitive pricing and other competitive pressures;
- our ability to implement our business strategy;
- our ability to expand our business, including the location of available and suitable real estate for new store locations, the integration of any acquired businesses and the continued increase in supply chain capacity and efficiency;
- our ability to attract and retain qualified employees, or Team Members;
- deterioration in general macro-economic conditions, including unemployment, inflation or deflation, consumer debt levels, high fuel and energy costs, uncertain credit markets or other recessionary type conditions could have a negative impact on our business, financial condition, results of operations and cash flows;
- regulatory and legal risks, such as environmental or OSHA risks, including being named as a defendant in administrative investigations or litigation, and the incurrence of legal fees and costs, the payment of fines or the payment of sums to settle litigation cases or administrative investigations or proceedings;
- a security breach or other cyber security incident;
- business interruptions due to the occurrence of natural disasters, extended periods of unfavorable weather, computer system malfunction, wars or acts of terrorism;
- the impact of global climate change or legal and regulatory responses to such change; and
- other statements that are not of historical fact made throughout this report, including the sections entitled “Business,” "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors."

We assume no obligations to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. In evaluating forward-looking statements, you should consider these risks and uncertainties, together with the other risks described from time to time in our other reports and documents filed with the Securities and Exchange Commission, or SEC, and you should not place undue reliance on those statements.

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PART I

Item 1. Business.

Unless the context otherwise requires, “Advance,” “we,” “us,” “our,” and similar terms refer to Advance Auto Parts, Inc., its predecessor, its subsidiaries and their respective operations. Our fiscal year consists of 52 or 53 weeks ending on the Saturday closest to December 31st of each year. Fiscal 2008 included 53 weeks of operations. All other fiscal years presented include 52 weeks of operations (the next 53 week fiscal year is 2014).

Overview

We are a leading specialty retailer of automotive aftermarket parts, accessories, batteries and maintenance items primarily operating within the United States. Our stores carry an extensive product line for cars, vans, sport utility vehicles and light trucks. We serve both "do-it-yourself," or DIY, and “do-it-for-me,” or Commercial, customers. Our Commercial customers consist primarily of delivery customers for whom we deliver product from our store locations to our Commercial customers’ places of business, including independent garages, service stations and auto dealers.

We were founded in 1929 as Advance Stores Company, Incorporated and operated as a retailer of general merchandise until the 1980s. During the 1980s, we sharpened our focus to target sales of automotive parts and accessories to DIY customers. From the 1980s to the present, we have grown significantly as a result of comparable store sales growth, new store openings and strategic acquisitions. We began our Commercial delivery program in 1996 and have significantly increased our sales to Commercial customers since 2000. Our parent company, Advance Auto Parts, Inc., a Delaware corporation, was incorporated in 2001 in conjunction with the acquisition of Discount Auto Parts, Inc. At December 31, 2011, the end of our 2011 fiscal year, or Fiscal 2011, we operated 3,662 total stores.

Our Internet address is www.AdvanceAutoParts.com. We make available free of charge through our Internet website our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed or furnished pursuant to the Securities Exchange Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC's website at www.sec.gov.

Operating Segments

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of our store operations, which operate under the trade names “Advance Auto Parts,” “Advance Discount Auto Parts” and “Western Auto,” and our e-commerce operations. The AI segment consists solely of the operations of Autopart International, Inc. which operates under the “Autopart International” trade name.

Financial information on our segments is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K. In addition, selected financial data for our segments is available in Note 21, Segment and Related Information, of the Notes to Consolidated Financial Statements, included in Item 15. Exhibits, Financial Statement Schedules, of this Annual Report on Form 10-K.

AAP Segment

At December 31, 2011, we operated 3,460 AAP stores within the United States, Puerto Rico and the Virgin Islands. We operated 3,434 AAP stores throughout 39 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores operated under the “Advance Auto Parts” trade name except for certain stores in the state of

Florida, which operated under the "Advance Discount Auto Parts" trade name. These stores offer a broad selection of brand name and private label automotive replacement parts, accessories, batteries and maintenance items for domestic and imported cars and light trucks. In addition, we operated 26 AAP stores under the "Advance Auto Parts" and "Western Auto" trade names, located in Puerto Rico and the Virgin Islands, or Offshore. Through our integrated operating approach, we serve our DIY and Commercial customers from our store locations and online at www.AdvanceAutoParts.com. Our online website allows our DIY customers to pick up merchandise at a conveniently located store or have their purchases shipped directly to their home or business. Our Commercial customers can conveniently place their orders online.

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AAP Stores

Store Overview. Our stores generally are located in freestanding buildings in areas with high vehicle traffic counts, good visibility and easy access to major roadways and to our Commercial customers. We believe that our stores exhibit a customer-friendly format with the majority of our stores featuring an updated exterior and interior, bright lighting, and a well-designed and easily navigated floor plan. The average size of our stores is 7,300 square feet with the size of our typical new stores ranging from approximately 6,000 to 8,000 square feet. Our stores generally are open from 7:30 a.m. to 9:00 p.m. six days a week and 9:00 a.m. to 8:00 p.m. on Sundays and most holidays to meet the needs of our DIY and Commercial customers.

Our stores carry a product offering of approximately 18,000 SKUs, generally consisting of a custom mix of product based on the stores' respective market. Our stores also have access to an additional assortment of 108,000 SKUs for same-day or next-day delivery from one of our 254 HUB stores or our network of 22 Parts Delivered Quickly, or PDQ®, facilities. Additionally, our customers have access to over 340,000 SKUs by ordering directly from one of our vendors for delivery to a particular store or other destination as chosen by the customer.

We strive to be the leader in the automotive aftermarket industry by fulfilling our promise, 'Service is our best part®,' through our Service Leadership and Superior Availability strategies. We offer our customers quality products which are backed by a solid warranty. Many of our products are offered at a good, better or best recommendation differentiated by price and quality. Store Team Members utilize our proprietary point-of-sale, or POS, system, including a fully integrated electronic parts catalog to identify and suggest the appropriate quality and price options for the SKUs we carry, as well as the related products, tools or additional information that is required by our customers to complete their automotive repair projects properly and safely.

The primary categories of product we offer in our stores include:

- Parts, including alternators, batteries, belts and hoses, chassis parts, clutches, engines and engine parts, ignition, lighting, radiators, starters, spark plugs and wires, transmissions and water pumps;
- Accessories, including floor mats, mirrors, vent shades, MP3 and cell phone accessories, and seat and steering wheel covers;
- Chemicals, including antifreeze, brake and power steering fluid, freon, fuel additives, windshield washer fluid and car washes and waxes;
- Oil, transmission fluid and other automotive petroleum products; and
- Other miscellaneous offerings.

The product in our stores is generally arranged in a uniform and consistent manner based on standard store formats and merchandise presentation. The parts inventory is generally located on shelves behind the customer service counter with the remaining product, or front room merchandise, arranged on the sales floor to provide easy customer access, maximum selling space and to prominently display high-turnover products and accessories to customers. We utilize aisle displays to feature high-demand or seasonal merchandise, new items and advertised specials, including bilingual signage based on the demographics in each store's geographic area.

We also provide a variety of services free of charge to our customers including:

- Battery & wiper installation;
- Battery charging;
- Check engine light reading where allowed by law;
- Electrical system testing, including batteries, starters, alternators and sensors;
- “How-To” Video Clinics;

- Oil and battery recycling; and
- Loaner tool program.

Our stores are 100% company operated and are divided into three geographic areas. Each geographic area is managed by a senior vice president, who is supported by regional and district management. District Leaders have direct responsibility for store operations in a specific district, which typically consists on average of 12 stores. Depending on store size and sales volume, each store is staffed by approximately 8 to 16 Team Members, under the leadership of a General Manager. Store Team Members are comprised of full and part-time Team Members. A majority of our stores include at least two parts professionals, or parts pros, who have an extensive technical knowledge of automotive replacement parts and other related applications to better serve our Commercial and DIY customers. Many of our stores include bilingual Team Members to better serve our diverse customer base. We offer training to all of our Team Members, including formal classroom workshops, e-learning and

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certification by the National Institute for Automotive Service Excellence, or ASE. ASE is broadly recognized for training certification in the automotive industry.

Commercial Sales. Our Commercial sales consist of sales to both our walk-in and delivery customers, which represented approximately 34% of our AAP sales in Fiscal 2011. Since 2000, we have aggressively expanded our sales to Commercial customers through our Commercial delivery program. For delivered sales, we utilize our Commercial delivery fleet to deliver product from our store locations to our Commercial customers' place of business, including independent garages, service stations and auto dealers. Our stores are supported by a Commercial sales team who are dedicated to the development of our national, regional and local Commercial customers. Our Commercial sales management is closely aligned with our store management as part of our overall integrated store operation.

Since 2008, we have concentrated a significant amount of our investments on increasing our Commercial sales at a faster rate in light of the favorable market dynamics. We have added key product brands in our stores that are well recognized by our Commercial customers, and have increased the number of parts professionals, delivery trucks and other support services to serve those customers. We believe these investments and the commitment to consistent delivery times and order accuracy will enable us to gain more Commercial customers as well as increase our sales to existing customers who will use us as their “first call” supplier. At December 31, 2011, 3,124 AAP stores, or 90% of total AAP stores, had Commercial delivery programs.

Store Development. Our store development program has historically focused on adding new stores within existing markets where we can achieve a larger presence, remodeling or relocating existing stores and entering new markets. The addition of new stores, along with strategic acquisitions, have played a significant role in our growth and success. We believe the opening of new stores, and their strategic location in relation to our DIY and Commercial customers, will continue to play a significant role in our future growth and success.

We open and operate stores in both large, densely populated markets and small, less densely populated areas. We complete substantial research prior to entering a new market. Key factors in selecting new site and market locations include population, demographics, vehicle profile, number and strength of competitors' stores and the cost of real estate.

Our 3,460 AAP stores were located in the following states and territories at December 31, 2011:

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Alabama	121	Maryland	84	Pennsylvania	179
Arkansas	28	Massachusetts	70	Puerto Rico	25
Colorado	50	Michigan	112	Rhode Island	11
Connecticut	41	Minnesota	14	South Carolina	128
Delaware	7	Mississippi	57	South Dakota	7
Florida	465	Missouri	43	Tennessee	138
Georgia	233	Nebraska	21	Texas	174
Illinois	109	New Hampshire	15	Vermont	8
Indiana	107	New Jersey	65	Virgin Islands	1
Iowa	27	New Mexico	1	Virginia	177
Kansas	25	New York	133	West Virginia	69
Kentucky	102	North Carolina	242	Wisconsin	53
Louisiana	61	Ohio	209	Wyoming	3
Maine	14	Oklahoma	31		

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The following table sets forth information concerning increases in the total number of our AAP stores during the past five years:

	2011	2010	2009	2008	2007
Beginning Stores	3,369	3,264	3,243	3,153	2,995
New Stores [1]	95	110	75	109	175
Stores Closed	(4)	(5)	(54)	(19)	(17)
Ending Stores	3,460	3,369	3,264	3,243	3,153

(1) Does not include stores that opened as relocations of previously existing stores within the same general market area or substantial renovations of stores.

Store Technology. Our store-based information systems, which are designed to improve the efficiency of our operations and enhance customer service, are comprised of a proprietary POS system and electronic parts catalog, or EPC, system. Information maintained by our POS system is used to formulate pricing, marketing and merchandising strategies and to replenish inventory accurately and rapidly. Our POS system is fully integrated with our EPC system and enables our store Team Members to assist our customers in their parts selection and ordering based on the year, make, model and engine type of their vehicles. Our centrally-based EPC data management system enables us to reduce the time needed to (i) exchange data with our vendors and (ii) catalog and deliver updated, accurate parts information.

Our EPC system also contains enhanced search engines and user-friendly navigation tools that enhance our Team Members' ability to look up any needed parts as well as additional products the customer needs to complete an automotive repair project. If a hard-to-find part or accessory is not available at one of our stores, the EPC system can determine whether the part is carried and in-stock through our HUB or PDQ® networks or can be ordered directly from one of our vendors. Available parts and accessories are then ordered electronically from another store, HUB, PDQ® or directly from the vendor with immediate confirmation of price, availability and estimated delivery time.

We also support our store operations with additional proprietary systems and customer driven labor scheduling capabilities. Our store-level inventory management system provides real-time inventory tracking at the store level. With the store-level system, store Team Members can check the quantity of on-hand inventory for any SKU, adjust stock levels for select items for store specific events, automatically process returns and defective merchandise, designate SKUs for cycle counts and track merchandise transfers. Our stores use radio frequency hand-held devices to help ensure the accuracy of our inventory. Our standard operating procedure, or SOP, system is a web-based, electronic data management system that provides our Team Members with instant access to any of our standard operating procedures through a comprehensive on-line search function. All of these systems are tightly integrated and provide real-time, comprehensive information to store personnel, resulting in improved customer service levels, Team Member productivity and in-stock availability.

Store Support Center

Merchandising. Purchasing for virtually all of the merchandise for our stores is handled by our merchandise teams located in three primary locations:

- Store support center in Roanoke, Virginia;
- Regional office in Minneapolis, Minnesota; and
- Global sourcing office in Taipei, Taiwan.

Our Roanoke team is primarily responsible for the parts categories and our Minnesota team is primarily responsible for accessories, oil and chemicals. Our global sourcing team works closely with both teams.

In Fiscal 2011, we purchased merchandise from approximately 500 vendors, with no single vendor accounting for more than 9% of purchases. Our purchasing strategy involves negotiating agreements with most of our vendors to purchase merchandise over a specified period of time along with other terms, including pricing, payment terms and volume.

The merchandising team has developed strong vendor relationships in the industry and, in a collaborative effort with our vendor partners, utilizes a category management process where we manage the mix of our product offerings to meet customer demand. We believe this process, which develops a customer-focused business plan for each merchandise category, and our global sourcing operation are critical to improving comparable store sales, gross margin and inventory productivity.

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Our merchandising strategy is to carry a broad selection of high quality and reputable brand name automotive parts and accessories which we believe will generate DIY customer traffic and also appeal to our Commercial customers. Some of these brands include Bosch®, Castrol®, Dayco®, Federal-Mogul Moog®, or Moog®, Monroe®, Prestone®, Purolator®, Trico® and Wagner®. In addition to these branded products, we stock a wide selection of high quality private label products that appeal to value-conscious customers. These lines of merchandise include chemicals, interior automotive accessories, batteries and parts under various private label names such as Autocraft®, Driveworks®, Tough One® and Wearever®.

Supply Chain. Our supply chain consists of centralized inventory management and transportation functions which support a supply chain network of distribution centers, PDQ® warehouses, HUB's and stores. Our inventory management team utilizes a replenishment system to monitor the distribution center, PDQ® warehouse, HUB and store inventory levels and orders additional product when appropriate while streamlining handling costs. Our replenishment system utilizes the most up-to-date information from our POS system as well as inventory movement forecasting based upon sales history, sales trends by SKU, seasonality (and weather patterns) and demographic shifts in demand. Our replenishment system combines these factors with service level goals, vendor lead times and cost of inventory assumptions to determine the timing and size of purchase orders. The vast majority of our purchase orders are sent to our merchandise vendors via electronic data interchange.

We currently operate eight AAP distribution centers. All of these distribution centers are equipped with our distribution center management system, or DCMS. Our DCMS provides real-time inventory tracking through the processes of receiving, picking, shipping and replenishing inventory at our distribution centers. The DCMS, integrated with technologically advanced material handling equipment, reduces warehouse and distribution costs, while improving efficiency. This equipment includes carousels, “pick-to-light” systems, radio frequency technology, voice technology and automated sorting systems. We have ongoing supply chain initiatives to further increase the efficient utilization of our distribution capacity. Among these initiatives is the planned opening of our ninth AAP distribution center in 2012. The new distribution center will provide needed capacity to support our product availability initiatives and will utilize updated technology to eventually be implemented throughout our entire supply chain network.

Store inventories are replenished from our eight distribution centers. We utilize reputable dedicated carriers to ship product from our distribution centers to our stores. In addition to a store's normal inventory assortment, we currently offer approximately 81,000 SKUs to support all of our retail stores via our 22 stand-alone PDQ® warehouses and/or our eight distribution centers (all of which stock PDQ® items). Stores have visibility, through our EPC system, to inventory in their respective PDQ® warehouses and distribution centers as well as facilities throughout the Company and can place orders to these facilities through an online ordering system. Ordered parts are delivered to substantially all stores on a same-day or next-day basis through our dedicated PDQ® trucking fleet and third-party carriers. Supplementing the inventory on-hand at our stores, our HUB stores stock an additional 27,000 less common SKUs which are available to our stores within the HUB stores' service area on a same-day or next-day basis.

Marketing & Advertising. Our marketing and advertising program is designed to drive brand awareness and store traffic by positioning the Advance Auto Parts brand as the service leader in the aftermarket auto parts category. We strive to exceed consumers' expectations through our free and value-added services, extensive parts assortment and quality merchandise offerings.

In early 2011, we launched our 'Service is our best part®' campaign nationwide. The campaign was developed based on extensive research with our customers and Team Members and brings to life a new brand promise for Advance. The campaign targets core DIY and Commercial customers and emphasizes our commitment to provide market-leading service to our customers.

Our multi-channel marketing communication plan is built around radio, direct marketing, digital and local marketing. The plan is supported by public relations, in-store and event signage as well as mobile and social media. We also use Spanish-language television, radio and outdoor advertising to reach our Latino customers.

A final and key component of our advertising is our local marketing program highlighted by our title sponsorship of the Advance Auto Parts Monster Jam, a live family-oriented monster truck event tour and television show. We are the title sponsor of the show and as such, the Advance brand is present throughout each host arena and comes alive through the Advance Auto Parts Grinder monster trucks. We are able to capitalize on the sponsorship at a store level through Grinder and other monster truck appearances and through store-based customer events in conjunction with the show. In addition, Advance also sponsors various other grass-root level events intended to positively impact the individual communities we serve, including Latino and other ethnic communities, and to drive awareness and repeated store visits.

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AI Segment

AI's business primarily serves the Commercial market, with an emphasis on parts for imported cars, from its store locations located primarily throughout the Northeastern and Mid-Atlantic regions of the United States and Florida. In addition, its North American Sales Division serves warehouse distributors and jobbers throughout North America. We believe AI provides a high level of service to its Commercial customers by providing quality parts, unsurpassed customer service and efficient parts delivery. As a result of its extensive sourcing network, AI is able to serve its customers in search of replacement parts for both domestic and imported cars and light trucks with a greater focus on imported parts. The vast majority of AI's product is sold under its own proprietary brand. The AI stores offer approximately 30,000 SKUs through routine replenishment from its supply chain with access to an additional 100,000 to 120,000 SKUs through local sourcing networks.

AI has significantly increased its store count since our acquisition of AI in September 2005. At December 31, 2011, we operated 202 stores under the “Autopart International” trade name in the following states:

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Alabama	1	Maryland	13	Pennsylvania	23
Connecticut	17	Massachusetts	32	Rhode Island	4
Delaware	1	North Carolina	1	Vermont	1
Florida	44	New Hampshire	8	Virginia	11
Georgia	1	New Jersey	17		
Maine	4	New York	24		

The following table sets forth information concerning increases in the total number of our AI stores:

	2011	2010	2009	2008	2007
Beginning Stores	194	156	125	108	87
New Stores	9	38	32	18	21
Stores Closed	(1)	—	(1)	(1)	—
Ending Stores	202	194	156	125	108

Seasonality

Our business is somewhat seasonal in nature, with the highest sales usually occurring in the spring and summer months. In addition, our business can be affected by weather conditions. While unusually heavy precipitation tends to soften sales as elective maintenance is deferred during such periods, extremely hot or cold weather tends to enhance sales by causing automotive parts to fail at an accelerated rate.

Team Members

At February 25, 2012, we employed approximately 29,000 full-time Team Members and approximately 24,000 part-time Team Members. Our workforce consisted of 91% of our Team Members employed in store-level operations, 6% employed in distribution and 3% employed in our corporate offices. We have never experienced any labor disruption and are not party to any collective bargaining agreements. We believe that our Team Member relations are good.

Intellectual Property

We own a number of trade names and own and have federally registered several service marks and trademarks, including "Advance Auto Parts," "Advance Discount Auto Parts," "Western Auto," "Parts America," "Autopart International," "PDQ" and "Service is our best part," for use in connection with the automotive parts retailing business. In addition, we own and have registered a number of trademarks for our private label brands. We believe that these trade names, service marks and trademarks are important to our merchandising strategy. We do not know of any infringing uses that would materially affect the use of these trade names and marks, and we actively defend and enforce them.

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Competition

We operate in both the DIY and Commercial markets of the automotive aftermarket industry. Our primary competitors are (i) both national and regional retail chains of automotive parts stores, including AutoZone, Inc., O'Reilly Automotive, Inc. and The Pep Boys-Manny, Moe & Jack, (ii) discount stores and mass merchandisers that carry automotive products, (iii) wholesalers or jobber stores, including those associated with national parts distributors or associations, such as NAPA and Carquest, (iv) independent operators, (v) automobile dealers that supply parts and (vi) internet-based parts providers. We believe that chains of automotive parts stores that, like us, have multiple locations in one or more markets, have competitive advantages in customer service, marketing, inventory selection, purchasing and distribution as compared to independent retailers and jobbers that are not part of a chain or associated with other retailers or jobbers. The principal methods of competition in our business include customer service, product offerings, availability, quality, price and store location.

Environmental Matters

We are subject to various federal, state and local laws and governmental regulations relating to the operation of our business, including those governing collection, transportation and recycling of automotive lead-acid batteries and used automotive oil, and ownership and operation of real property. We sell consumer products containing hazardous materials as part of our business. In addition, our customers may bring automotive lead-acid batteries or used automotive oil onto our properties. We currently provide collection and recycling programs for used lead-acid batteries and used oil at substantially all of our stores as a service to our customers. Pursuant to agreements with third party vendors, lead-acid batteries and used oil are collected by our Team Members, deposited onto pallets or into vendor supplied containers and stored by us until collected by the third party vendors for recycling or proper disposal. The terms of our contracts with third party vendors provide that they are in compliance with all applicable laws and regulations. Persons who arrange for the removal, disposal, treatment or other handling of hazardous or toxic substances may be liable for the costs of removal or remediation at any affected disposal, treatment or other site affected by such substances. Based on our experience, we do not believe that there are any material environmental costs associated with the current business practice of accepting lead-acid batteries and used oil as these costs are borne by the respective third party vendors.

We own and lease real property. Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. These laws often impose joint and several liability and may be imposed without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous or toxic substances. Other environmental laws and common law principles also could be used to impose liability for releases of hazardous materials into the environment or work place, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. From time to time, we receive notices from the Environmental Protection Agency and state environmental authorities indicating that there may be contamination on properties we own, lease or operate or may have owned, leased or operated in the past or on adjacent properties for which we may be responsible. Compliance with these laws and regulations has not had a material impact on our operations to date.

Item 1A. Risk Factors.

Our business is subject to a variety of risks, both known and unknown. Our business, financial condition, results of operations and cash flows could be negatively impacted by the following risk factors. These risks are not the only risks that may impact our business.

If overall demand for products sold by our stores slows or declines, our business, financial condition, results of operations and cash flows will suffer. Decreased demand could also negatively impact our stock price.

Overall demand for products sold by our stores depends on many factors and may slow or decrease due to any number of reasons, including:

- the number and average age of vehicles being driven, because the majority of vehicles that are seven years old and older are generally no longer covered under the manufacturers' warranties and tend to need maintenance and repair. If the number and average age of vehicles being driven were to decrease it would negatively impact demand for our products.
- the economy, because during periods of declining economic conditions, both DIY and Commercial customers may defer vehicle maintenance or repair; conversely, during periods of favorable economic conditions, more of our DIY customers may pay others to repair and maintain their cars or they may purchase new cars;
- the weather, because milder weather conditions may lower the failure rates of automobile parts while extended periods

of rain and winter precipitation may cause our customers to defer elective maintenance and repair of their vehicles;

- the average duration of manufacturer warranties and the decrease in the number of annual miles driven, because newer cars typically require fewer repairs and will be repaired by the manufacturer's dealer network using dealer parts; and lower vehicle mileage, which may be affected by gas prices and other factors, decreases the need for maintenance and repair (while higher miles driven increases the need);
- technological advances and the increase in quality of vehicles manufactured, because vehicles that need less frequent maintenance and have low part failure rates will require less frequent repairs using aftermarket parts;
- our vendors, because if any of our key vendors do not supply us with products on terms that are favorable to us or fail to develop new products we may not be able to meet the demands of our customers and our results of operations could be negatively affected;
- our reputation and our brands, because our reputation is critical to our continued success. If we fail to maintain high standards for, or receive negative publicity whether through social media or normal media channels relating to, product safety, quality or integrity, it could reduce demand for our products. The product we sell is branded both in brands of our vendors and in our own private label brands. If the perceived quality or value of the brands we sell declines in the eyes of our customers, our results of operations could be negatively affected; and
- the refusal of vehicle manufacturers to make available diagnostic, repair and maintenance information to the automotive aftermarket industry that our DIY and Commercial customers require to diagnose, repair and maintain their vehicles, because this may force consumers to have a majority of diagnostic work, repairs and maintenance performed by the vehicle manufacturers' dealer network.

If any of these factors cause overall demand for the products we sell to decline, our business, financial condition, results of operations and cash flows could be negatively impacted.

If we are unable to compete successfully against other companies in the automotive aftermarket industry we may lose customers, our revenues may decline, and we may be less profitable or potentially unprofitable.

The sale of automotive parts, accessories and maintenance items is highly competitive in many ways, including name recognition, location, price, quality, product availability and customer service. We compete in both the DIY and Commercial categories of the automotive aftermarket industry, primarily with: (i) national and regional retail automotive parts chains, (ii) discount stores and mass merchandisers that carry automotive products, (iii) wholesalers or jobber stores, (iv) independent operators, (v) automobile dealers that supply parts and (vi) internet-based parts providers. These competitors and the level of competition vary by market. Some of our competitors may possess advantages over us in certain markets we share, including a greater amount of marketing activities, a larger number of stores, store locations, store layouts, longer operating histories, greater name recognition, larger and more established customer bases, more favorable vendor relationships, lower prices, and better product warranties.

Our response to these competitive disadvantages may require us to reduce our prices below our normal selling prices or increase our promotional spending, which would lower our revenue and profitability. Competitive disadvantages may also prevent us from introducing new product lines, require us to discontinue current product offerings, or change some of our current operating strategies. If we do not have the resources, expertise, consistent execution or otherwise fail to develop successful strategies to address these competitive disadvantages, we may lose customers, our revenues and profit margins may decline and we may be less profitable or potentially unprofitable.

We may not be able to successfully implement our business strategy, including increasing comparable store sales, enhancing our margins and increasing our return on invested capital, which could adversely affect our business, financial condition, results of operations and cash flows.

We have implemented numerous initiatives as part of our business strategy to increase comparable store sales, enhance our margins and increase our return on invested capital in order to increase our earnings and cash flow. If we are unable to implement these initiatives efficiently and effectively, or if these initiatives are unsuccessful, our business, financial condition, results of operations and cash flows could be adversely affected.

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Successful implementation of our business strategy also depends on factors specific to the retail automotive parts industry and numerous other factors that may be beyond our control. In addition to the aforementioned risk factors, adverse changes in the following factors could undermine our business strategy and have a material adverse affect on our business, financial condition, results of operations and cash flow:

- the competitive environment in the automotive aftermarket parts and accessories retail sector that may force us to reduce prices below our desired pricing level or increase promotional spending;
- our ability to anticipate changes in consumer preferences and to meet customers' needs for automotive products (particularly parts availability) in a timely manner;
- our ability to maintain and eventually grow DIY market share; and
- our ability to continue our Commercial sales growth.

For that portion of our inventory manufactured and/or sourced outside the United States, geopolitical changes, changes in trade regulations, currency fluctuations, shipping related issues, natural disasters, pandemics and other factors beyond our control may increase the cost of items we purchase or create shortages which could have a material adverse effect on our sales and profitability.

We will not be able to expand our business if our growth strategy is not successful, including the availability of suitable locations for new store openings, the successful integration of any acquired businesses or the continued increase in supply chain capacity and efficiency, which could adversely affect our business, financial condition, results of operations and cash flows.

New Store Openings
We have increased our store count significantly in the last ten years from 2,484 stores at the end of Fiscal 2001 to 3,662 stores at December 31, 2011. We intend to continue to increase the number of our stores and expand the markets we serve as part of our growth strategy, primarily by opening new stores. We may also grow our business through strategic acquisitions. We do not know whether the implementation of our growth strategy will be successful. As we open more stores it becomes more critical that we have consistent execution across our entire store chain. The actual number of new stores to be opened and their success will depend on a number of factors, including, among other things:

- the availability of desirable store locations;
- the negotiation of acceptable lease or purchase terms for new locations;
- the availability of financial resources, including access to capital at cost-effective interest rates; and
- our ability to manage the expansion and hire, train and retain qualified sales associates.

We are unsure whether we will be able to open and operate new stores on a timely or sufficiently profitable basis, or that opening new stores in markets we already serve will not harm existing store profitability or comparable store sales. The newly opened and existing stores' profitability will depend on the competition we face as well as our ability to properly merchandise, market and price the products desired by customers in these markets.

Supply Chain
Our store inventories are primarily replenished by shipments from our network of distribution centers, PDQ® warehouses and HUB stores. As we service our growing store base, we will need to increase the capacity of our supply chain network in order to provide the added parts availability under our Superior Availability strategy while maintaining productivity and profitability expectations. We cannot be assured of the availability of potential locations on lease or purchase terms that would be acceptable to us, of our ability to integrate those new locations into our existing supply chain network or of our ability to increase the productivity and efficiency of our overall supply chain network to desired levels.

We depend on the services of many qualified Team Members, whom we may not be able to attract and retain.

Our success depends to a significant extent on the continued services and experience of our Team Members. At February 25, 2012, we employed approximately 53,000 Team Members. We may not be able to retain our current qualified Team Members or attract and retain additional qualified Team Members that may be needed in the future. Our ability to maintain an adequate number of qualified Team Members is highly dependent on an attractive and competitive compensation and benefits package. If we fail or are unable to maintain such a package, our customer service and execution levels could suffer by reason of a declining quality of our workforce, which could adversely affect our business, financial condition, results of operations and cash flows.

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Deterioration in global credit markets and changes in our credit ratings and deterioration in general macro-economic conditions, including unemployment, inflation or deflation, consumer debt levels, high fuel and energy costs or other recessionary type conditions could have a negative impact on our business, financial condition, results of operations and cash flows.

Deterioration in general macro-economic conditions impacts us through (i) potential adverse effects from deteriorating and uncertain credit markets (ii) the negative impact on our suppliers and customers and (iii) an increase in operating costs from higher energy prices.

Impact of Credit Market Uncertainty and Changes in Credit Ratings

Significant deterioration in the financial condition of large financial institutions in 2008 and 2009 resulted in a severe loss of liquidity and available credit in global credit markets and in more stringent borrowing terms. We can provide no assurance that the credit market events during 2008 and 2009 will not occur again in the foreseeable future. Conditions and events in the global credit market could have a material adverse effect on our access to short and long-term borrowings to finance our operations and the terms and cost of that debt. It is possible that one or more of the banks that provide us with financing under our revolving credit facility may fail to honor the terms of our existing credit facility or be financially unable to provide the unused credit.

Our overall credit rating may be negatively impacted by deteriorating and uncertain credit markets or other factors which may or may not be within our control. The interest rates on our publicly issued debt and revolving credit facility are linked directly to our credit ratings. Accordingly, any negative impact on our credit rating would likely result in higher interest rates and interest expense on any borrowings under our revolving credit facility or from future issuances of public debt and less favorable terms on other operating and financing arrangements. An inability to obtain sufficient financing at cost-effective rates could have a materially adverse affect on our business, financial condition, results of operations and cash flows.

Impact on our Suppliers

Our business depends on developing and maintaining close relationships with our suppliers and on our suppliers' ability and/or willingness to sell quality products to us at favorable prices and terms. Many factors outside our control may harm these relationships and the ability or willingness of these suppliers to sell us products on favorable terms. One such factor is a general decline in the economy and economic conditions and prolonged recessionary conditions. These events could negatively affect our suppliers' operations and make it difficult for them to obtain the credit lines or loans necessary to finance their operations in the short-term or long-term and meet our product requirements. Financial or operational difficulties that some of our suppliers may face could also increase the cost of the products we purchase from them or our ability to source product from them. We might not be able to pass our increased costs onto our customers. In addition, the trend towards consolidation among automotive parts suppliers as well as the off-shoring of manufacturing capacity to foreign countries may disrupt or end our relationship with some suppliers, and could lead to less competition and result in higher prices. We could also be negatively impacted by suppliers who might experience bankruptcies, work stoppages, labor strikes or other interruptions to or difficulties in the manufacture or supply of the products we purchase from them.

Impact on our Customers

Deterioration in macro-economic conditions may have a negative impact on our customers' net worth, financial resources and disposable income. Although the macro-economic conditions have improved since 2008 and 2009, unemployment rates have remained at historically high levels coupled with low consumer confidence. This impact could reduce our customers' willingness or ability to pay for accessories, maintenance or repair of their vehicles, which results in lower sales in our stores. Higher fuel costs may also reduce the overall number of miles driven by our customers resulting in less parts failures and elective maintenance required to be completed.

Impact on Operating Expenses

Rising energy prices could directly impact our operating and product costs, including our merchandise distribution, commercial delivery, utility and product acquisition costs.

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Because we are involved in litigation from time to time, and are subject to numerous laws and governmental regulations, we could incur substantial judgments, fines, legal fees and other costs.

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various actions. From time to time, we are involved in litigation involving claims related to, among other things, breach of contract, tortious conduct, employment law matters, payment of wages, asbestos exposure, real estate, and product defects. The damages sought against us in some of these litigation proceedings are substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse affect on our business, financial condition, results of operations and cash flows.

Additionally, we are subject to numerous federal, state and local laws and governmental regulations relating to, among other things, environmental protection, product quality standards, building and zoning requirements, and employment law matters. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital and operating expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

We work hard to maintain the privacy and security of our customer and business information and the functioning of our computer systems and website. In the event of a security breach or other cyber security incident, we could experience certain operational problems or interruptions, incur substantial additional costs, or become subject to legal or regulatory proceedings, any of which could lead to damage to our reputation in the marketplace.

The nature of our business requires us to receive, retain and transmit certain personally identifying information that our customers provide to purchase products or services, register on our websites, or otherwise communicate and interact with us. While we have taken and continue to undertake significant steps to protect our customer and confidential information and the functioning of our computer systems and website, a compromise of our data security systems or those of businesses we interact with could result in information related to our customers or business being obtained by unauthorized persons or other operational problems or interruptions. We develop and update processes and maintain systems in an effort to try to prevent this from occurring, but the development and maintenance of these processes and systems is costly and requires ongoing monitoring and updating as technologies change and efforts to overcome security measures become more sophisticated.

Consequently, despite our efforts, the possibility of intrusion, interruption of our business, cyber security incidents and theft cannot be eliminated entirely, and risks associated with each of these remain. While we also seek to obtain assurances that third parties we interact with will protect confidential information, there is a risk the confidentiality of data held or accessed by third parties may be compromised. If a compromise of our data security or function of our computer systems or website were to occur, it could have a material adverse effect on our operating results and financial condition and, possibly, subject us to additional legal, regulatory and operating costs and damage our reputation in the marketplace.

Business interruptions may negatively impact our store hours, operability of our computer systems and the availability and cost of merchandise which may adversely impact our sales and profitability.

War or acts of terrorism, hurricanes, tornados, earthquakes or other natural disasters, or the threat of any of these calamities or others, may have a negative impact on our ability to obtain merchandise available for sale in our stores, result in certain of our stores being closed for an extended period of time, negatively affect the lives of our customers or Team Members, or otherwise negatively impact our operations. Some of our merchandise is imported from other countries. If imported goods become difficult or impossible to import into the United States, and if we cannot obtain such merchandise from other sources at similar costs, our sales and profit margins may be negatively affected.

In the event that commercial transportation is curtailed or substantially delayed, our business may be adversely impacted, as we may have difficulty receiving merchandise from our suppliers and shipping it to our stores.

Terrorist attacks, war in the Middle East, or war within or between any oil producing country would likely result in an abrupt increase in the price of crude oil, gasoline, diesel fuel and energy costs. Such price increases would increase the cost of doing business for us and our suppliers, and also would negatively impact our customers' disposable income and have an adverse impact on our business, sales, profit margins and results of operations.

We rely extensively on our computer systems and the systems of our business partners to manage inventory, process transactions and report results. Any such systems are subject to damage or interruption from power outages, telecommunication failures, computer viruses, security breaches and catastrophic events. If our computer systems or those of our business partners

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fail we may experience loss of critical data and interruptions or delays in our ability to process transactions and manage inventory. Any such loss, if widespread or extended, could adversely affect the operation of our business and our results of operations.

We may be affected by global climate change or by legal, regulatory, or market responses to such change.

The growing political and scientific sentiment is that global weather patterns are being influenced by increased levels of greenhouse gases in the earth's atmosphere. This growing sentiment and the concern over climate change have led to legislative and regulatory initiatives aimed at reducing greenhouse gas emissions. For example, proposals that would impose mandatory requirements on greenhouse gas emissions continue to be considered by policy makers in the United States. Laws enacted that directly or indirectly affect our suppliers (through an increase in the cost of production or their ability to produce satisfactory products) or our business (through an impact on our inventory availability, cost of sales, operations or demand for the products we sell) could adversely affect our business, financial condition, results of operations and cash flows. Significant increases in fuel economy requirements or new federal or state restrictions on emissions of carbon dioxide that may be imposed on vehicles and automobile fuels could adversely affect demand for vehicles, annual miles driven or the products we sell or lead to changes in automotive technology. Compliance with any new or more stringent laws or regulations, or stricter interpretations of existing laws, could require additional expenditures by us or our suppliers. Our inability to respond to changes in automotive technology could adversely impact the demand for our products and our business, financial condition, results of operations or cash flows.

Item 1B. Unresolved Staff Comments.

None.

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Item 2. Properties.

The following table sets forth certain information relating to our distribution and other principal facilities:

Facility	Opening Date	Area Served	Size (Sq ft.)[(1)]	Nature of Occupancy
Main Distribution Centers:				
Roanoke, Virginia	1988	Mid-Atlantic	433,681	Leased
Lehigh, Pennsylvania	2005	Northeast	655,991	Owned
Lakeland, Florida	1982	South, Offshore	552,796	Owned
Gastonia, North Carolina	1969	North Carolina, South Carolina	634,472	Owned
Gallman, Mississippi	1999	Southwest, Midwest	388,168	Owned
Salina, Kansas	1971	West, Midwest	413,500	Owned
Delaware, Ohio	1972	Midwest	480,100	Owned
Thomson, Georgia	1999	Southeast	374,400	Owned
Master PDQ® Warehouse:				
Andersonville, Tennessee	1998	All	113,300	Leased
PDQ® Warehouses:				
Youngwood, Pennsylvania	1998	East	48,320	Leased
Riverside, Missouri	1999	West	43,912	Leased
Temple, Texas	1999	Southwest	61,343	Leased
Altamonte Springs, Florida	1996	Central and Northeast Florida	10,000	Owned
Jacksonville, Florida	1997	Southeastern Georgia	12,712	Owned
Tampa, Florida	1997	West Central Florida	10,000	Owned
Haileah, Florida	1997	South Florida	12,500	Owned
West Palm Beach, Florida	1998	Southeastern Florida, South Alabama and Southeastern Mississippi	13,300	Leased
Mobile, Alabama	1998	Florida Panhandle	10,000	Owned
Atlanta, Georgia	1999	Georgia	16,786	Leased
Tallahassee, Florida	1999	Northwest Florida	10,000	Owned
Fort Myers, Florida	1999	Southwest Florida	14,330	Owned
Brooklyn Heights, Ohio	2008	Cleveland, Ohio	22,000	Leased
Chicago, Illinois	2009	Mid-West	42,600	Leased
Rochester, New York	2009	Northeast	40,000	Leased
Leicester, Massachusetts	2009	Northeast	34,200	Leased
Washington, DC	2009	East	33,124	Leased
Houston, Texas	2009	Southwest	36,340	Leased
Denver, Colorado	2009	West	25,400	Leased
West Deptford, New Jersey	2009	East	33,029	Leased
Indianapolis, Indiana	2010	Mid-West	37,850	Leased
Durham, North Carolina	2010	East	41,652	Leased
Corporate/Administrative Offices:				
Roanoke, Virginia	2002	All	256,391	Leased
Minneapolis, Minnesota	2008	All	51,674	Leased

AI Properties:				
Norton, Massachusetts	2006	AI corporate office	30,000	Leased
Norton, Massachusetts	2006	Primarily Northeast and Mid-Atlantic	317,500	Leased

(1) Square footage amounts exclude adjacent office space.

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At December 31, 2011, we owned 731 of our stores and leased 2,931 stores. The expiration dates, including the exercise of renewal options, of the store leases are summarized as follows:

Years	AAP Stores	AI Stores	Total
2012	22	24	46
2013-2017	259	52	311
2018-2022	571	82	653
2023-2032	754	44	798
2033-2042	995	—	995
2043-2069	128	—	128
	2,729	202	2,931

Item 3. Legal Proceedings.

We currently and from time to time are involved in litigation incidental to the conduct of our business, including litigation arising from claims of employment discrimination or other types of employment matters as a result of claims by current and former employees. Although we diligently defend against these claims, we may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements, if we believe settlement is in the best interests of the Company and our shareholders. The damages claimed against us in some of these proceedings are substantial. Although the amount of liability that may result from these matters cannot be ascertained, we do not currently believe that, in the aggregate, they will result in liabilities material to our consolidated financial condition, future results of operations or cash flow.

Our Western Auto subsidiary, together with other defendants including automobile manufacturers, automotive parts manufacturers and other retailers, has been named as a defendant in lawsuits alleging injury as a result of exposure to asbestos-containing products. We and some of our other subsidiaries also have been named as defendants in many of these lawsuits. The plaintiffs have alleged that these products were manufactured, distributed and/or sold by the various defendants. These products have primarily included brake parts. Many of the cases pending against us or our subsidiaries are in the early stages of litigation. The damages claimed against the defendants in some of these proceedings are substantial. Additionally, some of the automotive parts manufacturers named as defendants in these lawsuits have declared bankruptcy, which will limit plaintiffs' ability to recover monetary damages from those defendants. Although we diligently defend against these claims, we may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements, if we believe settlement is in the best interests of the Company and our shareholders. We also believe that many of these claims are at least partially covered by insurance. Based on discovery to date, we do not believe the cases currently pending will have a material adverse effect on us. However, if we were to incur an adverse verdict in one or more of these claims and were ordered to pay damages that were not covered by insurance, these claims could have a material adverse effect on our operating results, financial position and cash flows. If the number of claims filed against us or any of our subsidiaries alleging injury as a result of exposure to asbestos-containing products increases substantially, the costs associated with concluding these claims, including damages resulting from any adverse verdicts, could have a material adverse effect on our operating results, financial position and cash flows in future periods.

Item 4. Reserved.

None.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.

Our common stock is listed on the New York Stock Exchange, or NYSE, under the symbol "AAP." The table below sets forth the high and low sale prices per share for our common stock, as reported by the NYSE, for the fiscal periods indicated.

	High	Low
Fiscal Year Ended December 31, 2011		
Fourth Quarter	$71.69	$59.25
Third Quarter	$63.59	$49.50
Second Quarter	$72.32	$55.15
First Quarter	$68.85	$60.09
Fiscal Year Ended January 1, 2011		
Fourth Quarter	$69.51	$58.28
Third Quarter	$60.21	$51.30
Second Quarter	$53.21	$42.19
First Quarter	$46.34	$38.38

The closing price of our common stock on February 25, 2012 was $84.58. At February 25, 2012, there were 293 holders of record of our common stock (which does not include the number of individual beneficial owners whose shares were held on their behalf by brokerage firms in street name).

Our Board of Directors has declared a $0.06 per share quarterly cash dividend since Fiscal 2006. Any payments of dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, cash flows, capital requirements and other factors deemed relevant by our Board of Directors.

The following table sets forth information with respect to repurchases of our common stock for the fourth quarter ended December 31, 2011 (amounts in thousands, except per share amounts);

Period	Total Number of Shares Purchased [(1)]	Average Price Paid per Share [(1)]	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs [(2)]	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs [(2)]
October 9, 2011 to November 5, 2011	1	$66.07	—	$200,032
November 6, 2011 to December 3, 2011	28	68.22	—	200,032
December 4, 2011 to December 31, 2011	—	—	—	200,032
Total	29	$68.12	—	$200,032

(1) We repurchased 29,000 shares of our common stock at an aggregate cost of $2.0 million, or an average purchase price of $68.12 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the fourth quarter ended December 31, 2011. We did not repurchase any shares under our

$300 million stock repurchase program during our fourth quarter ended December 31, 2011.

(2) Our stock repurchase program authorizing the repurchase of up to $300 million in common stock was authorized by our Board of Directors and publicly announced on August 9, 2011.

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Stock Price Performance

The following graph shows a comparison of the cumulative total return on our common stock, the Standard & Poor's 500 Index and the Standard & Poor's 500 Retail Index. The graph assumes that the value of an investment in our common stock and in each such index was $100 on December 30, 2006, and that any dividends have been reinvested. The comparison in the graph below is based solely on historical data and is not intended to forecast the possible future performance of our common stock.

COMPARISON OF CUMULATIVE TOTAL RETURN AMONG
ADVANCE AUTO PARTS, INC., S&P 500 INDEX
AND S&P 500 RETAIL INDEX

Company/Index	December 30, 2006	December 29, 2007	January 3, 2009	January 2, 2010	January 1, 2011	December 31, 2011
Advance Auto Parts	$100.00	$108.00	$97.26	$116.01	$190.41	$201.18
S&P 500 Index	100.00	104.24	65.70	78.62	88.67	88.67
S&P Retail Index	100.00	82.15	58.29	82.36	101.84	104.81

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Item 6. Selected Consolidated Financial Data.

The following table sets forth our selected historical consolidated statement of operations, balance sheet, cash flows and other operating data. Included in this table are key metrics and operating results used to measure our financial progress. The selected historical consolidated financial and other data (excluding the Selected Store Data and Performance Measures) at December 31, 2011 and January 1, 2011 and for the three years ended December 31, 2011 have been derived from our audited consolidated financial statements and the related notes included elsewhere in this report. The historical consolidated financial and other data at January 2, 2010, January 3, 2009 and December 29, 2007 and for the years ended January 3, 2009 and December 29, 2007 have been derived from our audited consolidated financial statements and the related notes that have not been included in this report. You should read this data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included elsewhere in this report.

	Fiscal Year (1)				
	2011	2010	2009	2008	2007
	(in thousands, except per share data, store data and ratios)				
Statement of Operations Data:					
Net Sales	$6,170,462	$5,925,203	$5,412,623	$5,142,255	$4,844,404
Cost of sales (2)	3,101,172	2,963,888	2,768,397	2,743,131	2,585,665
Gross Profit	3,069,290	2,961,315	2,644,226	2,399,124	2,258,739
Selling, general and administrative expenses	2,404,648	2,376,382	2,189,841	1,984,197	1,842,310
Operating income	664,642	584,933	454,385	414,927	416,429
Interest expense	(30,949)	(26,861)	(23,337)	(33,729)	(34,809)
Other income (expense), net	(457)	(1,017)	607	(506)	1,014
Income before provision for income taxes	633,236	557,055	431,655	380,692	382,634
Income tax expense	238,554	211,002	161,282	142,654	144,317
Net income	$394,682	$346,053	$270,373	$238,038	$238,317
Per Share Data:					
Net income per basic share	$5.21	$4.00	$2.85	$2.51	$2.29
Net income per diluted share	5.11	3.95	2.83	2.49	2.28
Cash dividends declared per basic share	0.24	0.24	0.24	0.24	0.24
Weighted average basic shares outstanding	75,620	86,082	94,459	94,655	103,826
Weighted average diluted shares outstanding	77,071	87,155	95,113	95,205	104,637
Cash flows provided by (used in):					
Operating activities	$828,849	$666,159	$699,690	$478,739	$410,542
Investing activities	(289,974)	(199,350)	(185,539)	(181,609)	(202,143)
Financing activities	(540,183)	(507,618)	(451,491)	(274,426)	(204,873)
Balance Sheet and Other Financial Data:					
Cash and cash equivalents	$57,901	$59,209	$100,018	$37,358	$14,654

Inventory	2,043,158	1,863,870	1,631,867	1,623,088	1,529,469
Inventory turnover (3)	1.59	1.70	1.70	1.74	1.73
Inventory per store (4)	578	523	477	482	469
Accounts payable to Inventory ratio (5)	80.9 %	71.0 %	61.2 %	57.2 %	55.1 %
Net working capital (6)	$105,945	$276,222	$421,591	$442,632	$456,897
Capital expenditures	268,129	199,585	192,934	184,986	210,600
Total assets	3,655,754	3,354,217	3,072,963	2,964,065	2,805,566
Total debt	415,984	301,824	204,271	456,164	505,672
Total net debt (7)	358,083	252,171	113,781	439,394	521,018
Total stockholders' equity	847,914	1,039,374	1,282,365	1,075,166	1,023,795

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	Fiscal Year (1) 2011	2010	2009	2008	2007
	(in thousands, except per share data, store data and ratios)				
Selected Store Data and Performance Measures:					
Comparable store sales growth (8)	2.2 %	8.0 %	5.3 %	1.5 %	0.7 %
Number of stores at beginning of year	3,563	3,420	3,368	3,261	3,082
New stores	104	148	107	127	196
Closed stores	(5)	(5)	(55)	(20)	(17)
Number of stores, end of period	3,662	3,563	3,420	3,368	3,261
Relocated stores	10	12	10	10	29
Stores with commercial delivery program, end of period	3,326	3,212	3,024	2,880	2,712
Total commercial sales, as a percentage of total sales (in 000s)	37.0 %	34.2 %	32.0 %	29.5 %	26.6 %
Average net sales per store (in 000s) (9)	$1,708	$1,697	$1,595	$1,551	$1,527
Operating income per store (in 000s) (10)	184	168	134	125	131
Gross margin return on inventory (11)	6.60	5.05	3.98	3.47	3.29
Total store square footage, end of period (in 000s)	26,663	25,950	24,973	24,711	23,982

(1) Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest to December 31st. All fiscal years presented are 52 weeks, with the exception of Fiscal 2008 which consisted of 53 weeks.

(2) Cost of sales includes a non-cash inventory adjustment of $37,500 recorded in Fiscal 2008 due to a change in our inventory management approach for slow moving inventory.

(3) Inventory turnover is calculated as cost of sales divided by the average of beginning and ending inventories.

(4) Inventory per store is calculated as ending inventory divided by ending store count.

(5) Accounts payable to inventory ratio is calculated as ending accounts payable divided by ending inventory. We aggregate financed vendor accounts payable with accounts payable to calculate our accounts payable to inventory ratio.

(6) Net working capital is calculated by subtracting current liabilities from current assets.

(7) Net debt includes total debt and bank overdrafts, less cash and cash equivalents.

(8) Comparable store sales growth is calculated based on the change in net sales starting once a store has been open for 13 complete accounting periods (each period represents four weeks). Relocations are included in comparable store sales growth from the original date of opening. Beginning in Fiscal 2008, we include in comparable store sales growth the net sales from stores operated Offshore and AI stores. The comparable periods have been adjusted accordingly. Fiscal 2008 comparable store sales growth excludes sales from the 53rd week.

(9) Average net sales per store is calculated as net sales divided by the average of the beginning and the ending number of stores for the respective period. Excluding the net sales impact of the 53rd week of Fiscal 2008 of approximately $88,800, average net sales per store in Fiscal 2008 was $1,524.

(10)

Operating income per store is calculated as operating income divided by the average of beginning and ending total store count for the respective period. Operating income per store for Fiscal 2009 was $142 excluding the $26,100 impact of store divestitures. Excluding the operating income impact of the 53^{rd} week of Fiscal 2008 of approximately $15,800 and a $37,500 non-cash inventory adjustment, operating income per store in Fiscal 2008 was $132.

(11) Gross margin return on inventory is calculated as gross profit divided by an average of beginning and ending inventory, net of accounts payable and financed vendor accounts payable. Excluding the gross profit impact of the 53^{rd} week of Fiscal 2008 of approximately $44,000 and a $37,500 non-cash inventory adjustment, gross margin return on inventory in Fiscal 2008 was $3.37.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis of financial condition and results of operations should be read in conjunction with "Selected Consolidated Financial Data," our consolidated historical financial statements and the notes to those statements that appear elsewhere in this report. Our discussion contains forward-looking statements based upon current expectations that involve risks and uncertainties, such as our plans, objectives, expectations and intentions. Actual results and the timing of events could differ materially from those anticipated in these forward-looking statements as a result of a number of factors, including those set forth under the sections entitled “Forward-Looking Statements” and "Risk Factors" elsewhere in this report.

Our fiscal year ends on the Saturday nearest December 31st of each year, which results in an extra week every several years (Fiscal 2008 contained 53 weeks). Our first quarter consists of 16 weeks, and the other three quarters consist of 12 weeks, with the exception of the fourth quarter of Fiscal 2008 which contained 13 weeks due to our 53-week Fiscal 2008.

Introduction

We are a leading specialty retailer of automotive aftermarket parts, accessories, batteries and maintenance items primarily operating within the United States. Our stores carry an extensive product line for cars, vans, sport utility vehicles and light trucks. We serve both DIY and Commercial customers. Our Commercial customers consist primarily of delivery customers for whom we deliver product from our store locations to our Commercial customers' places of business, including independent garages, service stations and auto dealers. At December 31, 2011, we operated 3,662 stores throughout 39 states, Puerto Rico and the Virgin Islands.

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of our store operations within the Northeastern, Southeastern and Midwestern regions of the United States, Puerto Rico and the Virgin Islands which operate under the trade names “Advance Auto Parts,” “Advance Discount Auto Parts” and “Western Auto.” At December 31, 2011, we operated 3,460 stores in the AAP segment, of which 3,434 stores operated under the trade names “Advance Auto Parts” and “Advance Discount Auto Parts” throughout 39 states in the Northeastern, Southeastern and Midwestern regions of the United States. Our AAP stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks. In addition, we operated 26 stores under the “Advance Auto Parts” and “Western Auto” trade names, located in Puerto Rico and the Virgin Islands, or Offshore. The AAP segment also includes our e-commerce operations.

At December 31, 2011, we operated 202 stores in the AI segment under the “Autopart International” trade name. AI's business serves the Commercial market from its store locations primarily in the Northeastern and Mid-Atlantic regions of the United States and Florida. In addition, its North American Sales Division services warehouse distributors and jobbers throughout North America.

Management Overview

We generated earnings per diluted share, or diluted EPS, of $5.11 during Fiscal 2011 compared to $3.95 for Fiscal 2010. The increase in our diluted EPS was driven by an increase in our operating income and the repurchase of shares of our common stock. Our overall financial results steadily improved throughout Fiscal 2011 primarily due to improving sales trends and decrease of our selling, general and administrative ("SG&A") expense rate. We believe our strong financial results have been driven by favorable industry dynamics, adjustments we made earlier in the year to slow the pace and breadth of change from the implementation of our strategic initiatives and the benefits from the investments we have made over the last several years to support our Service Leadership and Superior Availability strategies.

Our SG&A rate decreased as a result of less incentive compensation, productivity improvements from our new variable store labor model, which enables us to better staff our stores to customer demand, and a focused reduction in administrative expenses partially offset by additional costs associated with initiatives under our two key strategies and increased advertising. Partially offsetting our SG&A leverage during Fiscal 2011 was a slightly lower gross profit rate.This decrease in gross profit rate compared to Fiscal 2010 was due to a number of internal and external factors, including higher shrink expense, additional supply chain costs associated with our supply chain investments and commodity price inflation combined with the timing of retail price changes.

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The 24% increase in our operating cash flow in Fiscal 2011 compared to the prior year allowed us to repurchase shares of our common stock and invest in capital improvements and initiatives to support our strategies. As discussed in the Business Update below, we remain committed to investing in our two key strategies.

Fiscal 2011 Highlights

Highlights from our Fiscal 2011 include:

Financial

- Total sales during Fiscal 2011 increased 4.1% to $6,170.5 million as compared to Fiscal 2010, primarily driven by a 2.2% increase in comparable store sales and the addition of 99 net new stores.
- Our operating income increased $79.7 million in Fiscal 2011 compared to the prior year and increased as a percentage of total sales by 90 bps due to the leverage of our SG&A rate partially offset by a lower gross profit rate.
- Our inventory balance as of December 31, 2011 increased $179.3 million, or 9.6%, over the prior year driven primarily by our Superior Availability initiatives and new store growth.
- We generated operating cash flow of $828.8 million during Fiscal 2011, primarily due to the increase in our net income, an increase in accounts payable and fluctuations in other working capital balances.
- We used available cash and borrowings to repurchase 9.9 million shares of our common stock under our stock repurchase program at a cost of $609.7 million.

Other

- Subsequent to Fiscal 2011, in January 2012 we issued $300 million of senior unsecured notes, due in 2022, with an interest rate of 4.50%.

Business Update

In Fiscal 2011, we increased our focus on differentiating Advance from our competition through our commitment to exceptional service which is reflected in our new customer promise – 'Service is our best part®' – and the simplification of our previous four key strategies into two strategies – Service Leadership and Superior Availability. Superior Availability centers around product availability and maximizing the speed, reliability and efficiency of our supply chain. Service Leadership leverages our product availability in addition to more consistent execution to strengthen our integrated operating approach of serving our DIY and Commercial customers whether in our stores or on-line. Through these two key strategies, we believe we can continue to build on the initiatives discussed below and produce favorable financial results over the long-term.

Our Commercial sales, as a percentage of total sales, increased to 37% for Fiscal 2011 as compared to 34% in Fiscal 2010. Since 2008 we completed incremental investments in additional parts professionals, delivery trucks and drivers in a significant number of our AAP stores with Commercial programs. We decelerated the pace of these investments during Fiscal 2011 to focus and achieve better execution in those areas we believe have a direct impact on customer satisfaction for both our Commercial and DIY customers such as labor scheduling, training, commercial delivery speed and accuracy and increased advertising. Our e-commerce operations continue to supplement our store sales growth through an increase in DIY sales from our AdvanceAutoParts.com website and more recently through the added capability for our Commercial customers to order product on-line. On an ongoing basis, we closely monitor independent customer satisfaction scores for both Commercial and DIY customers as a measure of customer service and product availability.

Our Commercial and DIY sales and total gross profit have benefited from our added parts availability and merchandising initiatives. We continue to expand our supply chain network to increase our ability to get the right product to our customers in a timely manner. We upgraded the inventory levels in 814 of our stores during Fiscal 2011 and added 68 stores to our HUB store network during Fiscal 2011 bringing the total number of HUBs to 294. Our HUB stores stock a wider selection and greater supply of inventory and provide same-day delivery to our other stores or customers in their respective areas. We plan to open our ninth AAP distribution center in Remington, Indiana during the third quarter of Fiscal 2012. This new facility will provide productivity improvements resulting from the added capacity and a more advanced distribution system. We continue to increase the amount of product we source globally, which we believe will improve our gross profit across numerous product categories and allow us to more quickly source the products our customers need.

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We anticipate that the pace of our growth in Commercial will continue to exceed the pace of our DIY growth. The continued growth in our Commercial sales emphasizes our focus on an integrated service model and our goal of achieving a 50/50 mix of Commercial and DIY sales. We believe our current initiatives are key for our long-term sales growth and improvement in our gross profit rate. Combined with our focus on balancing support and discretionary expenses with the additional cost of investments in our key strategies, we are committed to achieving our longer-term growth and profitability goals.

Automotive Aftermarket Industry

The automotive aftermarket industry remains strong despite volatility in the overall economic environment. Favorable industry dynamics include:

- increase in number and average age of vehicles;
- lower new car sales versus the ten-year average;
- long-term expectation that miles driven will increase based on historical trends; and
- fragmented commercial market.

Conversely, there are a number of factors which are negatively affecting the automotive aftermarket industry and include:

- higher gas prices;
- near-term downward trend in miles driven; and
- overall reduction in discretionary spending on elective maintenance and other accessories.

Given the uncertainty in the economic environment, we have adjusted our operations and financial plans without compromising our core strategic investments over the long-term. We believe that the execution of the various initiatives under our key strategies will allow us to continue to increase our share of the total automotive aftermarket with a higher growth potential driven by the more fragmented Commercial market.

Store Development by Segment

The following table sets forth the total number of new, closed and relocated stores and stores with Commercial delivery programs during Fiscal 2011, 2010 and 2009 by segment. We lease approximately 80% of our AAP stores. We lease 100% of our AI stores. All of our AI stores have Commercial delivery programs.

AAP

	Fiscal Year		
	2011	2010	2009
Number of stores, beginning of year	3,369	3,264	3,243
New stores	95	110	75
Closed stores	(4)	(5)	(54)
Number of stores, end of year	3,460	3,369	3,264
Relocated stores	7	9	6
Stores with commercial delivery programs	3,124	3,018	2,868

AI

	Fiscal Year		
	2011	2010	2009
Number of stores, beginning of year	194	156	125

New stores	9	38	32
Closed stores	(1)	—	(1)
Number of stores, end of year	202	194	156
Relocated stores	3	3	4
Stores with commercial delivery programs	202	194	156

During Fiscal 2012, we anticipate adding 110 to 120 AAP stores and 10 to 20 AI stores and closing approximately 10 total stores.

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Components of Statement of Operations

Net Sales

Net sales consist primarily of merchandise sales from our retail store locations to both our DIY and Commercial customers and sales from our e-commerce website. Our total sales growth is comprised of both comparable store sales and new store sales. We calculate comparable store sales based on the change in store sales starting once a store has been opened for 13 complete accounting periods (approximately one year) and by including e-commerce sales. We include sales from relocated stores in comparable store sales from the original date of opening.

Cost of Sales

Our cost of sales consists of merchandise costs, net of incentives under vendor programs; inventory shrinkage, defective merchandise and warranty costs; and warehouse and distribution expenses. Gross profit as a percentage of net sales may be affected by (i) variations in our product mix, (ii) price changes in response to competitive factors and fluctuations in merchandise costs, (iii) vendor programs, (iv) inventory shrinkage, (v) defective merchandise and warranty costs and (vi) warehouse and distribution costs. We seek to minimize fluctuations in merchandise costs and instability of supply by entering into long-term purchasing agreements, without minimum purchase volume requirements, when we believe it is advantageous. Our gross profit may not be comparable to those of our competitors due to differences in industry practice regarding the classification of certain costs. See Note 2 to our consolidated financial statements elsewhere in this report for additional discussion of these costs.

Selling, General and Administrative Expenses

SG&A expenses consist of store payroll, store occupancy (including rent and depreciation), advertising expenses, Commercial delivery expenses, other store expenses and general and administrative expenses, including salaries and related benefits of store support center Team Members, share-based compensation expense, store support center administrative office expenses, data processing, professional expenses, self-insurance costs, closed store expense, impairment charges, if any, and other related expenses. See Note 2 to our consolidated financial statements for additional discussion of these costs.

Consolidated Results of Operations

The following table sets forth certain of our operating data expressed as a percentage of net sales for the periods indicated.

	Fiscal Year Ended					
	December 31, 2011		January 1, 2011		January 2, 2010	
Net sales	100.0	%	100.0	%	100.0	%
Cost of sales, including purchasing and warehousing costs	50.3		50.0		51.1	
Gross profit	49.7		50.0		48.9	
Selling, general and administrative expenses	39.0		40.1		40.5	
Operating income	10.8		9.9		8.4	
Interest expense	(0.5	)	(0.5	)	(0.4	)
Other, net	0.0		0.0		0.0	
Provision for income taxes	3.9		3.6		3.0	
Net income	6.4	%	5.8	%	5.0	%

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Fiscal 2011 Compared to Fiscal 2010

Net Sales

Net sales for Fiscal 2011 were $6,170.5 million, an increase of $245.3 million, or 4.1%, over net sales for Fiscal 2010. This growth was primarily due to an increase in comparable store sales and sales from AAP and AI stores opened within the last year.

AAP produced sales of $5,884.9 million, an increase of $193.8 million, or 3.4%, over Fiscal 2010. The AAP comparable store sales increase of 1.9% was driven by an increase in average sales per customer. AI produced sales of $301.1 million, an increase of $51.6 million, or 20.7%, over Fiscal 2010.

	2011						2010					
	AAP		AI		Total		AAP		AI		Total	
Comparable Store Sales %	1.9	%	8.6	%	2.2	%	8.1	%	7.0	%	8.0	%
Net Stores Opened	91		8		99		105		38		143	

Gross Profit

Gross profit for Fiscal 2011 was $3,069.3 million, or 49.7% of net sales, as compared to $2,961.3 million, or 50.0% of net sales, in Fiscal 2010, a decrease of 24 basis points. This decrease in gross profit as a percentage of net sales was driven by increased shrink expense, supply chain deleverage due to investments in HUBs and higher fuel costs and commodity price inflation partially offset by improved merchandising and pricing capabilities (such as global sourcing and price optimization) and improved parts availability.

SG&A Expenses

SG&A expenses for Fiscal 2011 were $2,404.6 million, or 39.0% of net sales, as compared to $2,376.4 million, or 40.1% of net sales, for Fiscal 2010, a decrease of 114 basis points. This decrease as a percentage of net sales was primarily due to reduced incentive compensation as a result of lower comparable store sales growth compared to the prior year, store labor leverage resulting from productivity improvements driven by our new variable customer driven labor model, occupancy cost leverage and a decrease in administrative expenses partially offset by increased strategic investments and advertising. These investments included spending in the e-commerce and Commercial areas of our business in support of our Service Leadership and Superior Availability strategies.

Operating Income

Operating income for Fiscal 2011 was $664.6 million, representing 10.8% of net sales, as compared to $584.9 million, or 9.9% of net sales, for Fiscal 2010, an increase of 90 basis points. This increase was due to a lower SG&A rate partially offset by a slightly lower gross profit rate.

AAP produced operating income of $653.1 million, or 11.1% of net sales, for Fiscal 2011 as compared to $580.4 million, or 10.2% of net sales, for Fiscal 2010. AI generated operating income for Fiscal 2011 of $11.5 million as compared to $4.5 million for Fiscal 2010. AI's operating income increased during Fiscal 2011 primarily due to the leverage of SG&A as a result of its improved comparable store sales and decelerated pace of new store openings in Fiscal 2011.

Interest Expense

Interest expense for Fiscal 2011 was $30.9 million, or 0.5% of net sales, as compared to $26.9 million, or 0.5% of net sales, in Fiscal 2010. The increase in interest expense is primarily a result of the amortization of the previously recorded losses in accumulated other comprehensive loss over the remaining life of our interest rate swaps and higher average borrowings outstanding during Fiscal 2011 compared to Fiscal 2010. The interest rate swaps were associated with bank debt which we repaid near the beginning of our second quarter of Fiscal 2010.

Income Taxes

Income tax expense for Fiscal 2011 was $238.6 million, as compared to $211.0 million for Fiscal 2010. Our effective income tax rate was 37.7% and 37.9% for Fiscal 2011 and Fiscal 2010, respectively.

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Net Income

Net income was $394.7 million, or $5.11 per diluted share, for Fiscal 2011 as compared to $346.1 million, or $3.95 per diluted share, for Fiscal 2010. As a percentage of net sales, net income for Fiscal 2011 was 6.4%, as compared to 5.8% for Fiscal 2010. The increase in diluted EPS was primarily driven by an increase in net income and our repurchase of 9.9 million shares of our common stock in Fiscal 2011.

Fiscal 2010 Compared to Fiscal 2009

We have presented our financial results in this Form 10-K in conformity with accounting principles generally accepted in the United States (GAAP). Accordingly, our financial results for Fiscal 2009 include the financial impact resulting from the closure of 45 stores in connection with our store divestiture plan. Charges taken as a result of these closures had the effect of reducing EPS by $0.17 in Fiscal 2009.

Net Sales

Net sales for Fiscal 2010 were $5,925.2 million, an increase of $512.6 million, or 9.5%, over net sales for Fiscal 2009. This growth was primarily due to an increase in comparable store sales and sales from new AAP and AI stores opened during Fiscal 2010.

AAP produced sales of $5,691.1 million, an increase of $472.8 million, or 9.1%, over Fiscal 2009. The AAP comparable store sales increase was driven by an increase in average ticket sales as well as an increase in overall customer traffic. AI produced sales of $249.5 million, an increase of $46.9 million, or 23.2%, over Fiscal 2009.

	2010			2009		
	AAP	AI	Total	AAP	AI	Total
Comparable Store Sales %	8.1 %	7.0 %	8.0 %	5.1 %	9.9 %	5.3 %
Net Stores Opened	105	38	143	21	31	52

Gross Profit

Gross profit for Fiscal 2010 was $2,961.3 million, or 50.0% of net sales, as compared to $2,644.2 million, or 48.9% of net sales, in Fiscal 2009, or an increase of 113 basis points. This increase in gross profit as a percentage of net sales was driven by improved merchandising and pricing capabilities (such as price optimization), improved parts availability and supply chain efficiencies. We believe the added parts availability has been a primary driver of our increase in parts sales, which generally contribute a higher gross profit. Favorable product costs from global sourcing are beginning to drive improvements in our gross profit on accessories.

SG&A Expenses

SG&A expenses for Fiscal 2010 were $2,376.4 million, or 40.1% of net sales, as compared to $2,189.8 million, or 40.5% of net sales, for Fiscal 2009, representing a decrease of 35 basis points. This overall decrease in SG&A expenses was primarily due to the absence of store divestiture costs in Fiscal 2010, leverage in occupancy and other fixed costs driven by our 8.0% comparable store sales increase in Fiscal 2010 and a planned decrease in incremental spending on our strategic capabilities, partially offset by increased incentive compensation and advertising.

Operating Income

Operating income for Fiscal 2010 was $584.9 million, representing 9.9% of net sales, as compared to $454.4 million, or 8.4% of net sales, for Fiscal 2009, or an increase of 148 basis points. This increase in operating income, as a percentage of net sales, reflects a significant increase in sales and gross profit rate combined with a slightly lower SG&A expense rate.

AAP produced operating income of $580.4 million, or 10.2% of net sales, for Fiscal 2010 as compared to $446.8 million, or 8.6% of net sales, for Fiscal 2009. AI generated operating income for Fiscal 2010 of $4.5 million as compared to $7.6 million for Fiscal 2009. AI's operating income decreased during Fiscal 2010 primarily due to a lower gross profit rate as well as higher SG&A expenses associated with the acceleration of new store openings.

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Interest Expense

Interest expense for Fiscal 2010 was $26.9 million, or 0.5% of net sales, as compared to $23.3 million, or 0.4% of net sales, in Fiscal 2009. The increase in interest expense as a percentage of sales is primarily a result of the amortization of previously recorded unrecognized losses in accumulated other comprehensive loss over the remaining life of interest rate swaps. The swaps are associated with bank debt which we repaid near the beginning of the second quarter of Fiscal 2010.

Income Taxes

Income tax expense for Fiscal 2010 was $211.0 million, as compared to $161.3 million for Fiscal 2009. Our effective income tax rate was 37.9% and 37.4% for Fiscal 2010 and Fiscal 2009, respectively.

Net Income

Net income was $346.1 million, or $3.95 per diluted share, for Fiscal 2010 as compared to $270.4 million, or $2.83 per diluted share, for Fiscal 2009. As a percentage of net sales, net income for Fiscal 2010 was 5.8%, as compared to 5.0% for Fiscal 2009. The increase in diluted earnings per share was primarily due to growth in our operating income and the decrease in our average share count as a result of our repurchase of 13.0 million shares of our common stock in Fiscal 2010.

Quarterly Consolidated Financial Results (in thousands, except per share data)

	16-Weeks Ended 4/24/10	12-Weeks Ended 7/17/10	12-Weeks Ended 10/9/10	12-Weeks Ended 1/1/11	16-Weeks Ended 4/23/2011	12-Weeks Ended 7/16/2011	12-Weeks Ended 10/8/2011	12-Weeks Ended 12/31/2011
Net Sales	$1,830,606	$1,417,956	$1,406,511	$1,270,130	$1,898,063	$1,479,839	$1,464,988	$1,327,572
Gross profit	910,777	715,268	707,785	627,485	958,201	735,848	724,503	650,738
Net income	109,431	100,911	87,598	48,113	109,583	113,107	105,553	66,439
Net income per share:								
Basic	$1.20	$1.18	$1.04	$0.58	$1.37	$1.48	$1.43	$0.92
Diluted	$1.19	$1.16	$1.03	$0.57	$1.35	$1.46	$1.41	$0.90

Liquidity and Capital Resources

Overview

Our primary cash requirements to maintain our current operations include payroll and benefits, the purchase of inventory, contractual obligations, capital expenditures and the payment of income taxes. In addition, we have used available funds to repay borrowings under our revolving credit facility, periodically repurchase shares of our common stock under our stock repurchase programs and for the payment of quarterly cash dividends. We have funded these requirements primarily through cash generated from operations, supplemented by borrowings under our credit facilities and notes offering as needed. We believe funds generated from our expected results of operations, available cash and cash equivalents, and available borrowings under our revolving credit facility will be sufficient to fund our primary obligations for the next fiscal year.

At December 31, 2011, our cash and cash equivalents balance was $57.9 million, a decrease of $1.3 million compared to January 1, 2011 (the end of Fiscal 2010). This decrease in cash primarily resulted from the repurchase of shares of our common stock and the purchase of property and equipment partially offset by cash inflow from operations and borrowings under our revolving credit facility. Additional discussion of our cash flow results, including the comparison of Fiscal 2011 activity to Fiscal 2010, is set forth in the Analysis of Cash Flows section.

At December 31, 2011, our outstanding indebtedness was $416.0 million, or $114.2 million higher when compared to January 1, 2011, and consisted of borrowings of $115.0 million under our revolving credit facility, $298.9 million under our senior unsecured notes, $1.9 million outstanding on an economic development note and $0.2 million outstanding under other financing arrangements. Additionally, we had $96.6 million in letters of credit outstanding, which reduced the total availability under our revolving credit facility to $538.4 million. The letters of credit serve as collateral for our self-insurance policies and routine purchases of imported merchandise.

Capital Expenditures

Our primary capital requirements have been the funding of our continued new store openings, maintenance of existing stores, the construction and upgrading of distribution centers, and the development of both proprietary and purchased information systems. Our capital expenditures were $268.1 million in Fiscal 2011, or $68.5 million more than Fiscal 2010. During Fiscal 2011, we opened 95 AAP stores and 9 AI stores, remodeled 15 AAP and 3 AI stores and relocated 7 AAP and 3 AI stores.

Our future capital requirements will depend in large part on the number of and timing for new stores we open within a given year and the investments we make in information technology and supply chain networks. We anticipate adding 110 to 120 AAP stores and 10 to 20 AI stores and closing approximately 10 total stores during Fiscal 2012.

We also plan to make continued investments in the maintenance of our existing stores and additional investments in our supply chain, information technology and other capabilities to support our key strategies. In Fiscal 2012, we anticipate that our capital expenditures will be approximately $275.0 million to $300.0 million. These investments will be primarily driven by new store development, investments in our existing store base and investments under our Superior Availability and Service Leadership strategies, including supply chain and new systems. These expenditures include a new warehouse management system and costs associated with the completion of our Remington, IN distribution center scheduled to open in the third quarter of 2012.

Stock Repurchase Program

Our stock repurchase program allows us to repurchase our common stock on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the SEC.

During Fiscal 2011, we repurchased 9.9 million shares of our common stock at an aggregate cost of $609.7 million, or an average price of $61.51 per share. At December 31, 2011, we had $200.0 million remaining under our $300.0 million stock repurchase program authorized by our Board of Directors on August 9, 2011. Additionally, during Fiscal 2011, we repurchased 0.1 million shares of our common stock at an aggregate cost of $6.5 million, or an average price of $63.72 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock.

Dividend

Since Fiscal 2006, our Board of Directors has declared quarterly dividends of $0.06 per share to stockholders of record. Subsequent to December 31, 2011, our Board of Directors declared a quarterly dividend of $0.06 per share to be paid on April 6, 2012 to all common stockholders of record as of March 23, 2012.

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Analysis of Cash Flows

A summary and analysis of our cash flows for Fiscal 2011, 2010 and 2009 is reflected in the table and following discussion.

	Fiscal Year 2011 (in millions)	2010	2009
Cash flows from operating activities	$828.8	$666.2	$699.7
Cash flows from investing activities	(290.0)	(199.4)	(185.5)
Cash flows from financing activities	(540.2)	(507.6)	(451.5)
Net increase (decrease) in cash and cash equivalents	$(1.3)	$(40.8)	$62.7

Operating Activities

For Fiscal 2011, net cash provided by operating activities increased $162.7 million to $828.8 million. This net increase in operating cash flow was primarily due to:

- a $87.6 million increase in cash flows from inventory, net of accounts payable, as a result of the continued increase in our accounts payable ratio in Fiscal 2011 combined with the deceleration of inventory growth during the second half of Fiscal 2011;
- an increase in net income of $48.6 million; and
- a $12.5 million increase in provision for deferred income taxes.

For Fiscal 2010, net cash provided by operating activities decreased $33.5 million to $666.2 million. This net decrease in operating cash flow was driven primarily by:

- a $72.3 million decrease in cash flows from inventory, net of accounts payable, primarily due to the transition of certain vendors from our vendor financing program to accounts payable in Fiscal 2009 partially offset by an increase in our accounts payable ratio in Fiscal 2010;
- a $26.1 million decrease in deferred income taxes; and
- a $21.2 million decrease in cash flows resulting from routine fluctuations in other working capital.

Partially offsetting the decrease in cash flows for Fiscal 2010 was an increase in net income of $75.7 million.

Investing Activities

For Fiscal 2011, net cash used in investing activities increased by $90.6 million to $290.0 million. The increase in cash used was primarily driven by investments in our existing stores, supply chain and information technology as well as the acquisition of two small technology companies in support of our e-commerce strategy. The majority of the increase in our supply chain investments is related to the completion of our Remington distribution center.

For Fiscal 2010, net cash used in investing activities increased by $13.8 million to $199.4 million. The increase in cash used was primarily due to an increase in new store development expenditures, information technology investments, and a decrease in proceeds from sales of property and equipment.

Financing Activities

For Fiscal 2011, net cash used in financing activities increased by $32.6 million to $540.2 million. Cash used in financing activities increased as a result of:

- a $31.2 million decrease in financed vendor accounts payable; and
- a $21.6 million decrease in proceeds from the issuance of common stock related to the exercise of share-based compensation awards.

Partially offsetting these decreases was an increase of $16.2 million in net borrowings.

For Fiscal 2010, net cash used in financing activities increased by $56.1 million to $507.6 million. Cash used in financing activities increased as result of a $522.4 million increase in the repurchase of common stock under our stock repurchase programs. This was partially offset by a decrease in cash provided by financing activities as a result of:

- a decrease of $345.7 million in net debt payments, comprised of $251.5 million of net debt repayments made in Fiscal 2009 and payoff of our $200.0 million term loan in Fiscal 2010 partially offset by proceeds from the issuance of $294.2 million in senior unsecured notes in Fiscal 2010, net of debt related costs; and
- a $103.9 million decrease in cash flow from financed vendor accounts payable.

Long-Term Debt

Bank Debt

On May 27, 2011, we entered into a new $750.0 million unsecured five-year revolving credit facility with our wholly-owned subsidiary, Advance Stores Company, Incorporated, or Stores, serving as the borrower. This new facility replaced our previous revolving credit facility. Proceeds from the new revolving credit facility were used to repay $165.0 million of principal outstanding on our previous revolving credit facility. In conjunction with this refinancing, we incurred $3.7 million of financing costs which we will amortize over the term of the new revolving credit facility. The revolving credit facility also provides for the issuance of letters of credit with a sub-limit of $300.0 million, and swingline loans in an amount not to exceed $50.0 million. We may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not exceeding $250.0 million (up to a total commitment of $1 billion) during the term of the revolving credit facility. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at our option, in minimum principal amounts as specified in the revolving credit facility. The revolving credit facility matures on May 27, 2016.

As of December 31, 2011, we had $115.0 million outstanding under our revolving credit facility, and had letters of credit outstanding of $96.6 million, which reduced the availability under the revolving credit facility to $538.4 million. (The letters of credit generally have a term of one year or less.)

The interest rate on borrowings under the revolving credit facility is based, at our option, on an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.5% and 0.5% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. A facility fee is charged on the total amount of the revolving credit facility, payable in arrears. The current facility fee rate is 0.25% per annum. Under the terms of the revolving credit facility, the interest rate and facility fee are based on our credit rating.

Our revolving credit facility contains covenants restricting our ability to, among other things: (1) create, incur or assume additional debt, (2) incur liens or engage in sale-leaseback transactions, (3) make loans and investments (including acquisitions), (4) guarantee obligations, (5) engage in certain mergers and liquidations, (6) change the nature of our business and the business conducted by our subsidiaries, (7) enter into certain hedging transactions, and (8) change our status as a holding company. We are also required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. We were in compliance with our covenants in place at December 31, 2011 and January 1, 2011, respectively. Our revolving credit facility also provides for customary events of default, covenant defaults and cross-defaults to other material indebtedness.

Senior Unsecured Notes

Our 5.75% senior unsecured notes, the 2020 Notes, were issued in April 2010 at 99.587% of the principal amount of $300 million and are due May 1, 2020. We served as the issuer of the 2020 Notes with certain of our domestic subsidiaries currently serving as subsidiary guarantors. The terms of the 2020 Notes are governed by an indenture and supplemental indentures (collectively the “Indenture”) among us, the subsidiary guarantors and Wells Fargo Bank, National Association, as Trustee.

The 2020 Notes bear interest at a rate of 5.75% per year payable semi-annually in arrears on May 1 and November 1 of each year. We may redeem some or all of the 2020 Notes at any time or from time to time, at the redemption price described in the Indenture. In addition, in the event of a Change of Control Triggering Event (as defined in the Indenture), we will be required to offer to repurchase the 2020 Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. The 2020 Notes are currently fully and unconditionally guaranteed, jointly and severally, on an unsubordinated and unsecured basis by certain of our domestic subsidiaries. We will be permitted to release guarantees without the consent of holders of the 2020 Notes under the circumstances described in the Indenture.

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Subsequent to December 31, 2011, we entered into an underwriting agreement on January 11, 2012 pursuant to which we sold $300 million aggregate principal amount of 4.50% Notes due January 15, 2022, the 2022 Notes, at a public offering price of 99.968% of the principal amount per note. The 2022 Notes bear interest at a rate of 4.50% per year payable semi-annually in arrears on January 15 and July 15 of each year, commencing on July 15, 2012. The terms of the 2022 Notes are also governed by the Indenture and contain similar redemption, repurchase and guarantee terms as the 2020 Notes.

We received approximately $297.5 million in net proceeds from the 2022 Notes offering, after deducting underwriting discounts and commissions and offering expenses payable by us. We used a portion of the net proceeds from this offering to repay indebtedness outstanding under our revolving credit facility. The remaining proceeds will be used for general corporate purposes. The 2022 Notes offering was part of our capital structure plan to continue to improve our financial foundation by securing longer term funding at favorable terms to help fund our future growth.

As of December 31, 2011, we had a credit rating from Standard & Poor’s of BBB- and from Moody’s Investor Service of Baa3. The current outlooks by Standard & Poor’s and Moody’s are both stable. The current pricing grid used to determine our borrowing rate under our revolving credit facility is based on our credit ratings. If these credit ratings decline, our interest rate on outstanding balances may increase. Conversely, if these credit ratings improve, our interest rate may decrease. In addition, if our credit ratings decline, our access to financing may become more limited.

Off-Balance-Sheet Arrangements

As of December 31, 2011, we had no off-balance-sheet arrangements as defined in Regulation S-K Item 303 of the SEC regulations. We include other off-balance-sheet arrangements in our contractual obligations table including operating lease payments, interest payments on our notes and revolving credit facility and letters of credit outstanding.

Contractual Obligations

In addition to our Notes and revolving credit facility, we utilize operating leases as another source of financing. The amounts payable under these operating leases are included in our schedule of contractual obligations. Our future contractual obligations related to long-term debt, operating leases and other contractual obligations at December 31, 2011 were as follows:

		Payments Due by Period			
Contractual Obligations	Total	Less than 1 Year	1 - 3 Years	3 - 5 Years	More Than 5 Years
	(in thousands)				
Long-term debt [(1)]	$417,062	$848	$1,214	$115,000	$300,000
Interest payments	157,659	19,805	40,043	40,753	57,058
Operating leases [(2)]	2,170,042	307,660	521,145	445,169	896,068
Other long-term liabilities [(3)]	204,829	—	—	—	—
	2,949,592	328,313	562,402	600,922	1,253,126

Note: For additional information refer to Note 6, Long-term Debt; Note 14, Income Taxes; Note 15, Lease Commitments; Note 16, Store Closures and Impairment; Note 17, Contingencies; and Note 18, Benefit Plans, in the Notes to Consolidated Financial Statements, included in Item 15, Exhibits, Financial Statement Schedules, of this Annual Report on Form 10-K. Our open purchase orders related to merchandise inventory are based on current operational needs and are fulfilled by our vendors within a short period of time. We currently do not have minimum purchase commitments under our vendor supply agreements nor are our open purchase orders binding agreements.

Accordingly, we have excluded open purchase orders from the above table.

(1) Long-term debt primarily represents the amount outstanding on our revolving credit facility which becomes due in Fiscal 2016 and the principal amount of our 5.75% Notes, which become due in Fiscal 2020. Subsequent to year end, we issued $300 million of 4.50% Notes, due in Fiscal 2022, which is not included in the above table.

(2) We lease certain store locations, distribution centers, office space, equipment and vehicles. Our property leases generally contain renewal and escalation clauses and other concessions. These provisions are considered in our calculation of our minimum lease payments which are recognized as expense on a straight-line basis over the applicable lease term. Any lease payments that are based upon an existing index or rate are included in our minimum lease payment calculations.

(3) Primarily includes the long-term portion of deferred income taxes, self-insurance liabilities, unrecognized income tax benefits, closed store liabilities and obligations for employee benefit plans for which no contractual payment schedule exists and we expect the payments to occur beyond 12 months from December 31, 2011. Accordingly, the related balances have not been reflected in the "Payments Due by Period" section of the table.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ materially from these estimates.

The preparation of our financial statements included the following significant estimates and exercise of judgment.

Vendor Incentives

We receive incentives in the form of reductions to amounts owed and/or payments from vendors related to cooperative advertising allowances, volume rebates and other promotional considerations. Many of these incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis or less (short-term). Volume rebates and cooperative advertising allowances not offsetting in SG&A are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold. Cooperative advertising allowances provided as a reimbursement of specific, incremental and identifiable costs incurred to promote a vendor's products are included as an offset to SG&A when the cost is incurred. Certain of our vendor agreements contain purchase volume incentives that provide for increased funding when graduated purchase volumes are met. Amounts accrued throughout the year could be impacted if actual purchase volumes differ from projected annual purchase volumes. Total deferred vendor incentives included in inventory was $82.7 million and $72.0 million at December 31, 2011 and January 1, 2011, respectively.

Similarly, we recognize other promotional incentives earned under long-term agreements as a reduction to cost of sales. However, these incentives are recognized based on the cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. Short-term incentives (terms less than one year) are generally recognized as a reduction to cost of sales over the duration of any short-term agreements.

Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date is included in Other current liabilities. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net. We regularly review the receivables from vendors to ensure they are able to meet their obligations. Historically, the change in our reserve for receivables related to vendor funding has not been significant. A 10% difference in our vendor incentives deferred in inventory at December 31, 2011 would have affected net income by approximately $5.2 million for the fiscal year ended December 31, 2011.

Inventory Reserves

Our inventory reserves consist of reserves for projected losses related to shrink and for potentially excess and obsolete inventory. An increase to our inventory reserves is recorded as an increase to our cost of sales. Conversely, a decrease to our inventory reserves is recorded as a decrease to our cost of sales. Our inventory reserves for Fiscal 2011, 2010 and 2009 were $30.8 million, $18.2 million and $28.5 million, respectively.

Shrink may occur due to theft, loss or inaccurate records for the receipt of merchandise, among other things. We establish reserves for estimated store shrink based on results of completed independent physical inventories, results from other targeted inventory counts and historical and current loss trends. In our distribution facilities, we perform cycle counts throughout the year to measure actual shrink and to estimate reserve requirements. If estimates of our shrink reserves are inaccurate based on the inventory counts, we may be exposed to losses or gains that could be material.

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Our inventory consists primarily of parts, batteries, accessories and other products used on vehicles that have reasonably long shelf lives. Although the risk of obsolescence is minimal, we also consider whether we may have excess inventory based on our current approach for effectively managing slower moving inventory. We strive to optimize the life cycle of our inventory to ensure our product availability reflects customer demand. We establish reserves for potentially excess and obsolete inventories based on (i) current inventory levels, (ii) the historical analysis of product sales and (iii) current market conditions. We have return rights with many of our vendors and the majority of excess inventory is returned to our vendors for full credit. In certain situations, we establish reserves when less than full credit is expected from a vendor or when liquidating product will result in retail prices below recorded costs.

Our total inventory reserves increased by $12.6 million in Fiscal 2011 primarily due to an increase in shrink during Fiscal 2011. Future changes by vendors in their policies or willingness to accept returns of excess inventory, changes in our inventory management approach for excess and obsolete inventory or failure by us to effectively manage the life cycle of our inventory could require us to revise our estimates of required reserves and result in a negative impact on our consolidated statement of operations. A 10% difference in actual inventory reserves at December 31, 2011 would have affected net income by approximately $1.9 million for the fiscal year ended December 31, 2011.

Warranty Reserves

We offer limited warranties on certain products that range from 30 days to lifetime warranties; the warranty obligation on the majority of merchandise sold by us with a manufacturer's warranty is borne by our vendors. However, we have an obligation to provide customers free replacement of merchandise or merchandise at a prorated cost if under a warranty and not covered by the manufacturer. Merchandise sold with warranty coverage by us primarily includes batteries but may also include other parts such as brakes and shocks. We estimate and record a reserve for future warranty claims at the time of sale based on the historical return experience of the respective product sold. If claims experience differs from historical levels, revisions in our estimates may be required, which could have an impact on our consolidated statement of operations. To the extent vendors provide upfront allowances in lieu of accepting the obligation for warranty claims and the allowance is in excess of the related warranty expense, the excess is recorded as a reduction to cost of sales.

A 10% change in the warranty reserves at December 31, 2011 would have affected net income by approximately $2.4 million for the fiscal year ended December 31, 2011.

Self-Insurance Reserves

We are self-insured for general and automobile liability, workers' compensation and the health care claims of our Team Members, although we maintain stop-loss coverage with third-party insurers to limit our total liability exposure. Our self-insurance reserves for Fiscal 2011, 2010 and 2009 were $98.9 million, $97.1 million and $93.7 million, respectively. Historically, our total self-insurance reserves have steadily increased due to our continued growth, including an increase in stores, Team Members and Commercial delivery vehicles. While these factors continued to contribute to the overall increase in our self-insurance reserves in Fiscal 2011, we also experienced favorable claims development primarily related to our workers' compensation claims which helped to offset the increase.

Our self-insurance reserves consist of the estimated exposure for claims filed, claims incurred but not yet reported and projected future claims and is established using actuarial methods followed in the insurance industry and our historical claims experience. Specific factors include, but are not limited to, assumptions about health care costs, the severity of accidents and the incidence of illness and the average size of claims. Generally, claims for automobile and general liability and workers' compensation take several years to settle.

Effective January 1, 2011, we classified $50.3 million of our self-insurance liability as long-term because the timing of future payments is now more predictable based on the historical patterns and maturity of the program and is relied upon in determining the current portion of these liabilities. While we do not expect the amounts ultimately paid to differ significantly from our estimates, our self-insurance reserves and corresponding SG&A could be affected if future claim experience differs significantly from historical trends and actuarial assumptions. A 10% change in our self-insurance liabilities at December 31, 2011 would have affected net income by approximately $6.2 million for the fiscal year ended December 31, 2011.

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Goodwill and Intangible Assets

We evaluate goodwill and indefinite-lived intangibles for impairment annually as of the first day of our fiscal fourth quarter or whenever events or changes in circumstances indicate the carrying value of the goodwill or other intangible asset may not be recoverable. We complete our impairment evaluation by combining information from our internal valuation analyses by reporting units, considering other publicly available market information and using an independent valuation firm. We determine fair value using widely accepted valuation techniques, including discounted cash flows and market multiple analyses. These types of analyses contain uncertainties because they require Management to make assumptions as a marketplace participant would and to apply judgment to estimate industry economic factors and the profitability of future business strategies of our company and our reporting units. These assumptions and estimates are a major component of the derived fair value of our reporting units. The margin of calculated fair value over the respective carrying value of our reporting units may not be indicative of the total company due to differences in the individual reporting units, including but not limited to size and projected growth.

It is our policy to conduct impairment testing based on our current business strategy in light of present industry and economic conditions, as well as our future expectations. We have not made any material changes in the accounting methodology we use to assess impairment loss during the past three fiscal years. We do not believe there is a reasonable likelihood there will be a material change in the future estimates or assumptions we use to test for impairment losses on goodwill. However, if actual results are not consistent with our estimates or assumptions, we may be exposed to an impairment charge that could be material. A 10% change in our total goodwill and intangible assets outstanding at December 31, 2011 would have affected net income by approximately $6.7 million for the fiscal year ended December 31, 2011.

Tax Reserves

The determination of our income tax liabilities is based upon the tax law, codes, regulations, pronouncements and court cases for the taxing jurisdictions in which we do business. Our income tax returns are periodically examined by those jurisdictions. These examinations include, among other things, auditing our filing positions, the timing of deductions and allocation of income among the various jurisdictions. At any particular time, multiple years are subject to examination by various taxing authorities.

In evaluating our income tax positions, we record a reserve when a tax benefit cannot be recognized and measured in accordance with the authoritative guidance on uncertain tax positions. These tax reserves are adjusted in the period actual developments give rise to such change. Those developments could be, but are not limited to: settlement of tax audits, expiration of the statute of limitations, the evolution of tax law, codes, regulations and court cases, along with varying applications of tax policy and administration within those jurisdictions.

Management is required to make assumptions and apply judgment to estimate exposures associated with our various filing positions. Although Management believes that the judgments and estimates are reasonable, actual results could differ and we may be exposed to gains or losses that could be material. To the extent that actual results differ from our estimates, the effective tax rate in any particular period could be materially affected. Favorable tax developments would be recognized as a reduction in our effective tax rate in the period of resolution. Unfavorable tax developments would require an increase in our effective tax rate and a possible use of cash in the period of resolution. A 10% change in the tax reserves at December 31, 2011 would have affected net income by approximately $2.5 million for the fiscal year ended December 31, 2011.

New Accounting Pronouncements

For a description of recently announced accounting standards, including the expected dates of adoption and estimated effects, if any, on our consolidated financial statements, see New Accounting Pronouncements in Note 2 to the Consolidated Financial Statements in this Report on Form 10-K.

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Item 7A. Quantitative and Qualitative Disclosures about Market Risks.

As of December 31, 2011, we have $298.9 million of senior unsecured notes outstanding with an interest rate of 5.75% due in 2020 and $115.0 million outstanding on our revolving credit facility which matures in May 2016. As a result of our borrowings under our revolving credit facility, we may be exposed to interest rate risk due to changes in LIBOR or other interest rates.

The table below presents principal cash flows and related weighted average interest rates on our revolving credit facility outstanding at December 31, 2011, by expected maturity dates. Weighted average variable rates are based on implied forward rates in the yield curve at December 31, 2011. Implied forward rates should not be considered a predictor of actual future interest rates.

	Fiscal 2012	Fiscal 2013	Fiscal 2014	Fiscal 2015	Fiscal 2016	Thereafter	Total	Fair Market Liability
	(dollars in thousands)							
Variable rate	$—	$—	$—	$—	$115,000	$—	$115,000	$115,000
Weighted average interest rate	2.2 %	2.3 %	2.5 %	3.1 %	3.4 %	—	2.6 %	—

Item 8. Financial Statements and Supplementary Data.

See financial statements included in Item 15 “Exhibits, Financial Statement Schedules” of this annual report.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.

Disclosure Controls and Procedures

Disclosure controls and procedures are our controls and other procedures that are designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by us in our reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our principal executive officer and principal financial officer, as appropriate to allow timely decisions regarding required disclosure. Our management evaluated, with the participation of our principal executive officer and principal financial officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this report in accordance with Rule 13a-15(b) under the Exchange Act. Based on this evaluation, our principal executive officer and our principal financial officer have concluded that, as of the end of the period covered by this report, our disclosure controls and procedures were effective.

Management's Report on Internal Control over Financial Reporting

Management's Report on Internal Control over Financial Reporting is set forth in Part IV, Item 15 of this annual report.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting that occurred during the quarter ended December 31, 2011 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance.

For a discussion of our directors, executive officers and corporate governance, see the information set forth in the sections entitled “Proposal No. 1 - Election of Directors,” “Corporate Governance,” “Meetings and Committees of the Board,” “Information Concerning Our Executive Officers,” “Audit Committee Report,” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our proxy statement for the 2012 annual meeting of stockholders to be filed with the SEC within 120 days after the end of the fiscal year ended December 31, 2011 (the “2012 Proxy Statement”), which is incorporated herein by reference.

Item 11. Executive Compensation.

See the information set forth in the sections entitled “Meetings and Committees of the Board,” “Compensation Committee Report,” “Compensation Discussion and Analysis,” “Additional Information Regarding Executive Compensation” and “Non-Management Director Compensation” in the 2012 Proxy Statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the information set forth in the sections entitled “Equity Compensation Plan Information Table” and "Security Ownership of Certain Beneficial Owners and Management" in the 2012 Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

See the information set forth in the sections entitled "Corporate Governance" and “Meetings and Committees of the Board” in the 2012 Proxy Statement, which is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services.

See the information set forth in the section entitled “2011 and 2010 Audit Fees” in the 2012 Proxy Statement, which is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

(a)(1) Financial Statements

(2) Financial Statement Schedules

(3) Exhibits

The Exhibit Index following the signatures for this report is incorporated herein by reference.

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Management's Report on Internal Control Over Financial Reporting

Management of Advance Auto Parts, Inc. and its subsidiaries (collectively the “Company”) is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a) - 15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control over financial reporting is a process designed under the supervision of the Company's principal executive officer and principal financial officer, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of the Company's financial statements for external purposes in accordance with accounting principles generally accepted in the United States of America.

Our internal control over financial reporting includes policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

As of December 31, 2011, management, including the Company's principal executive officer and principal financial officer, assessed the effectiveness of the Company's internal control over financial reporting based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). Based on this assessment, management has determined that the Company's internal control over financial reporting as of December 31, 2011 is effective. Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Deloitte & Touche LLP, the Company's independent registered public accounting firm who audited the Company's consolidated financial statements, has issued an attestation report on the Company's internal control over financial reporting as of December 31, 2011 which is included on page F-3 herein.

/s/ Darren R. Jackson
Darren R. Jackson
President, Chief Executive Officer and Director

/s/ Michael A. Norona
Michael A. Norona
Executive Vice President and Chief Financial Officer

February 28, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Advance Auto Parts, Inc. and Subsidiaries
Roanoke, Virginia

We have audited the accompanying consolidated balance sheets of Advance Auto Parts, Inc. and subsidiaries (the "Company") as of December 31, 2011 and January 1, 2011, and the related consolidated statements of operations, changes in stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2011. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Advance Auto Parts, Inc. and subsidiaries as of December 31, 2011 and January 1, 2011, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2011, in conformity with accounting principles generally accepted in the United States of America.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 28, 2012 expressed an unqualified opinion on the Company's internal control over financial reporting.

/s/ Deloitte & Touche LLP

Richmond, Virginia
February 28, 2012

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of
Advance Auto Parts, Inc. and Subsidiaries
Roanoke, Virginia

We have audited the internal control over financial reporting of Advance Auto Parts, Inc. and subsidiaries (the "Company") as of December 31, 2011 based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed by, or under the supervision of, the company's principal executive and principal financial officers, or persons performing similar functions, and effected by the company's board of directors, management, and other personnel to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of the inherent limitations of internal control over financial reporting, including the possibility of collusion or improper management override of controls, material misstatements due to error or fraud may not be prevented or detected on a timely basis. Also, projections of any evaluation of the effectiveness of the internal control over financial reporting to future periods are subject to the risk that the controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate. In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2011, based on the criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

We have also audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated financial statements as of and for the year ended December 31, 2011 of the Company and our report dated February 28, 2012 expressed an unqualified opinion on those financial statements.

/s/ Deloitte & Touche LLP

Richmond, Virginia
February 28, 2012

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ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 31, 2011 and January 1, 2011
(in thousands, except per share data)

	December 31, 2011	January 1, 2011
Assets		
Current assets:		
Cash and cash equivalents	$57,901	$59,209
Receivables, net	140,007	124,227
Inventories, net	2,043,158	1,863,870
Other current assets	52,754	76,965
Total current assets	2,293,820	2,124,271
Property and equipment, net of accumulated depreciation of $983,622 and $927,564	1,223,099	1,143,170
Assets held for sale	615	1,472
Goodwill	76,389	34,387
Intangible assets, net	31,380	25,360
Other assets, net	30,451	25,557
	$3,655,754	$3,354,217
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	$848	$973
Financed vendor accounts payable	—	31,648
Accounts payable	1,653,183	1,292,113
Accrued expenses	385,746	404,086
Other current liabilities	148,098	119,229
Total current liabilities	2,187,875	1,848,049
Long-term debt	415,136	300,851
Other long-term liabilities	204,829	165,943
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, $0.0001 par value, 10,000 shares authorized; no shares issued or outstanding	—	—
Common stock, voting, $0.0001 par value, 200,000 shares authorized; 106,537 shares issued and 72,799 outstanding at December 31, 2011 and 105,682 shares issued and 81,956 outstanding at January 1, 2011	11	11
Additional paid-in capital	500,237	456,645
Treasury stock, at cost, 33,738 and 23,726 shares	(1,644,767)	(1,028,612)
Accumulated other comprehensive income (loss)	2,804	(1,597)
Retained earnings	1,989,629	1,612,927
Total stockholders' equity	847,914	1,039,374
	$3,655,754	$3,354,217

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

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ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 31, 2011, January 1, 2011 and January 2, 2010
(in thousands, except per share data)

	Fiscal Years		
	2011	2010	2009
Net sales	$6,170,462	$5,925,203	$5,412,623
Cost of sales, including purchasing and warehousing costs	3,101,172	2,963,888	2,768,397
Gross profit	3,069,290	2,961,315	2,644,226
Selling, general and administrative expenses	2,404,648	2,376,382	2,189,841
Operating income	664,642	584,933	454,385
Other, net:			
Interest expense	(30,949)	(26,861)	(23,337)
Other (expense) income, net	(457)	(1,017)	607
Total other, net	(31,406)	(27,878)	(22,730)
Income before provision for income taxes	633,236	557,055	431,655
Provision for income taxes	238,554	211,002	161,282
Net income	$394,682	$346,053	$270,373
Basic earnings per share	$5.21	$4.00	$2.85
Diluted earnings per share	$5.11	$3.95	$2.83
Average common shares outstanding	75,620	86,082	94,459
Average common shares outstanding - assuming dilution	77,071	87,155	95,113

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ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATD STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 31, 2011, January 1, 2011 and January 2, 2010
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Treasury Stock, at cost		Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Total Stockholders' Equity
	Shares	Amount	Shares	Amount		Shares	Amount			
Balance, January 3, 2009	—	$ —	103,000	$ 10	$ 335,991	8,148	$ (291,114)	$ (9,349)	$ 1,039,628	$ 1,075,166
Net income									270,373	270,373
Changes in net unrecognized other postretirement benefit costs, net of $246 tax								(384)		(384)
Unrealized gain on hedge arrangement, net of $1,815 tax								3,034		3,034
Comprehensive income										273,023
Issuance of shares upon the exercise of stock options			1,090		32,723					32,723
Tax benefit from share-based compensation					1,887					1,887
Issuance of restricted stock, net of forfeitures			110							—
Amortization of restricted stock balance					7,287					7,287
Share-based compensation					12,395					12,395
Stock issued under employee stock purchase plan			51		2,010					2,010
Treasury stock purchased						2,480	(100,062)			(100,062)
Cash dividends									(22,733)	(22,733)
Other					669					669
Balance, January 2, 2010	—	$ —	104,251	$ 10	$ 392,962	10,628	$ (391,176)	$ (6,699)	$ 1,287,268	$ 1,282,365
Net income									346,053	346,053
Changes in net unrecognized other postretirement								(439)		(439)

benefit costs, net of $205 tax										
Unrealized gain on hedge arrangement, net of $1,257 tax								5,541		5,541
Comprehensive income										351,155
Issuance of shares upon the exercise of stock options			1,328	1	33,944					33,945
Tax benefit from share-based compensation					5,259					5,259
Issuance of restricted stock, net of forfeitures			62							—
Amortization of restricted stock balance					9,514					9,514
Share-based compensation					12,797					12,797
Stock issued under employee stock purchase plan			41		2,091					2,091
Treasury stock purchased						13,098	(637,436)			(637,436)
Cash dividends									(20,394)	(20,394)
Other					78					78
Balance, January 1, 2011	—	$—	105,682	$11	$456,645	23,726	$(1,028,612)	$(1,597)	$1,612,927	$1,039,374
Net income									394,682	394,682
Changes in net unrecognized other postretirement benefit costs, net of $98 tax								(152)		(152)
Unrealized loss on hedge arrangement, net of $163 tax								(254)		(254)
Amortization of unrecognized losses on interest rate swaps, net of $3,644 tax								4,807		4,807
Comprehensive income										399,083
Issuance of shares upon the exercise of stock options			739		12,159					12,159
Tax benefit from share-based					9,565					9,565

compensation										
Issuance of restricted stock, net of forfeitures			78							—
Amortization of restricted stock balance					8,023					8,023
Share-based compensation					11,530					11,530
Stock issued under employee stock purchase plan			38		2,234					2,234
Treasury stock purchased						10,012	(616,155)			(616,155)
Cash dividends									(17,980)	(17,980)
Other					81					81
Balance, December 31, 2011	—	$—	106,537	$11	$500,237	33,738	$(1,644,767)	$2,804	$1,989,629	$847,914

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

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ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011, January 1, 2011 and January 2, 2010
(in thousands)

	Fiscal Years 2011	2010	2009
Cash flows from operating activities:			
Net income	$394,682	$346,053	$270,373
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	175,949	164,437	150,917
Share-based compensation	19,553	22,311	19,682
Loss on property and equipment, net	5,228	6,534	8,975
Other	1,098	1,106	360
Provision for deferred income taxes	53,037	40,503	66,622
Excess tax benefit from share-based compensation	(9,663)	(7,260)	(3,219)
Net (increase) decrease in:			
Receivables, net	(15,372)	(31,667)	4,643
Inventories, net	(179,288)	(232,003)	(8,779)
Other assets	23,073	(13,105)	(15,694)
Net increase (decrease) in:			
Accounts payable	360,678	325,839	174,944
Accrued expenses	(15,901)	38,715	20,778
Other liabilities	15,775	4,696	10,088
Net cash provided by operating activities	828,849	666,159	699,690
Cash flows from investing activities:			
Purchases of property and equipment	(268,129)	(199,585)	(192,934)
Business acquisitions, net of cash acquired	(23,133)	—	—
Proceeds from sales of property and equipment	1,288	235	7,395
Net cash used in investing activities	(289,974)	(199,350)	(185,539)
Cash flows from financing activities:			
Increase (decrease) in bank overdrafts	6,625	28	(11,060)
Decrease in financed vendor accounts payable	(31,648)	(444)	(104,294)
Issuance of senior unsecured notes	—	298,761	—
Payment of debt related costs	(3,656)	(4,572)	—
Early extinguishment of debt	—	(200,000)	—
Borrowings under credit facilities	1,435,200	75,000	173,400
Payments on credit facilities	(1,320,200)	(75,000)	(424,900)
Dividends paid	(18,554)	(21,051)	(22,803)
Proceeds from the issuance of common stock, primarily exercise of stock options	14,474	36,113	35,402
Excess tax benefit from share-based compensation	9,663	7,260	3,219
Repurchase of common stock	(631,149)	(622,442)	(100,062)
Other	(938)	(1,271)	(393)
Net cash used in financing activities	(540,183)	(507,618)	(451,491)
Net (decrease) increase in cash and cash equivalents	(1,308)	(40,809)	62,660
Cash and cash equivalents, beginning of period	59,209	100,018	37,358

Cash and cash equivalents, end of period	$57,901	$59,209	$100,018

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ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 31, 2011, January 1, 2011 and January 2, 2010
(in thousands)

	Fiscal Years		
	2011	2010	2009
Supplemental cash flow information:			
Interest paid	$35,030	$15,782	$18,935
Income tax payments, net	170,541	164,987	126,391
Non-cash transactions:			
Accrued purchases of property and equipment	35,648	43,365	28,838
Contingent consideration accrued on acquisitions	27,776	—	—
Changes in other comprehensive income	4,401	5,102	2,650
Declared but unpaid cash dividends	4,356	4,930	5,587
Repurchases of common stock not settled	—	14,994	—

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

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
December 31, 2011, January 1, 2011 and January 2, 2010
(in thousands, except per share data)

1. Organization and Description of Business:

Advance Auto Parts, Inc. ("Advance") conducts all of its operations through its wholly owned subsidiary, Advance Stores Company, Incorporated ("Stores"), and its subsidiaries (collectively, the "Company"), all of which are 100% owned. The Company operates 3,662 stores within the United States, Puerto Rico and the Virgin Islands. The Company operates 3,434 stores throughout 39 states in the Northeastern, Southeastern and Midwestern regions of the United States under the "Advance Auto Parts" trade name except for certain stores in the State of Florida which operate under the "Advance Discount Auto Parts" trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks to do-it-yourself, or DIY, and do-it-for-me, or Commercial, customers. The Company offers delivery service to its Commercial customers' places of business, including independent garages, service stations and auto dealers, utilizing a fleet of vehicles to deliver product from its 3,124 store locations with delivery service. In addition, the Company operates 26 stores located in Puerto Rico and the Virgin Islands under the "Advance Auto Parts" and "Western Auto" trade names. Autopart International ("AI"), a subsidiary of Stores, operates 202 stores under the "Autopart International" trade name located primarily throughout the Northeastern and Mid-Atlantic regions of the United States and Florida.

2. Summary of Significant Accounting Policies:

Accounting Period

The Company's fiscal year ends on the Saturday nearest the end of December, which results in an extra week every several years (the next 53 week fiscal year is 2014).

Principles of Consolidation

The consolidated financial statements include the accounts of Advance and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation.

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.

Cash, Cash Equivalents and Bank Overdrafts

Cash and cash equivalents consist of cash in banks and money market funds with original maturities of three months or less. Included in cash equivalents are credit card and debit card receivables from banks, which generally settle within two to four business days. Credit and debit card receivables included in Cash and cash equivalents at December 31, 2011 and January 1, 2011 were $27,456 and $21,149, respectively. Bank overdrafts consist of outstanding checks not yet presented to a bank for settlement, net of cash held in accounts with right of offset. Bank overdrafts of $16,181 and $9,556 are included in Other current liabilities at December 31, 2011 and January 1, 2011, respectively.

Receivables

Receivables, net consist primarily of accounts receivables from vendors and commercial customers. Vendor receivables are recorded based on amounts owed by the Company's suppliers as provided in incentive agreements and other overall terms of the Company's purchase agreements. The Company provides an allowance for doubtful accounts based upon factors related to the credit risk of specific customers or vendors, historical payment trends, current economic conditions and other relevant information regarding the debtor's ability to pay. The Company also extends credit to certain Commercial customers through a third-party provider of private label credit cards. Receivables under the private label credit card program are transferred to a third-party provider with the majority under no recourse.

Inventory

Inventory amounts are stated at the lower of cost or market. The cost of the Company's merchandise inventory is determined using the last-in, first-out ("LIFO") method. Under the LIFO method, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs relating to prices paid in prior years.

Vendor Incentives

The Company receives incentives in the form of reductions to amounts owed and/or payments from vendors related to cooperative advertising allowances, volume rebates and other promotional considerations. Many of these incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis or less (short-term). Volume rebates and cooperative advertising allowances not offsetting in selling, general and administrative expenses, or SG&A, are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold. Cooperative advertising allowances provided as a reimbursement of specific, incremental and identifiable costs incurred to promote a vendor's products are included as an offset to SG&A when the cost is incurred. Total deferred vendor incentives included in Inventory, net was $82,660 and $71,999 at December 31, 2011 and January 1, 2011, respectively.

Similarly, the Company recognizes other promotional incentives earned under long-term agreements as a reduction to cost of sales. However, these incentives are recognized based on the cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. Short-term incentives (terms less than one year) are generally recognized as a reduction to cost of sales over the duration of any short-term agreements.

Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the accompanying consolidated balance sheets. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date has been included in Other current liabilities in the accompanying consolidated balance sheets. Total deferred revenue was $7,248 and $8,018 at December 31, 2011 and January 1, 2011, respectively. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net on the accompanying consolidated balance sheets.

Preopening Expenses

Preopening expenses, which consist primarily of payroll and occupancy costs related to the opening of new stores, are expensed as incurred.

Income Taxes

The Company accounts for income taxes under the asset and liability method which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under the asset and liability method, deferred tax assets and liabilities are determined based on the differences between the financial statements and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period of the enactment date.

The Company recognizes tax benefits and/or tax liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. It is inherently difficult and subjective to estimate such amounts, as the Company must determine the probability of various possible outcomes.

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The Company reevaluates these uncertain tax positions on a quarterly basis or when new information becomes available to management. The reevaluations are based on many factors, including but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit, expirations due to statutes of limitations, and new federal or state audit activity. Any change in either the Company's recognition or measurement could result in the recognition of a tax benefit or an increase to the tax accrual.

The Company also follows guidance provided on derecognition of benefits, classification, interest and penalties, accounting in interim periods, disclosure and transition. Refer to Note 14 for a further discussion of income taxes.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense, net of vendor promotional funds, was $84,656, $78,809 and $65,431 in Fiscal 2011, 2010 and 2009, respectively. Vendor promotional funds, which reduced advertising expense, amounted to $4,609 in Fiscal 2011. Prior to Fiscal 2011, the Company received no vendor promotional funds to reduce advertising expense.

Self-Insurance

The Company is self-insured for general and automobile liability, workers' compensation and health care claims of its employees, or Team Members, while maintaining stop-loss coverage with third-party insurers to limit its total liability exposure. Expenses associated with these liabilities are calculated for (i) claims filed, (ii) claims incurred but not yet reported and (iii) projected future claims using actuarial methods followed in the insurance industry as well as the Company's historical claims experience. Effective January 1, 2011, the Company classified $50,292 of its total self-insurance reserve as long-term because the timing of future payments is now more predictable based on the historical patterns and maturity of the program and is relied upon in determining the current portion of these liabilities. The Company includes the current and long-term portions of its self-insurance reserve in Accrued expenses and Other long-term liabilities, respectively.

The following table presents changes in the Company's total self-insurance reserves:

	December 31, 2011	January 1, 2011	January 2, 2010
Self-insurance reserves, beginning of period	$97,070	$93,706	$90,554
Additions to self-insurance reserves	105,379	113,859	102,571
Reserves utilized	(103,505)	(110,495)	(99,419)
Self-insurance reserves, end of period	$98,944	$97,070	$93,706

Warranty Liabilities

The warranty obligation on the majority of merchandise sold by the Company with a manufacturer's warranty is the responsibility of the Company's vendors. However, the Company has an obligation to provide customers free replacement of merchandise or merchandise at a prorated cost if under a warranty and not covered by the manufacturer. Merchandise sold with warranty coverage by the Company primarily includes batteries but may also include other parts such as brakes and shocks. The Company estimates its warranty obligation at the time of sale based on the historical return experience, sales level and cost of the respective product sold. To the extent vendors provide upfront allowances in lieu of accepting the obligation for warranty claims and the allowance is in excess of the related warranty expense, the excess is recorded as a reduction to cost of sales.

Revenue Recognition

The Company recognizes revenue at the time the sale is made, and at which time the Company's walk-in customers take immediate possession of the merchandise or same-day delivery is made to the Company's commercial delivery customers. For e-commerce sales, revenue is recognized either at the time of pick-up at one of the Company's store locations or at the time of shipment depending on the customer's order designation. Sales are recorded net of discounts, sales taxes and estimated allowances. The Company estimates returns based on current sales levels and the Company's historical return experience on a specific product basis. The Company's reserve for sales returns and allowances was not material at December 31, 2011 and January 1, 2011.

Share-Based Payments

The Company provides share-based compensation to its employees and board of directors. The Company is required to exercise judgment and make estimates when determining the projected (i) fair value of each award granted and (ii) number of awards expected to vest. The Company calculates the fair value of all share-based awards at the date of grant and uses the straight-line method to amortize this fair value as compensation cost over the requisite service period.

Derivative Instruments and Hedging Activities

The Company's accounting policy for derivative financial instruments is based on whether the instruments meet the criteria for designation as cash flow or fair value hedges. The criteria for designating a derivative as a hedge includes the assessment of the instrument's effectiveness in risk reduction, matching of the derivative instrument to its underlying transaction and the probability that the underlying transaction will occur. For derivatives with cash flow hedge designation, the Company reports the after-tax gain or loss from the effective portion of the hedge as a component of Accumulated other income (loss) and reclassifies it into earnings in the same period or periods in which the hedged transaction affects earnings, and within the same income statement line item as the impact of the hedged transaction. For derivatives with fair value hedge accounting designation, the Company would recognize gains or losses from the change in the fair value of these derivatives, as well as the offsetting change in the fair value of the underlying hedged item, in earnings.

Accumulated Other Comprehensive Income (Loss)

The purpose of reporting Accumulated comprehensive income (loss) is to report a measure of all changes in equity of an enterprise that result from transactions and other economic events of the period. The changes in accumulated comprehensive income are reported as other comprehensive income and refer to revenues, expenses, gains, and losses that are included in other comprehensive income but excluded from net income.

The Company's Accumulated other comprehensive income (loss) is comprised of the unamortized portion of the previously recorded unrecognized gains or loss on interest rate swaps and forward treasury rate locks and the net unrealized gain associated with the Company's postretirement benefit plan.

Goodwill and Other Intangible Assets

Goodwill is the excess of the purchase price over the fair value of identifiable net assets acquired in business combinations accounted for under the purchase method. The Company tests goodwill and indefinite-lived intangible assets for impairment annually as of the first day of the fiscal fourth quarter, or when indications of potential impairment exist. These indicators would include a significant change in operating performance, the business climate, legal factors, competition, or a planned sale or disposition of a significant portion of the business, among other factors.

Testing for impairment is a two-step process. The first step is a review for potential impairment, while the second step measures the amount of impairment, if any. Under the first step, the Company compares the fair value of its reporting units with their respective carrying amounts, including goodwill. If the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not impaired and the second step of the impairment test is unnecessary. If the carrying amount of the reporting unit exceeds its fair value, the second step of the impairment test must be performed to measure the amount of impairment loss to be recognized, if any. An impairment loss is recognized when the fair value of goodwill or other intangible asset is below its carrying value.

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Valuation of Long-Lived Assets

The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset might not be recoverable and exceeds its fair value.

Significant factors, which would trigger an impairment review, include the following:

- Significant decrease in the market price of a long-lived asset (asset group);
- Significant changes in how assets are used or are planned to be used;
- Significant adverse change in legal factors or business climate, including adverse regulatory action;
- Significant negative industry trends;
- An accumulation of costs significantly in excess of the amount originally expected for the acquisition or construction of a long-lived asset (asset group);
- Significant changes in technology;
- A current-period operating or cash flow loss combined with a history of operating or cash flow losses, or a projection or forecast that demonstrates continuing losses associated with the use of a long-lived asset (asset group); or
- A current expectation that, more likely than not, a long-lived asset (asset group) will be sold or otherwise disposed of significantly before the end of its previously estimated useful life.

When such an event occurs, the Company estimates the undiscounted future cash flows expected to result from the use of the long-lived asset (asset group) and its eventual disposition. These impairment evaluations involve estimates of asset useful lives and future cash flows. If the undiscounted expected future cash flows are less than the carrying amount of the asset and the carrying amount of the asset exceeds its fair value, an impairment loss is recognized. When an impairment loss is recognized, the carrying amount of the asset is reduced to its estimated fair value based on quoted market prices or other valuation techniques (e.g., discounted cash flow analysis).

Earnings per Share

The Company uses the two-class method to calculate earnings per share. Under the two-class method, unvested share-based payment awards that contain non-forfeitable rights to dividends or dividend equivalents (whether paid or unpaid) are considered participating securities and are included in the computation of earnings per share. Certain of the Company's shares granted to employees in the form of restricted stock are considered participating securities.