

ADVANCE AUTO PARTS INC
Form 10-Q
November 16, 2011
Table of Contents

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 October 8, 2011

OR

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

For the transition period from _____ to _____.

Commission file number 001-16797

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

Delaware
(State or other jurisdiction of
incorporation or organization)

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

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

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

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

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

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

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

Large accelerated filer

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

Accelerated filer

Smaller reporting company

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

As of November 14, 2011, the registrant had outstanding 72,445,870 shares of Common Stock, par value \$0.0001 per share (the only class of common stock of the registrant outstanding).

Table of Contents

	Page
<u>PART I.</u>	
<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	
<u>Condensed Consolidated Financial Statements of Advance Auto Parts, Inc. and Subsidiaries (unaudited):</u>	
<u>Condensed Consolidated Balance Sheets as of October 8, 2011, January 1, 2011 and October 9, 2010</u>	<u>1</u>
<u>Condensed Consolidated Statements of Operations for the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010</u>	<u>2</u>
<u>Condensed Consolidated Statements of Changes in Stockholders' Equity for the Forty Week Periods Ended October 8, 2011 and October 9, 2010</u>	<u>3</u>
<u>Condensed Consolidated Statements of Cash Flows for the Forty Week Periods Ended October 8, 2011 and October 9, 2010</u>	<u>4</u>
<u>Notes to the Condensed Consolidated Financial Statements</u>	<u>6</u>
<u>Item 2.</u>	
<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>16</u>
<u>Item 3.</u>	
<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>28</u>
<u>Item 4.</u>	
<u>Controls and Procedures</u>	<u>28</u>
<u>PART II.</u>	
<u>OTHER INFORMATION</u>	
<u>Item 2.</u>	
<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>29</u>
<u>Item 6.</u>	
<u>Exhibits</u>	<u>30</u>
<u>SIGNATURE</u>	<u>S-1</u>

Table of Contents

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
October 8, 2011, January 1, 2011 and October 9, 2010
(in thousands, except per share data)
(unaudited)

	October 8, 2011	January 1, 2011	October 9, 2010
Assets			
Current assets:			
Cash and cash equivalents	\$65,929	\$59,209	\$194,502
Receivables, net	131,409	124,227	115,731
Inventories, net	2,109,721	1,863,870	1,839,498
Other current assets	67,063	76,965	51,931
Total current assets	2,374,122	2,124,271	2,201,662
Property and equipment, net of accumulated depreciation of \$963,845, \$927,564 and \$906,296	1,191,453	1,143,170	1,104,380
Assets held for sale	707	1,472	1,472
Goodwill	51,378	34,387	34,387
Intangible assets, net	29,122	25,360	25,583
Other assets, net	31,286	25,557	26,841
	\$3,678,068	\$3,354,217	\$3,394,325
Liabilities and Stockholders' Equity			
Current liabilities:			
Current portion of long-term debt	\$949	\$973	\$1,176
Financed vendor accounts payable	—	31,648	50,310
Accounts payable	1,586,058	1,292,113	1,255,608
Accrued expenses	390,283	404,086	429,262
Other current liabilities	128,338	119,229	91,508
Total current liabilities	2,105,628	1,848,049	1,827,864
Long-term debt	599,438	300,851	301,043
Other long-term liabilities	195,376	165,943	123,380
Commitments and contingencies			
Stockholders' equity:			
Preferred stock, nonvoting, \$0.0001 par value	—	—	—
Common stock, voting, \$0.0001 par value	11	11	11
Additional paid-in capital	485,242	456,645	443,595
Treasury stock, at cost	(1,642,807)	(1,028,612)	(869,256)
Accumulated other comprehensive income (loss)	7,621	(1,597)	(2,080)
Retained earnings	1,927,559	1,612,927	1,569,768
Total stockholders' equity	777,626	1,039,374	1,142,038
	\$3,678,068	\$3,354,217	\$3,394,325

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

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Operations
For the Twelve and Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands, except per share data)
(unaudited)

	Twelve Week Periods Ended		Forty Week Periods Ended	
	October 8, 2011	October 9, 2010	October 8, 2011	October 9, 2010
Net sales	\$1,464,988	\$1,406,511	\$4,842,890	\$4,655,073
Cost of sales, including purchasing and warehousing costs	740,485	698,726	2,424,338	2,321,243
Gross profit	724,503	707,785	2,418,552	2,333,830
Selling, general and administrative expenses	546,683	560,563	1,865,828	1,832,834
Operating income	177,820	147,222	552,724	500,996
Other, net:				
Interest expense	(8,150	) (7,002	) (25,876	) (20,134
Other expense, net	(614	) (293	) (771	) (1,471
Total other, net	(8,764	) (7,295	) (26,647	) (21,605
Income before provision for income taxes	169,056	139,927	526,077	479,391
Provision for income taxes	63,503	52,329	197,834	181,451
Net income	\$105,553	\$87,598	\$328,243	\$297,940
Basic earnings per share	\$1.43	\$1.04	\$4.27	\$3.41
Diluted earnings per share	\$1.41	\$1.03	\$4.19	\$3.37
Average common shares outstanding	73,381	83,695	76,595	87,011
Average common shares outstanding - assuming dilution	74,730	84,802	78,058	87,953

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

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Changes in Stockholders' Equity
For the Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands, except per share data)
(unaudited)

	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						
Balance, January 1, 2011	—	\$—	105,682	\$11	\$456,645	23,726	\$(1,028,612)	\$ (1,597)	\$1,612,927	\$1,039,374
Net income									328,243	328,243
Changes in net unrecognized other postretirement benefit costs, net of \$224 tax								(350)		(350)
Unrealized gain on hedge arrangement, net of \$3,056 tax								4,759		4,759
Amortization of unrecognized losses on interest rate swaps, net of \$3,644 tax								4,809		4,809
Comprehensive income										337,461
Issuance of shares upon the exercise of stock options		438			7,475					7,475
Tax benefit from share-based compensation					5,064					5,064
Issuance of restricted stock, net of forfeitures		3								—
Amortization of restricted stock balance					5,452					5,452
Share-based compensation					8,780					8,780
Stock issued under employee stock purchase		29			1,745					1,745

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plan										
Treasury stock purchased				9,983	(614,195)		(614,195)	
Cash dividends							(13,611)	(13,611	
Other			81					81		
Balance, October 8, 2011	—	\$—	106,152	\$11	\$485,242	33,709	\$(1,642,807)	\$ 7,621	\$1,927,559	\$777,626
Balance, January 2, 2010	—	\$—	104,251	\$10	\$392,962	10,628	\$(391,176)	\$ (6,699)
Net income								297,940	297,940	
Changes in net unrecognized other postretirement benefit costs, net of \$205 tax							(320)	(320)
Unrealized gain on hedge arrangement, net of \$1,257 tax							4,939		4,939	
Comprehensive income									302,559	
Issuance of shares upon the exercise of stock options		1,078	1		31,565				31,566	
Tax benefit from share-based compensation					1,732				1,732	
Issuance of restricted stock, net of forfeitures		(10)						—	
Amortization of restricted stock balance					6,890				6,890	
Share-based compensation					8,851				8,851	
Stock issued under employee stock purchase plan		32			1,520				1,520	
Treasury stock purchased					10,707	(478,080)		(478,080)
Cash dividends								(15,440)	(15,440
Other				75					75	
Balance, October 9, 2010	—	\$—	105,351	\$11	\$443,595	21,335	\$(869,256)	\$ (2,080)
								\$1,569,768	\$1,142,038	

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

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows
For the Forty Week Periods Ended
October 8, 2011 and October 9, 2010
(in thousands)
(unaudited)

	Forty Week Periods Ended	
	October 8, 2011	October 9, 2010
Cash flows from operating activities:		
Net income	\$328,243	\$297,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	134,480	125,441
Share-based compensation	14,232	15,741
Loss on property and equipment, net	3,357	4,782
Other	796	938
Provision for deferred income taxes	45,374	25,526
Excess tax benefit from share-based compensation	(5,099)	(3,965)
Net (increase) decrease in:		
Receivables, net	(6,854)	(23,171)
Inventories, net	(245,851)	(207,631)
Other assets	17,715	10,790
Net increase in:		
Accounts payable	293,609	289,334
Accrued expenses	14,720	58,164
Other liabilities	16,260	2,605
Net cash provided by operating activities	610,982	596,494
Cash flows from investing activities:		
Purchases of property and equipment	(207,505)	(147,158)
Business acquisition, net of cash acquired	(18,170)	—
Proceeds from sales of property and equipment	1,114	197
Net cash used in investing activities	(224,561)	(146,961)
Cash flows from financing activities:		
Decrease in bank overdrafts	(9,555)	(4,620)
(Decrease) increase in financed vendor accounts payable	(31,648)	18,218
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	1,363,200	75,000
Payments on credit facilities	(1,064,000)	(75,000)
Dividends paid	(18,541)	(21,027)
Proceeds from the issuance of common stock, primarily exercise of stock options	9,301	33,160
Excess tax benefit from share-based compensation	5,099	3,965
Repurchase of common stock	(629,189)	(478,080)
Other	(712)	(854)
Net cash used in financing activities	(379,701)	(355,049)
Net increase in cash and cash equivalents	6,720	94,484
Cash and cash equivalents, beginning of period	59,209	100,018

Cash and cash equivalents, end of period	\$65,929	\$194,502
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4

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries
 Condensed Consolidated Statements of Cash Flows
 For the Forty Week Periods Ended
 October 8, 2011 and October 9, 2010
 (in thousands)
 (unaudited)

	Forty Week Periods Ended	
	October 8, 2011	October 9, 2010
Supplemental cash flow information:		
Interest paid	\$24,901	\$15,090
Income tax payments, net	114,277	136,379
Non-cash transactions:		
Accrued purchases of property and equipment	22,213	12,343
Contingent consideration accrued on acquisition	6,156	—
Changes in other comprehensive income	9,218	4,619

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

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

(unaudited)

1. Basis of Presentation:

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

The condensed consolidated balance sheets as of October 8, 2011, January 1, 2011 and October 9, 2010, the condensed consolidated statements of operations for the twelve and forty week periods ended October 8, 2011 and October 9, 2010, the condensed consolidated statements of changes in stockholders' equity for the forty week periods ended October 8, 2011 and October 9, 2010 and the condensed consolidated statements of cash flows for the forty week periods ended October 8, 2011 and October 9, 2010, have been prepared by the Company. In the opinion of management, all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of the financial position of the Company, the results of its operations and cash flows have been made.

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

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

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

Use of Estimates

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

New Accounting Pronouncements

In September 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-08 "Intangible-Goodwill and Other – Testing Goodwill for Impairment". ASU 2011-08 modifies the impairment test for goodwill and indefinite lived intangibles so that the fair value of a reporting unit is no longer required to be calculated unless the Company believes, based on qualitative factors, that it is more likely than not that the reporting unit's or indefinite lived intangible asset's fair value is less than the carrying value. ASU 2011-8 is effective for fiscal years beginning after December 15, 2011. The adoption of ASU 2011-08 is not expected to have a material impact on the

Company's condensed consolidated financial statements.

In June 2011, the Financial Accounting Standards Board, or FASB, issued ASU No. 2011-05 "Comprehensive Income – Presentation of Comprehensive Income". ASU 2011-05 requires comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. In both choices, an entity is required to present each component of net income along with total net income, each component of other comprehensive income along with a total for other comprehensive income, and a total amount for comprehensive income. This update eliminates the option to present the components of other comprehensive income as part of the statement of changes in stockholders' equity. The amendments in this update do not change the items that must be reported in other comprehensive income or when an item of other comprehensive income must be reclassified to net income. The amendments in this update should be applied retrospectively and is effective for interim and annual reporting periods beginning after December 15, 2011. The adoption of ASU 2011-05 is not expected to have a material impact on the Company's condensed consolidated financial statements.

6

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

(unaudited)

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

2. Inventories, net:

Inventories are stated at the lower of cost or market. The Company used the LIFO method of accounting for approximately 95% of inventories at October 8, 2011, January 1, 2011 and October 9, 2010. Under LIFO, the Company's cost of sales reflects the costs of the most recently purchased inventories, while the inventory carrying balance represents the costs for inventories purchased in Fiscal 2011 and prior years. As a result of utilizing LIFO, the Company recorded an increase to cost of sales of \$16,741 for the forty weeks ended October 8, 2011 due to an increase in supply chain costs and inflationary pressures affecting certain product categories. The Company recorded a reduction to cost of sales of \$33,408 for the forty weeks ended October 9, 2010. Prior to Fiscal 2011, the Company's overall costs to acquire inventory for the same or similar products generally decreased historically as the Company has been able to leverage its continued growth, execution of merchandise 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 October 8, 2011, January 1, 2011 and October 9, 2010 were as follows:

	October 8, 2011	January 1, 2011	October 9, 2010
Inventories at FIFO, net	\$1,999,651	\$1,737,059	\$1,708,833
Adjustments to state inventories at LIFO	110,070	126,811	130,665
Inventories at LIFO, net	\$2,109,721	\$1,863,870	\$1,839,498

3. Goodwill and Intangible Assets:

Goodwill

The Company has goodwill recorded in both the Advance Auto Parts ("AAP") and Autopart International ("AI") segments. The following table reflects the carrying amount of goodwill pertaining to the Company's two segments and the changes in goodwill carrying amounts.

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	AAP Segment	AI Segment	Total
Balance at January 1, 2011	\$16,093	\$18,294	\$34,387
Fiscal 2011 activity	16,991	—	16,991
Balance at October 8, 2011	\$33,084	\$18,294	\$51,378
Balance at January 2, 2010	\$16,093	\$18,294	\$34,387
Fiscal 2010 activity	—	—	—
Balance at October 8, 2010	\$16,093	\$18,294	\$34,387

7

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

(unaudited)

The Company's increase to its goodwill balance for the twelve and forty weeks ended October 8, 2011 was related to the acquisition of a technology company in support of the Company's e-commerce strategy.

Intangible Assets Other Than Goodwill

The gross and net carrying amounts of acquired intangible assets as of October 8, 2011, January 1, 2011 and October 9, 2010 are comprised of the following:

	Acquired intangible assets			Not Subject to Amortization	Intangible Assets (excluding goodwill)
	Subject to Amortization				
	Customer Relationships	Acquired Technology	Other	Trademark and Tradenames	
Gross:					
Gross carrying amount at January 1, 2011	\$9,800	\$—	\$885	\$20,550	\$31,235
Additions	—	4,750	—	—	4,750
Gross carrying amount at October 8, 2011	\$9,800	\$4,750	\$885	\$20,550	\$35,985
Gross carrying amount at January 2, 2010					
Gross carrying amount at January 2, 2010	\$9,800	\$—	\$885	\$20,550	\$31,235
Additions	—	—	—	—	—
Gross carrying amount at October 9, 2010	\$9,800	\$—	\$885	\$20,550	\$31,235
Net:					
Net carrying amount at January 1, 2011	\$4,578	\$—	\$232	\$20,550	\$25,360
Additions	—	4,750	—	—	4,750
2011 amortization	738	244	6	—	988
Net book value at October 8, 2011	\$3,840	\$4,506	\$226	\$20,550	\$29,122
Net carrying amount at January 2, 2010					
Net carrying amount at January 2, 2010	\$5,543	\$—	\$326	\$20,550	\$26,419
Additions	—	—	—	—	—
2010 amortization	738	—	98	—	836
Net book value at October 9, 2010	\$4,805	\$—	\$228	\$20,550	\$25,583

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(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 October 8, 2011:

Fiscal Year	Amount
Remainder of 2011	\$588
2012	2,550
2013	2,550
2014	1,942
2015	751

4. Long-term Debt:

Long-term debt consists of the following:

	October 8, 2011	January 1, 2011	October 9, 2010
Revolving Credit Facility at variable interest rates (1.81% at October 8, 2011) due May 27, 2016	\$299,200	\$—	\$—
5.75% Senior Unsecured Notes (net of unamortized discount of \$1,101, \$1,176 and \$1,198 at October 8, 2011, January 1, 2011 and October 9, 2010, respectively) due May 1, 2020	298,899	298,824	298,802
Other	2,288	3,000	3,417
	600,387	301,824	302,219
Less: Current portion of long-term debt	(949)	(973)	(1,176)
Long-term debt, excluding current portion	\$599,438	\$300,851	\$301,043

Bank Debt

On May 27, 2011, the Company entered into a new \$750,000 unsecured five-year revolving credit facility with Stores serving as the borrower. This new facility replaced the Company's previous revolving credit facility. Proceeds from the new revolving credit facility were used to repay \$165,000 of principal outstanding on the Company's previous revolving credit facility. In conjunction with this refinancing, the Company incurred \$3,561 of financing costs which it 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 \$300,000, 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 exceeding \$250,000 (up to a total commitment of \$1,000,000) during the term of the 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 revolving credit facility. The revolving credit facility matures on May 27, 2016.

As of October 8, 2011, the Company had \$299,200 outstanding under its revolving credit facility, and had letters of credit outstanding of \$96,154, which reduced the availability under the revolving credit facility to \$354,646. (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 the Company's 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 the Company's credit rating.

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

(unaudited)

The Company's revolving credit facility contains covenants restricting its 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 the Company's business and the business conducted by its subsidiaries, (7) enter into certain hedging transactions, and (8) change Advance's status as a holding company. The Company is also required to comply with financial covenants with respect to a maximum leverage ratio and a minimum consolidated coverage ratio. The Company was in compliance with its covenants in place at October 8, 2011 and January 1, 2011, respectively. The Company's revolving credit facility also provides for customary events of default, covenant defaults and cross-defaults to its other material indebtedness.

Senior Unsecured Notes

The Company's 5.75% senior unsecured notes, the Notes, were issued in April 2010 at 99.587% of the principal amount of \$300,000 and are due May 1, 2020. The parent company, or Advance, served as the issuer of the Notes with each of Advance's domestic subsidiaries currently serving as a subsidiary guarantor. The terms of the Notes are governed by an indenture and supplemental indenture (collectively the "Indenture") among the Company, the subsidiary guarantors and Wells Fargo Bank, National Association, as Trustee.

The 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. 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), 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.

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

Certain domestic subsidiaries of Stores, including its Material Subsidiaries (as defined in the revolving credit facility and Indenture, respectively) serve as guarantors of the Notes and revolving credit facility with Advance also serving

as a guarantor of the revolving credit facility. The subsidiary guarantees related to the Company's Notes and revolving credit facility are full and unconditional and joint and several, and there are no restrictions on the ability of Advance to obtain funds from its subsidiaries. Also, Advance has no independent assets or operations, and the subsidiaries not guaranteeing the Notes and revolving credit facility are minor as defined by SEC regulations.

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

(unaudited)

5. Derivative Instruments and Hedging Activities:

The Company had previously entered into interest rate swap agreements as a hedge to the variable rate interest payments on its bank debt. Effective April 24, 2010, the Company's outstanding interest rate swaps no longer qualified for hedge accounting as a result of the Company's intent to pay off its bank debt with the proceeds from the offering of the Notes. Accordingly, the Company has recorded all subsequent changes in the fair value of the interest rate swaps through earnings and amortized to interest expense the remaining balance of previously recorded unrecognized loss in accumulated other comprehensive loss over the remaining life of the swaps which matured on October 5, 2011.

On September 22, 2011, the Company executed two forward treasury rate locks that mature on December 7, 2011 for a notional amount totaling \$300,000. The average rate under the treasury locks was 1.85%. These agreements, which are derivative instruments, have been designated as cash flow hedges to offset the Company's exposure to increases in the underlying U.S. Treasury benchmark rate. This rate is expected to be used to establish the fixed interest rate for debt that the Company anticipates issuing. The actual coupon rate of the debt will be comprised of the underlying U.S. Treasury benchmark rate, plus a credit spread premium at the date of issuance.

The table below presents the fair value of the Company's derivative financial instruments as well as their classification on the condensed consolidated balance sheet as of October 8, 2011, January 1, 2011 and October 9, 2010:

	Balance Sheet Location	Fair Value as of October 8, 2011	Fair Value as of January 1, 2011	Fair Value as of October 9, 2010
Derivatives designated as hedging instruments:				
Treasury rate locks	Other current assets	\$7,815	\$—	\$—
Interest rate swaps	Accrued expenses	—	9,321	12,281
Interest rate swaps	Other long-term liabilities	—	—	—
		\$7,815	\$9,321	\$12,281

The table below presents the effect of the Company's derivative financial instruments on the statement of operations for the twelve and forty weeks ended October 8, 2011 and October 9, 2010, respectively:

Interest rate swaps	Amount of Gain or (Loss) Recognized in OCI on Derivative, net of tax (Effective Portion)	Location of Gain or (Loss) Reclassified from Accumulated OCI into Income (Effective Portion)	Amount of Gain or (Loss) Reclassified from Accumulated OCI into Income, net of tax (Effective Portion)	Location of Gain or (Loss) Recognized in Income on Derivative and Amount Excluded from Effectiveness Testing	Amount of Gain or (Loss) Recognized in Income on Derivative, net of tax (Ineffective Portion and Amount Excluded from Effectiveness

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For the Twelve Weeks Ended October 8, 2011:	\$4,759	Interest expense	\$(1,353)	Other (expense) income, net	\$68	Testing)
For the Twelve Weeks Ended October 9, 2010:	\$—	Interest expense	\$(2,481	)	Other (expense) income, net	\$(552)
For the Forty Weeks Ended October 8, 2011	\$4,759	Interest expense	\$(4,809	)	Other (expense) income, net	\$(132)
For the Forty Weeks Ended October 9, 2010	\$597	Interest expense	\$(6,577	)	Other (expense) income, net	\$(1,216)

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

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6. 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.

Assets and Liabilities Measured at Fair Value on a Recurring Basis

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 determined 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.

The following table sets forth the Company's financial liabilities that were measured at fair value on a recurring basis as of October 8, 2011, January 1, 2011 and October 9, 2010:

	Fair Value	Fair Value Measurements at Reporting Date Using		
		Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs
As of October 8, 2011				
Treasury rate locks	\$7,815	\$—	\$7,815	\$—
Contingent consideration related to business acquisition	6,156	—	—	6,156
As of January 1, 2011				
Interest rate swaps	\$9,321	\$—	\$9,321	\$—
As of October 9, 2010				
Interest rate swaps	\$12,281	\$—	\$12,281	\$—

The fair values of the Company's treasury rate locks and interest rate swaps represent the estimated amounts that the Company would receive or pay to terminate the agreements taking into consideration the difference between the contract rate of interest and rates currently quoted for agreements of similar terms and maturities (based on the forward yield curve). The fair value of the contingent consideration, which is recorded in Accrued expenses, was based on various estimates including the Company's estimate of the probability of achieving the targets and the time value of money. There were no changes in the fair value of the contingent consideration during the period.

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

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The carrying amount of the Company's cash and cash equivalents, accounts receivable, bank overdrafts, financed vendor accounts payable, accounts payable, accrued expenses and current portion of long term debt approximate their fair values due to the relatively short term nature of these instruments. As of October 8, 2011, January 1, 2011 and October 9, 2010, the fair value of the Company's long-term debt with a carrying value of \$599,438, \$300,851 and \$301,043, respectively, was approximately \$618,539, \$316,000 and \$337,221, respectively. The fair value of the Company's senior unsecured notes was determined based on quoted market prices. The Company believes that the carrying value of its other long-term debt and certain long-term liabilities approximate fair value.

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). At October 8, 2011, the Company had no significant non-financial assets or liabilities that had been adjusted to fair value subsequent to initial recognition.

7. Stock Repurchase Program:

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. During the twelve weeks ended October 8, 2011, the Company repurchased 1,700 shares of its common stock at an aggregate cost of \$99,968, or an average price of \$58.81 per share under its \$300,000 stock repurchase program authorized by its Board of Directors on August 9, 2011. During the forty weeks ended October 8, 2011, the Company repurchased 9,912 shares of its common stock at an aggregate cost of \$609,650, or an average price of \$61.51 per share. At October 8, 2011, the Company had \$200,032 remaining under the \$300,000 stock repurchase program.

Additionally, the Company repurchased 1 share of its common stock at an aggregate cost of \$44, or an average price of \$55.41 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the twelve weeks ended October 8, 2011. During the forty weeks ended October 8, 2011, the Company repurchased 73 shares of its common stock at an aggregate cost of \$4,500, or an average price of \$61.99 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock.

During the twelve weeks ended October 9, 2010, the Company repurchased 381 shares of its common stock at an aggregate cost of \$20,664, or an average price of \$54.18 per share, under its \$300,000 stock repurchase program, authorized by its Board of Directors on August 10, 2010. During the forty weeks ended October 9, 2010, the Company repurchased 10,660 shares of its common stock at an aggregate cost of \$476,140, or an average price of \$44.66 per share.

Additionally, the Company repurchased 1 share of its common stock at an aggregate cost of \$44, or an average price of \$56.56 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the twelve weeks ended October 9, 2010. During the forty weeks ended October 9, 2010, the Company repurchased 47 shares of its common stock at an aggregate cost of \$1,940, or an average price of \$40.91 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock.

8. Earnings per Share:

Certain of the Company's shares granted to employees in the form of restricted stock 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 twelve week periods ended October 8, 2011 and October 9, 2010, earnings of \$276 and \$386, respectively, were allocated to the participating securities. For the forty week periods ended October 8, 2011 and October 9, 2010, earnings of \$924 and \$1,369, respectively, were allocated to the participating securities.

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

(unaudited)

Diluted earnings per share are calculated by including the effect of dilutive securities. Share-based awards to purchase approximately 52 and 7 shares of common stock that had an exercise price in excess of the average market price of the common stock during the twelve week periods ended October 8, 2011 and October 9, 2010, respectively, were not included in the calculation of diluted earnings per share because they were anti-dilutive. Share-based awards to purchase approximately 51 and 48 shares of common stock that had an exercise price in excess of the average market price of the common stock during the forty week periods ended October 8, 2011 and October 9, 2010, respectively, were not included in the calculation of diluted earnings per share because they are anti-dilutive.

The following table illustrates the computation of basic and diluted earnings per share for the twelve and forty week periods ended October 8, 2011 and October 9, 2010, respectively:

	Twelve Weeks Ended		Forty Weeks Ended	
	October 8, 2011	October 9, 2010	October 8, 2011	October 9, 2010
Numerator				
Net income applicable to common shares	\$105,553	\$87,598	\$328,243	\$297,940
Participating securities' share in earnings	(276	) (386	) (924	) (1,369
Net income applicable to common shares	\$105,277	\$87,212	\$327,319	\$296,571
Denominator				
Basic weighted average common shares	73,381	83,695	76,595	87,011
Dilutive impact of share-based awards	1,349	1,107	1,463	942
Diluted weighted average common shares	74,730	84,802	78,058	87,953
Basic earnings per common share				
Net income applicable to common stockholders	\$1.43	\$1.04	\$4.27	\$3.41
Diluted earnings per common share				
Net income applicable to common stockholders	\$1.41	\$1.03	\$4.19	\$3.37

9. Warranty Liabilities:

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

	October 8, 2011 (40 weeks ended)	January 1, 2011 (52 weeks ended)	October 9, 2010 (40 weeks ended)
Warranty reserve, beginning of period	\$36,352	\$30,387	\$30,387
Additions to warranty reserves	31,384	45,741	31,533
Reserves utilized	(29,609	) (39,776	) (28,260
Warranty reserve, end of period	\$38,127	\$36,352	\$33,660

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

Table of Contents

Advance Auto Parts, Inc. and Subsidiaries

Notes to the Condensed Consolidated Financial Statements

For the Twelve and Forty Week Periods Ended October 8, 2011 and October 9, 2010

(in thousands, except per share data)

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10. Segment and Related Information:

The Company has the following two reportable segments: AAP and AI. The AAP segment is comprised of 3,442 stores as of October 8, 2011, which operated in the United States, Puerto Rico and the Virgin Islands under the trade names "Advance Auto Parts," "Advance Discount Auto Parts" and "Western Auto." 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. The AAP segment also includes the Company's e-commerce operations.

The AI segment consists solely of the operations of Autopart International, and operates stores under the "Autopart International" trade name. AI mainly serves the Commercial market from its 203 stores as of October 8, 2011 located 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.

The Company evaluates each of its segment's financial performance based on net sales and operating profit for purposes of allocating resources and assessing performance. The accounting policies of the reportable segments are generally the same as those used by the Company.

The following table summarizes financial information for each of the Company's business segments for the twelve and forty weeks ended October 8, 2011 and October 9, 2010, respectively.

	Twelve Week Periods Ended		Forty Week Periods Ended	
	October 8, 2011	October 9, 2010	October 8, 2011	October 9, 2010
Net sales				
AAP	\$1,394,916	\$1,346,581	\$4,618,556	\$4,474,637
AI	73,604	63,517	236,459	191,628
Eliminations ⁽¹⁾	(3,532)	(3,587)	(12,125)	(11,192)
Total net sales	\$1,464,988	\$1,406,511	\$4,842,890	\$4,655,073
Income before provision for income taxes				
AAP	\$164,586	\$137,574	\$515,029	\$473,848
AI	4,470	2,353	11,048	5,543
Total income before provision for income taxes	\$169,056	\$139,927	\$526,077	\$479,391
Provision for income taxes				
AAP	\$61,684	\$51,386	\$193,319	\$179,396
AI	1,819	943	4,515	2,055
Total provision for income taxes	\$63,503	\$52,329	\$197,834	\$181,451
Segment assets				
AAP	\$3,414,516	\$3,184,812	\$3,414,516	\$3,184,812
AI	263,552	209,513	263,552	209,513

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Total segment assets	\$3,678,068	\$3,394,325	\$3,678,068	\$3,394,325
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For the twelve weeks ended October 8, 2011, eliminations represented net sales of \$1,867 from AAP to AI and \$1,665 from AI to AAP. For the twelve weeks ended October 9, 2010, eliminations represented net sales of \$1,703⁽¹⁾ from AAP to AI and \$1,884 from AI to AAP. For the forty weeks ended October 8, 2011, eliminations represented net sales of \$6,574 from AAP to AI and \$5,551 from AI to AAP. For the forty weeks ended October 9, 2010, eliminations represented net sales of \$5,153 from AAP to AI and \$6,039 from AI to AAP.

15

Table of Contents

ITEM 2. 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 our unaudited condensed consolidated financial statements and the notes to those statements that appear elsewhere in this report. Our first quarter consists of 16 weeks divided into four equal periods. Our remaining three quarters consist of 12 weeks with each quarter divided into three equal periods.

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 in our Annual Report on Form 10-K for the year ended January 1, 2011 (filed with the Securities and Exchange Commission, or SEC, on March 1, 2011), which we refer to as our 2010 Form 10-K, 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 which 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;
- business interruptions due to the occurrence of natural disasters, extended periods of unfavorable weather, computer system malfunction, wars or acts of terrorism; and
- the impact of global climate change or legal and regulatory responses to such change.

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 SEC and you should not place undue reliance on those statements.

Table of Contents

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 "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. At October 8, 2011, we operated a total of 3,645 stores.

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, Inc., 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 October 8, 2011, we operated 3,442 stores in the AAP segment. 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. The AAP segment also includes our e-commerce operations.

At October 8, 2011, we operated 203 stores in the AI segment under the "Autopart International" trade name. AI's business primarily serves the Commercial market from its store locations 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. For additional information regarding our segments, see Note 10, Segments and Related Information, of the Notes to Condensed Consolidated Financial Statements in this Quarterly Report on Form 10-Q.

Management Overview

We generated earnings per diluted share, or diluted EPS, of \$1.41 during our twelve weeks ended October 8, 2011 ("third quarter of Fiscal 2011") compared to \$1.03 for the comparable period of 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 have steadily improved throughout Fiscal 2011 with the largest increase in profitability occurring during the third quarter primarily due to the significant decrease, or leverage, of our selling, general and administrative expense, or SG&A, 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.

Contributing to our favorable operating income results during the third quarter was less SG&A expense partially offset by a decrease in our gross profit rate compared to the comparable period of Fiscal 2010. 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 support and discretionary expenses partially offset by increased costs associated with initiatives under our two key strategies. The decrease in our gross profit rate during the third quarter compared to the comparable period in 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 higher fuel prices and commodity price inflation combined with the timing of retail price changes.

Although our operating cash flow through the third quarter of Fiscal 2011 was less than the comparable period last year, we used available cash and borrowings 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. However, we have adapted the pace of change in response to our year-to-date performance in Fiscal 2011 and overall economic uncertainties.

Table of Contents

Summary of Third Quarter Financial Results

A high-level summary of our financial results for the third quarter of Fiscal 2011 is included below:

Net sales during the third quarter of Fiscal 2011 increased 4.2% to \$1,465.0 million as compared to the third quarter of Fiscal 2010, driven by the addition of 105 net new stores over the past 12 months and a 2.2% increase in comparable store sales.

Our operating income increased \$30.6 million for the third quarter of Fiscal 2011 over the comparable period of Fiscal 2010 and increased as a percentage of total sales by 167 basis points due to the leverage of our SG&A rate partially offset by a lower gross profit rate.

Our inventory balance as of October 8, 2011 increased \$270.2 million, or 14.7%, over the comparable period last year primarily driven by our Superior Availability initiatives and new store growth.

We generated operating cash flow of \$611.0 million during the the forty weeks ended October 8, 2011, an increase of 2.4% over the comparable period in Fiscal 2010 primarily due to the increase in our net income and provision for deferred income taxes partially offset by an increase in our inventory and other working capital balances.

We used available cash and borrowings to repurchase 1.7 million shares of our common stock under our stock repurchase program at a cost of \$100.0 million during the third quarter of