

ADVANCE AUTO PARTS INC
Form 10-Q
June 02, 2015
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
Form 10-Q

(Mark One)

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

For the quarterly period ended April 25, 2015

OR

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

For the transition period from _____ to _____.

Commission file number 001-16797

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

Large accelerated filer ☒ x

Non-accelerated filer ☐ o (Do not check if a smaller reporting company)

Accelerated filer ☐ o

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 May 28, 2015, the registrant had outstanding 73,178,233 shares of Common Stock, par value \$0.0001 per share (the only class of common stock of the registrant outstanding).

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PART I. FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS OF
ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Balance Sheets
April 25, 2015 and January 3, 2015
(in thousands, except per share data)
(unaudited)

	April 25, 2015	January 3, 2015
Assets		
Current assets:		
Cash and cash equivalents	\$123,821	\$104,671
Receivables, net	631,926	579,825
Inventories, net	4,104,777	3,936,955
Other current assets	76,341	119,589
Total current assets	4,936,865	4,741,040
Property and equipment, net of accumulated depreciation of \$1,415,990 and \$1,372,359	1,397,950	1,432,030
Assets held for sale	615	615
Goodwill	993,276	995,426
Intangible assets, net	729,765	748,125
Other assets, net	88,224	45,122
	\$8,146,695	\$7,962,358
Liabilities and Stockholders' Equity		
Current liabilities:		
Current portion of long-term debt	\$587	\$582
Accounts payable	3,138,574	3,095,365
Accrued expenses	536,931	520,673
Other current liabilities	148,386	126,446
Total current liabilities	3,824,478	3,743,066
Long-term debt	1,609,687	1,636,311
Other long-term liabilities	565,942	580,069
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, \$0.0001 par value	—	—
Common stock, voting, \$0.0001 par value	7	7
Additional paid-in capital	572,169	562,945
Treasury stock, at cost	(114,634)	(113,044)
Accumulated other comprehensive loss	(19,978)	(12,337)
Retained earnings	1,709,024	1,565,341
Total stockholders' equity	2,146,588	2,002,912
	\$8,146,695	\$7,962,358

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

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Sixteen Week Periods Ended
April 25, 2015 and April 19, 2014
(in thousands, except per share data)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2015	April 19, 2014
Net sales	\$3,038,233	\$2,969,499
Cost of sales, including purchasing and warehousing costs	1,644,309	1,616,377
Gross profit	1,393,924	1,353,122
Selling, general and administrative expenses	1,131,396	1,097,320
Operating income	262,528	255,802
Other, net:		
Interest expense	(21,777	) (23,642
Other (expense) income, net	(1,908	) 603
Total other, net	(23,685	) (23,039
Income before provision for income taxes	238,843	232,763
Provision for income taxes	90,731	85,037
Net income	\$148,112	\$147,726
Basic earnings per common share	\$2.02	\$2.02
Diluted earnings per common share	\$2.00	\$2.01
Dividends declared per common share	\$0.06	\$0.06
Weighted average common shares outstanding	73,122	72,869
Weighted average common shares outstanding - assuming dilution	73,653	73,355

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Comprehensive Income
For the Sixteen Week Periods Ended
April 25, 2015 and April 19, 2014
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2015	April 19, 2014
Net income	\$148,112	\$147,726
Other comprehensive loss:		
Changes in net unrecognized other postretirement benefit costs, net of \$115 and \$118 tax	(178	) (184
Currency translation adjustments	(7,463	) (3,240
Total other comprehensive loss	(7,641	) (3,424
Comprehensive income	\$140,471	\$144,302

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

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Sixteen Week Period Ended
April 25, 2015
(in thousands)
(unaudited)

	Preferred Stock Shares	Common Stock Amount Shares	Additional Paid-in Capital Amount	Treasury Stock, at cost Shares	Amount	Accumulated Other Comprehensive Loss	Retained Earnings	Total Stockholders' Equity		
Balance, January 3, 2015	—	\$ —	74,493	\$7	\$562,945	1,419	\$(113,044)	\$ (12,337)	\$ 1,565,341	\$ 2,002,912
Net income							148,112			148,112
Total other comprehensive loss						(7,641)				(7,641)
Issuance of shares upon the exercise of stock appreciation rights		73								—
Tax withholdings related to the exercise of stock appreciation rights					(7,572)					(7,572)
Tax benefit from share-based compensation, net					6,499					6,499
Restricted stock and restricted stock units vested		21								—
Share-based compensation					8,945					8,945
Stock issued under employee stock purchase plan		10			1,341					1,341
Repurchase of common stock				10	(1,590)					(1,590)
Cash dividends (\$0.06 per common share)							(4,429)			(4,429)
Other					11					11
Balance, April 25, 2015	—	\$ —	74,597	\$7	\$572,169	1,429	\$(114,634)	\$ (19,978)	\$ 1,709,024	\$ 2,146,588

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

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Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Sixteen Week Periods Ended
April 25, 2015 and April 19, 2014
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2015	April 19, 2014
Cash flows from operating activities:		
Net income	\$ 148,112	\$ 147,726
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	83,247	88,205
Share-based compensation	8,945	7,133
Loss on property and equipment, net	5,371	455
Other	818	792
(Benefit) provision for deferred income taxes	(5,206	) 5,202
Excess tax benefit from share-based compensation	(6,498	) (4,165
Net increase in, net of effect from acquisition of businesses:		
Receivables, net	(53,526	) (45,507
Inventories, net	(171,865	) (196,062
Other assets	(845	) (16,458
Net increase (decrease) in, net of effect from acquisition of businesses:		
Accounts payable	45,678	101,381
Accrued expenses	39,494	(10,739
Other liabilities	8,486	3,168
Net cash provided by operating activities	102,211	81,131
Cash flows from investing activities:		
Purchases of property and equipment	(57,038	) (60,529
Business acquisitions, net of cash acquired	(433	) (2,056,937
Proceeds from sales of property and equipment	295	33
Net cash used in investing activities	(57,176	) (2,117,433
Cash flows from financing activities:		
Increase (decrease) in bank overdrafts	11,628	(5,796
Borrowings under credit facilities	442,600	1,527,600
Payments on credit facilities	(469,300	) (508,600
Dividends paid	(8,813	) (8,781
Proceeds from the issuance of common stock, primarily exercise of stock options	1,352	2,979
Tax withholdings related to the exercise of stock appreciation rights	(7,572	) (3,118
Excess tax benefit from share-based compensation	6,498	4,165
Repurchase of common stock	(1,590	) (615
Other	(110	) (232
Net cash (used in) provided by financing activities	(25,307	) 1,007,602
Effect of exchange rate changes on cash	(578	) (413
Net increase (decrease) in cash and cash equivalents	19,150	(1,029,113
Cash and cash equivalents, beginning of period	104,671	1,112,471
Cash and cash equivalents, end of period	\$ 123,821	\$ 83,358

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Advance Auto Parts, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows
 For the Sixteen Week Periods Ended
 April 25, 2015 and April 19, 2014
 (in thousands)
 (unaudited)

	Sixteen Week Periods Ended	
	April 25, 2015	April 19, 2014
Supplemental cash flow information:		
Interest paid	\$11,592	\$13,355
Income tax payments	48,930	75,050
Non-cash transactions:		
Accrued purchases of property and equipment	13,973	10,743
Changes in other comprehensive income from post retirement benefits	(178	) (184

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

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Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Sixteen Week Periods Ended April 25, 2015 and April 19, 2014

(in thousands, except per share data)

(unaudited)

1. Basis of Presentation:

The accompanying interim unaudited condensed consolidated financial statements have been prepared by the Company and include the accounts of Advance Auto Parts, Inc. ("Advance"), its wholly owned subsidiary, Advance Stores Company, Incorporated ("Advance Stores"), and its subsidiaries (collectively, the "Company"). All intercompany balances and transactions have been eliminated in consolidation. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America, or GAAP, have been condensed or omitted based upon the Securities and Exchange Commission ("SEC") interim reporting guidance. These financial statements should be read in conjunction with the financial statements and notes thereto included in the Company's Annual Report on Form 10-K for Fiscal 2014 (filed with the SEC on March 3, 2015).

The accounting policies followed in the presentation of interim financial results are consistent with those followed on an annual basis. These policies are presented in Note 2 to the consolidated financial statements included in the Company's Annual Report.

The results of operations for the interim periods are not necessarily indicative of the operating results to be expected for the full fiscal year. The first quarter of each of the Company's fiscal years contains 16 weeks. The Company's remaining three quarters consist of 12 weeks, with the exception of the fourth quarter of fiscal 2014 which contained 13 weeks due to the 53-week fiscal year in 2014. The Company's next 53-week fiscal year is 2020.

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.

Acquisition

On January 2, 2014, the Company acquired General Parts International, Inc. ("GPI") in an all cash transaction. GPI, formerly a privately-held company, is a leading distributor and supplier of original equipment and aftermarket replacement products for Commercial markets operating under the Carquest and Worldpac trade names. As of the acquisition date, GPI operated 1,223 Carquest stores and 103 Worldpac branches located in 45 states and Canada and serviced approximately 1,400 independently-owned Carquest stores.

The Company acquired all of GPI's assets and liabilities as a result of the transaction. Under the terms of the agreement, the Company acquired all of the outstanding stock of GPI for a purchase price of \$2,080,804 (subject to adjustment for certain closing items) consisting of \$1,307,991 in cash to GPI's shareholders, the repayment of

\$694,301 of GPI debt and \$78,512 in make-whole fees and transaction related expenses paid by the Company on GPI's behalf. The Company included the financial results of GPI in its consolidated financial statements commencing January 2, 2014.

Segment and Related Information

As of April 25, 2015, the Company's operations are comprised of 5,235 stores and 115 distribution branches, which operate in the United States, Canada, Puerto Rico and the U.S. Virgin Islands primarily under the trade names "Advance Auto Parts," "Carquest," "Autopart International" and "Worldpac." These locations offer a broad selection of brand name, original equipment manufacturer ("OEM") and proprietary automotive replacement parts, accessories, and maintenance items primarily for domestic and imported cars and light trucks. While the mix of do-it-yourself ("DIY") and do-it-for-me ("Commercial") customers varies among the four store brands, all of the locations serve customers through similar distribution channels. The

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Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Sixteen Week Periods Ended April 25, 2015 and April 19, 2014

(in thousands, except per share data)

(unaudited)

Company has begun implementation of its plan to fully integrate the Carquest company-operated stores and overall operations into Advance Auto Parts by the end of fiscal 2017 and to eventually integrate the availability of all of the Company's product offerings throughout the entire chain.

The Company's Advance Auto Parts operations are comprised of five geographic areas which include the operations of the stores operating under the Advance Auto Parts, Carquest and Autopart International trade names. Each of the Advance Auto Parts geographic areas, in addition to Worldpac, are individually considered operating segments which are aggregated into one reportable segment. Effective in the first quarter of 2015, the Company expanded from three geographic areas, which previously comprised the Advance Auto Parts and Autopart International operations, to five geographic areas inclusive of the Carquest operations, such that Carquest is no longer a separate operating segment. Included in the Company's overall store operations are sales generated from its e-commerce platforms. The Company's e-commerce platforms, primarily consisting of its online websites and Commercial ordering platforms, are part of its integrated operating approach of serving its DIY and Commercial customers. The Company's online websites allow its DIY customers to pick up merchandise at a conveniently located store location or have their purchases shipped directly to them. The majority of the Company's online DIY sales are picked up at store locations. Through the Company's online ordering platforms, Commercial customers can conveniently place orders with a designated store location for delivery to their places of business or pick-up.

New Accounting Pronouncements

In April 2015, the Financial Accounting Standards Board, or FASB, issued Accounting Standards Updated, or ASU, 2015-3 "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs". ASU 2015-3 simplifies the presentation of debt issuance costs by requiring such costs be presented as a deduction from the corresponding debt liability. The guidance is effective for financial statements issued for reporting periods beginning after December 15, 2015 and interim periods within the reporting periods and requires retrospective presentation; earlier adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In August 2014, the FASB, issued ASU 2014-15 "Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity's Ability to Continue as a Going Concern." This new standard requires management to perform interim and annual assessments of an entity's ability to continue as a going concern within one year of the date the financial statements are issued. An entity must provide certain disclosures if conditions or events raise substantial doubt about the entity's ability to continue as a going concern. This ASU is effective for annual periods ending after December 15, 2016, and interim periods thereafter; earlier adoption is permitted. The adoption of this guidance is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

In June 2014, the FASB, issued ASU 2014-12 "Compensation - Stock Compensation (Topic 718): Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period." The amendments in this ASU require that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. The amendments in this ASU are effective for annual periods and interim periods within those annual periods beginning after December 15, 2015; earlier adoption is permitted. The adoption of this guidance is not expected to have a material impact on the

Company's consolidated financial condition, results of operations or cash flows.

In May 2014, the FASB issued ASU 2014-09 "Revenue from Contracts with Customers." This ASU is a comprehensive new revenue recognition model that expands disclosure requirements and requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. Public entities are currently required to adopt ASU 2014-09 during annual reporting periods beginning after December 15, 2016 and interim reporting periods during the year of adoption; however, the FASB issued an exposure draft on April 29, 2015 that would defer the effective date of ASU 2014-09 by one year with public entities permitted to early adopt for reporting periods beginning after December 15, 2016. We are currently evaluating the impact of the adoption of this guidance on the Company's consolidated financial condition, results of operations and cash flows.

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Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Sixteen Week Periods Ended April 25, 2015 and April 19, 2014

(in thousands, except per share data)

(unaudited)

In April 2014, the FASB issued ASU No. 2014-08 "Presentation of Financial Statements (Topic 205) and Property, Plant, and Equipment (Topic 360): Reporting Discontinued Operations and Disclosures of Disposals of Components of Equity", which amends the definition of a discontinued operation in Accounting Standards Codification, or ASC, 205-20 and requires entities to provide additional disclosures about discontinued operations as well as disposal transactions that do not meet the discontinued operations criteria. The new guidance changes the definition of a discontinued operation and requires discontinued operations treatment for disposals of a component or group of components that represents a strategic shift that has or will have a major impact on an entity's operations or financial results. The Company adopted this guidance effective January 4, 2015. The adoption of this guidance affects prospective presentation of disposals and did not have an impact on the Company's consolidated financial condition, results of operations or cash flows.

2. Inventories, net:

Inventories are stated at the lower of cost or market. The Company used the LIFO method of accounting for approximately 89% of inventories at April 25, 2015 and 88% of inventories at January 3, 2015. Under LIFO, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs for inventories purchased in Fiscal 2015 and prior years. As a result of utilizing LIFO, the Company recorded a decrease to cost of sales of \$16,531 and \$12,281 for the sixteen weeks ended April 25, 2015 and April 19, 2014, respectively. The Company's overall costs to acquire inventory for the same or similar products have generally decreased historically as the Company has been able to leverage its continued growth, execution of merchandising strategies and realization of supply chain efficiencies.

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

Inventory balances at April 25, 2015 and January 3, 2015 were as follows:

	April 25, 2015	January 3, 2015
Inventories at FIFO, net	\$3,965,414	\$3,814,123
Adjustments to state inventories at LIFO	139,363	122,832
Inventories at LIFO, net	\$4,104,777	\$3,936,955

3. Exit Activities and Impairment:

Office Consolidations

In June 2014, the Company approved plans to relocate operations from its Minneapolis, Minnesota and Campbell, California offices to other existing offices of the Company, including its offices in Newark, California, Roanoke, Virginia and Raleigh, North Carolina, and to close its Minneapolis and Campbell offices. The Company is also relocating various functions between its existing offices in Roanoke and Raleigh. The Company anticipates that the relocations and office closings will be substantially completed by the middle of 2015.

In connection with these relocations and office closings, the Company plans to relocate some employees and terminate the employment of others. The Board of Directors of the Company approved this action in order to take advantage of synergies following the acquisition of GPI and to capitalize on the strength of existing locations and organizational experience. The Company estimates that it will incur restructuring costs of approximately \$28,800 under these plans through the end of 2015. Substantially all of these costs are expected to be cash expenditures. This estimate includes approximately \$11,200 of employee severance costs and \$17,600 of relocation costs.

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Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Sixteen Week Periods Ended April 25, 2015 and April 19, 2014

(in thousands, except per share data)

(unaudited)

Employees receiving severance/outplacement benefits will be required to render service until they are terminated in order to receive the benefits. Therefore, the severance/outplacement benefits will be recognized over the related service periods. During the sixteen weeks ended April 25, 2015 the Company recognized \$2,007 of severance/outplacement benefits under these restructuring plans and other severance related to the acquisition of GPI. Other restructuring costs, including costs to relocate employees, will be recognized in the period in which the liability is incurred. During the sixteen weeks ended April 25, 2015 the Company recognized \$1,854 of relocation costs.

Integration of Carquest stores

The Company also approved plans in June 2014 to begin consolidating its Carquest stores acquired on January 2, 2014. As of April 25, 2015, 110 Carquest stores had been consolidated into existing Advance Auto Parts stores and 13 Carquest stores had been converted to the Advance Auto Parts format. This includes the consolidation of 12 Carquest stores and conversion of three Carquest stores during the sixteen weeks ended April 25, 2015. Plans are in place to consolidate or convert the remaining Carquest stores by the middle of 2017. In addition, the Company will continue to consolidate or convert the remaining stores that were acquired with B.W.P. Distributors, Inc. ("BWP") on December 31, 2012 (which also operate under the Carquest trade name), 36 of which had been consolidated and 32 had been converted as of April 25, 2015. Two of these stores were consolidated during the sixteen weeks ended April 25, 2015. The Company estimates that the total exit costs to be incurred as a result of consolidations and conversions during Fiscal 2015 will be approximately \$8,000, consisting primarily of closed store lease obligations. The company incurred \$2,733 of exit costs related to the consolidation of Carquest stores during the sixteen weeks ended April 25, 2015.

Contract termination costs, such as those associated with leases on closed stores will be recognized at the cease-use date. Closed lease liabilities include the present value of the remaining lease obligations and management's estimate of future costs of insurance, property tax and common area maintenance (reduced by the present value of estimated revenues from subleases and lease buyouts).

Other Exit Activities

In August 2014, the Company approved plans to consolidate and convert its 40 Autoparts International ("AI") stores located in Florida into Advance Auto Parts stores. As of April 25, 2015, all of the AI consolidations and conversions were completed. During the sixteen weeks ended April 25, 2015, the Company incurred \$2,700 of exit costs associated with this plan.

Total Restructuring Liabilities

A summary of the Company's restructuring liabilities, which are recorded in accrued expenses (current portion) and other long-term liabilities (long-term portion) in the accompanying condensed consolidated balance sheet, are presented in the following table:

Closed Store Lease Obligations	Severance	Relocation and Other Exit Costs	Total
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For the sixteen weeks ended April 25, 2015:

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Balance, January 3, 2015	\$19,270	\$5,804	\$1,816	\$26,890
Reserves established	6,273	2,872	1,854	10,999
Change in estimates	1,806	(865	) —	941
Cash payments	(3,738) (3,914) (1,813) (9,465
Balance, April 25, 2015	\$23,611	\$3,897	\$1,857	\$29,365

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Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Sixteen Week Periods Ended April 25, 2015 and April 19, 2014

(in thousands, except per share data)

(unaudited)

4. Goodwill and Intangible Assets:

Goodwill

The following table reflects the carrying amount of goodwill and the changes in goodwill carrying amounts.

	April 25, 2015 (16 weeks ended)	January 3, 2015 (53 weeks ended)	
Goodwill, beginning of period	\$995,426	\$199,835	
Acquisitions	78	798,043	
Changes in foreign currency exchange rates	(2,228	) (2,452)
Goodwill, end of period	\$993,276	\$995,426	

During the sixteen weeks ended April 25, 2015, the Company added \$78 of goodwill associated with the acquisition of one store. During 2014, the Company acquired GPI which resulted in the addition of \$797,391 of goodwill and also added \$652 of goodwill associated with the acquisition of nine stores.

Intangible Assets Other Than Goodwill

In 2014, the Company recorded an increase to intangible assets of \$757,453 related to the acquisition of GPI and nine stores. The increase included customer relationships of \$330,293 which will be amortized over 12 years, non-competes totaling \$50,695 which will be amortized over 5 years and favorable leases of \$56,465 which are amortized over the life of the respective leases at a weighted average of 4.5 years. The increase also includes indefinite-life intangibles of \$320,000 from acquired brands.

Amortization expense was \$16,150 and \$17,590 for sixteen weeks ended April 25, 2015 and April 19, 2014, respectively. The gross carrying amounts and accumulated amortization of acquired intangible assets as of April 25, 2015 and January 3, 2015 are comprised of the following:

	April 25, 2015			January 3, 2015		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Amortized intangible assets:						
Customer relationships	\$361,515	\$(49,958	) \$311,557	\$362,483	\$(40,609	) \$321,874
Acquired technology	8,850	(8,682	) 168	8,850	(8,569	) 281
Favorable leases	56,251	(15,320	) 40,931	56,342	(11,939	) 44,403
Non-compete and other	56,804	(17,902	) 38,902	56,780	(14,596	) 42,184
	483,420	(91,862	) 391,558	484,455	(75,713	) 408,742
Unamortized intangible assets:						
	338,207	—	338,207	339,383	—	339,383

Brands, trademark and
tradenames

Total intangible assets	\$821,627	\$(91,862)	\$729,765	\$823,838	\$(75,713)	\$748,125
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Advance Auto Parts, Inc. and Subsidiaries

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(in thousands, except per share data)

(unaudited)

Future Amortization Expense

The table below shows expected amortization expense for the next five years for acquired intangible assets recorded as of April 25, 2015:

Fiscal Year	Amount
Remainder of 2015	\$35,869
2016	48,197
2017	45,844
2018	42,834
2019	32,074
Thereafter	186,740

5. Receivables, net:

Receivables consist of the following:

	April 25, 2015	January 3, 2015
Trade	\$405,500	\$360,922
Vendor	234,321	222,476
Other	9,927	12,579
Total receivables	649,748	595,977
Less: Allowance for doubtful accounts	(17,822) (16,152
Receivables, net	\$631,926	\$579,825

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6. Long-term Debt:

Long-term debt consists of the following:

	April 25, 2015	January 3, 2015
Revolving facility at variable interest rates (1.69% and 2.45% at April 25, 2015 and January 3, 2015, respectively, due December 5, 2018)	\$66,700	\$93,400
Term loan at variable interest rates (1.77% and 1.72% at April 25, 2015 and January 3, 2015, respectively) due January 2, 2019	490,000	490,000
5.75% Senior Unsecured Notes (net of unamortized discount of \$709 and \$746 at April 25, 2015 and January 3, 2015, respectively) due May 1, 2020	299,291	299,254
4.50% Senior Unsecured Notes (net of unamortized discount of \$69 and \$72 at April 25, 2015 and January 3, 2015, respectively) due January 15, 2022	299,931	299,928
4.50% Senior Unsecured Notes (net of unamortized discount of \$1,235 and \$1,271 at April 25, 2015 and January 3, 2015, respectively) due December 1, 2023	448,765	448,729
Other	5,587	5,582
	1,610,274	1,636,893
Less: Current portion of long-term debt	(587)	(582)
Long-term debt, excluding current portion	\$1,609,687	\$1,636,311

Bank Debt

The Company has a credit agreement (the “2013 Credit Agreement”) which provides a \$700,000 unsecured term loan and a \$1,000,000 unsecured revolving credit facility with Advance Stores, as Borrower, the lenders party thereto, and JPMorgan Chase Bank, N.A., as administrative agent. The revolving credit facility also provides for the issuance of letters of credit with a sub-limit of \$300,000 and swingline loans in an amount not to exceed \$50,000. The Company may request, subject to agreement by one or more lenders, that the total revolving commitment be increased by an amount not to exceed \$250,000 by those respective lenders (up to a total commitment of \$1,250,000) during the term of the 2013 Credit Agreement. Voluntary prepayments and voluntary reductions of the revolving balance are permitted in whole or in part, at the Company’s option, in minimum principal amounts as specified in the 2013 Credit Agreement. Under the terms of the 2013 Credit Agreement the revolving credit facility terminates in December 2018 and the term loan matures in January 2019.

As of April 25, 2015, under the 2013 Credit Agreement, the Company had outstanding borrowings of \$66,700 under the revolver and \$490,000 under the term loan. As of April 25, 2015, the Company also had letters of credit outstanding of \$124,334, which reduced the availability under the revolver to \$808,966. The letters of credit generally have a term of one year or less and primarily serve as collateral for the Company’s self-insurance policies.

The interest rate on borrowings under the revolving credit facility is based, at the Company’s option, on adjusted LIBOR, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.30% and 0.30% 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 0.20% per annum. Under the terms of

the 2013 Credit Agreement, the interest rate and facility fee are subject to change based on the Company's credit rating.

The interest rate on the term loan is based, at the Company's option, on adjusted LIBOR, plus a margin, or an alternate base rate, plus a margin. The current margin is 1.50% and 0.50% per annum for the adjusted LIBOR and alternate base rate borrowings, respectively. Under the terms of the term loan, the interest rate is subject to change based on the Company's credit rating.

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The 2013 Credit Agreement contains customary covenants restricting the ability of: (a) subsidiaries of Advance Stores to, among other things, create, incur or assume additional debt; (b) Advance Stores and its subsidiaries to, among other things, (i) incur liens, (ii) make loans and investments, (iii) guarantee obligations, and (iv) change the nature of its business conducted by itself and its subsidiaries; (c) Advance, Advance Stores and their subsidiaries to, among other things (i) engage in certain mergers, acquisitions, asset sales and liquidations, (ii) enter into certain hedging arrangements, (iii) enter into restrictive agreements limiting its ability to incur liens on any of its property or assets, pay distributions, repay loans, or guarantee indebtedness of its subsidiaries, and (iv) engage in sale-leaseback transactions; and (d) Advance, among other things, to change its holding company status. Advance and Advance Stores are required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. The 2013 Credit Agreement also provides for customary events of default, including non-payment defaults, covenant defaults and cross-defaults to Advance Stores' other material indebtedness. The Company was in compliance with its covenants with respect to the 2013 Credit Agreement as of April 25, 2015 and January 3, 2015.

Senior Unsecured Notes

The Company's 4.50% senior unsecured notes were issued in December 2013 at 99.69% of the principal amount of \$450,000 and are due December 1, 2023 (the "2023 Notes"). The 2023 Notes bear interest at a rate of 4.50% per year payable semi-annually in arrears on June 1 and December 1 of each year. The Company's 4.50% senior unsecured notes were issued in January 2012 at 99.968% of the principal amount of \$300,000 and are due January 15, 2022 (the "2022 Notes"). 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. The Company's 5.75% senior unsecured notes were issued in April 2010 at 99.587% of the principal amount of \$300,000 and are due May 1, 2020 (the "2020 Notes" or collectively with the 2023 Notes and the 2022 Notes, "the Notes"). 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. Advance served as the issuer of the Notes with certain of Advance's domestic subsidiaries currently serving as subsidiary guarantors. The terms of the Notes are governed by an indenture (as amended, supplemented, waived or otherwise modified, the "Indenture") among the Company, the subsidiary guarantors from time to time party thereto and Wells Fargo Bank, National Association, as Trustee.

The Company may redeem some or all of the 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 for the Notes), the Company will be required to offer to repurchase the Notes at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest to the repurchase date. The Notes are currently fully and unconditionally guaranteed, jointly and severally, on an unsubordinated and unsecured basis by each of the subsidiary guarantors. The Company will be permitted to release guarantees without the consent of holders of the Notes under the circumstances described in the Indenture: (i) upon the release of the guarantee of the Company's other debt that resulted in the affected subsidiary becoming a guarantor of this debt; (ii) upon the sale or other disposition of all or substantially all of the stock or assets of the subsidiary guarantor; or (iii) upon the Company's exercise of its legal or covenant defeasance option.

The Indenture contains customary provisions for events of default including for: (i) failure to pay principal or interest when due and payable; (ii) failure to comply with covenants or agreements in the Indenture or the Notes and failure to cure or obtain a waiver of such default upon notice; (iii) a default under any debt for money borrowed by the

Company or any of its subsidiaries that results in acceleration of the maturity of such debt, or failure to pay any such debt within any applicable grace period after final stated maturity, in an aggregate amount greater than \$25,000 without such debt having been discharged or acceleration having been rescinded or annulled within 10 days after receipt by the Company of notice of the default by the Trustee or holders of not less than 25% in aggregate principal amount of the Notes then outstanding; and (iv) events of bankruptcy, insolvency or reorganization affecting the Company and certain of its subsidiaries. In the case of an event of default, the principal amount of the Notes plus accrued and unpaid interest may be accelerated. The Indenture also contains covenants limiting the ability of the Company and its subsidiaries to incur debt secured by liens and to enter into sale and lease-back transactions.

Debt Guarantees

The Company is a guarantor of loans made by banks to various independently-owned Carquest stores that are customers of the Company ("Independents") totaling \$30,957 as of April 25, 2015. The Company has concluded that some of these

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guarantees meet the definition of a variable interest in a variable interest entity. However, the Company does not have the power to direct the activities that most significantly affect the economic performance of the Independents and therefore is not the primary beneficiary of these stores. Upon entering into a relationship with certain Independents, the Company guaranteed the debt of those stores to aid in the procurement of business loans. These loans are collateralized by security agreements on merchandise inventory and other assets of the borrowers. The approximate value of the inventory collateralized in these agreements is \$70,210 as of April 25, 2015. The Company believes that the likelihood of performance under these guarantees is remote, and any fair value attributable to these guarantees would be very minimal.

7. Fair Value Measurements:

The Company's financial assets and liabilities measured at fair value are grouped in three levels. The levels prioritize the inputs used to measure the fair value of these assets or liabilities. These levels are:

Level 1 – Unadjusted quoted prices that are available in active markets for identical assets or liabilities at the measurement date.

Level 2 – Inputs other than quoted prices that are observable for assets and liabilities at the measurement date, either directly or indirectly. These inputs include quoted prices for similar assets or liabilities in active markets, quoted prices for identical or similar assets or liabilities in markets that are less active, and inputs other than quoted prices that are observable for the asset or liability or corroborated by other observable market data.

Level 3 – Unobservable inputs for assets or liabilities that are not able to be corroborated by observable market data and reflect the use of a reporting entity's own assumptions. These values are generally determined using pricing models for which the assumptions utilize management's estimates of market participant assumptions.

The fair value hierarchy requires the use of observable market data when available. In instances where inputs used to measure fair value fall into different levels of the fair value hierarchy, the fair value measurement has been categorized based on the lowest level input that is significant to the fair value measurement in its entirety. Our assessment of the significance of a particular item to the fair value measurement in its entirety requires judgment, including the consideration of inputs specific to the asset or liability.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

During the sixteen weeks ended April 25, 2015, the Company had no significant assets or liabilities that were measured at fair value on a recurring basis.

The carrying amount of the Company's cash and cash equivalents, accounts receivable, bank overdrafts, accounts payable, accrued expenses and the current portion of long term debt approximate their fair values due to the relatively short term nature of these instruments. The fair value of the Company's senior unsecured notes was determined using Level 2 inputs based on quoted market prices, and the Company believes that the carrying value of its other long-term debt and certain long-term liabilities approximate fair value. The carrying value and fair value of the Company's long-term debt as of April 25, 2015 and January 3, 2015, respectively, are as follows:

April 25,	January 3,
2015	2015

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Carrying Value	\$1,609,687	\$1,636,311
Fair Value	\$1,689,000	\$1,728,000

Non-Financial Assets and Liabilities Measured at Fair Value on a Non-Recurring Basis

Certain assets and liabilities are measured at fair value on a nonrecurring basis; that is, the assets and liabilities are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (e.g., when there is evidence of impairment). During the sixteen weeks ended April 25, 2015, the Company had no significant fair value measurements of non-financial assets or liabilities subsequent to initial recognition.

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8. Stock Repurchases:

The Company's stock repurchase program allows it to repurchase its common stock on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the SEC. The Company's \$500,000 stock repurchase program in place as of April 25, 2015 was authorized by its Board of Directors on May 14, 2012.

During the sixteen week period ended April 25, 2015 the Company repurchased no shares of its common stock under its stock repurchase program. The Company had \$415,092 remaining under its stock repurchase program as of April 25, 2015.

The Company repurchased 10 shares of its common stock at an aggregate cost of \$1,590, or an average price of \$158.21 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock and restricted stock units during the sixteen weeks ended April 25, 2015.

9. Earnings per Share:

Certain of the Company's shares granted to Team Members in the form of restricted stock and restricted stock units are considered participating securities which require the use of the two-class method for the computation of basic and diluted earnings per share. For the sixteen week periods ended April 25, 2015 and April 19, 2014, earnings of \$534 and \$440, respectively, were allocated to the participating securities.

Diluted earnings per share are calculated by including the effect of dilutive securities. Share-based awards to purchase approximately 7 and 19 shares of common stock that had an exercise price in excess of the average market price of the common stock during the sixteen week periods ended April 25, 2015 and April 19, 2014, respectively, were not included in the calculation of diluted earnings per share because they were anti-dilutive.

The following table illustrates the computation of basic and diluted earnings per share for the sixteen week periods ended April 25, 2015 and April 19, 2014, respectively:

	Sixteen Weeks Ended	
	April 25, 2015	April 19, 2014
Numerator		
Net income	\$ 148,112	\$ 147,726
Participating securities' share in earnings	(534	) (440
Net income applicable to common shares	\$ 147,578	\$ 147,286
Denominator		
Basic weighted average common shares	73,122	72,869
Dilutive impact of share-based awards	531	486
Diluted weighted average common shares	73,653	73,355
Basic earnings per common share		
Net income applicable to common stockholders	\$ 2.02	\$ 2.02

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Diluted earnings per common share

Net income applicable to common stockholders

\$2.00

\$2.01

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10. Warranty Liabilities:

The following table presents changes in the Company's warranty reserves:

	April 25, 2015 (16 weeks ended)	January 3, 2015 (53 weeks ended)
Warranty reserve, beginning of period	\$47,972	\$39,512
Reserves acquired with GPI	—	4,490
Additions to warranty reserves	14,840	52,306
Reserves utilized	(14,343	) (48,336
Warranty reserve, end of period	\$48,469	\$47,972

The Company's warranty liabilities are included in Accrued expenses in its condensed consolidated balance sheets.

11. Condensed Consolidating Financial Statements:

Certain 100% wholly-owned domestic subsidiaries of Advance, including its Material Subsidiaries (as defined in the 2013 Credit Agreement) serve as guarantors of Advance's senior unsecured notes ("Guarantor Subsidiaries"). The subsidiary guarantees related to Advance's senior unsecured notes are full and unconditional and joint and several, and there are no restrictions on the ability of Advance to obtain funds from its Guarantor Subsidiaries. Certain of Advance's wholly-owned subsidiaries, including all of its foreign subsidiaries, do not serve as guarantors of Advance's senior unsecured notes ("Non-Guarantor Subsidiaries"). The Non-Guarantor Subsidiaries do not qualify as minor as defined by SEC regulations. Accordingly, the Company presents below the condensed consolidating financial information for the Guarantor Subsidiaries and Non-Guarantor Subsidiaries. Investments in subsidiaries of the Company are required to be presented under the equity method, even though all such subsidiaries meet the requirements to be consolidated under GAAP.

Set forth below are condensed consolidating financial statements presenting the financial position, results of operations, and cash flows of (i) Advance, (ii) the Guarantor Subsidiaries, (iii) the Non-Guarantor Subsidiaries, and (iv) the eliminations necessary to arrive at consolidated information for the Company. The statement of operations eliminations relate primarily to the sale of inventory from a Non-Guarantor Subsidiary to a Guarantor Subsidiary. The balance sheet eliminations relate primarily to the elimination of intercompany receivables and payables and subsidiary investment accounts.

The following tables present condensed consolidating balance sheets as of April 25, 2015 and January 3, 2015 and condensed consolidating statements of operations, comprehensive income and cash flows for the sixteen weeks ended April 25, 2015 and April 19, 2014, and should be read in conjunction with the condensed consolidated financial statements herein.

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Condensed Consolidating Balance Sheets

As of April 25, 2015

	Advance Auto Parts, Inc.	Guarantor Subsidiaries	Non-Guarantor Subsidiaries	Eliminations	Consolidated
Assets					
Current assets:					
Cash and cash equivalents	\$9	\$74,102	\$49,719	\$(9)	\$123,821
Receivables, net	—	596,236	35,690	—	631,926
Inventories, net	—	3,922,450	182,327	—	4,104,777
Other current assets	2,200	73,950	2,111	(1,920)	76,341
Total current assets	2,209	4,666,738	269,847	(1,929)	4,936,865
Property and equipment, net of accumulated depreciation	172	1,387,143	10,635	—	1,397,950
Assets held for sale	—	615	—	—	615
Goodwill	—	940,817	52,459	—	993,276
Intangible assets, net	—	674,684	55,081	—	729,765
Other assets, net	12,918	80,247	638	(5,579)	88,224
Investment in subsidiaries	2,203,853	287,084	—	(2,490,937)	—
Intercompany note receivable	1,047,987	—	—	(1,047,987)	—
Due from intercompany, net	—	—	219,554	(219,554)	—
	\$3,267,139	\$8,037,328	\$608,214	\$(3,765,986)	\$8,146,695