ADVANCE AUTO PARTS INC
Form 10-Q
June 04, 2009

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

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

For the quarterly period ended April 25, 2009

OR

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

For the transition period from ________ to ________.

Commission file number 001-16797

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

Delaware	54-2049910
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

5008 Airport Road, Roanoke, 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 x No o

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

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

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

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

As of June 1, 2009, the registrant had outstanding 95,241,195 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, 2009 and January 3, 2009
(in thousands, except per share data)
(unaudited)

Assets		April 25, 2009		January 3, 2009
Current assets:				
Cash and cash equivalents	$	50,902	$	37,358
Receivables, net		87,519		97,203
Inventories, net		1,681,336		1,623,088
Other current assets		34,037		49,977
Total current assets		1,853,794		1,807,626
Property and equipment, net of accumulated depreciation of $838,985 and $817,428		1,061,683		1,071,405
Assets held for sale		2,911		2,301
Goodwill		34,603		34,603
Intangible assets, net		27,195		27,567
Other assets, net		21,542		20,563
	$	3,001,728	$	2,964,065
Liabilities and Stockholders' Equity				
Current liabilities:				
Bank overdrafts	$	7,986	$	20,588
Current portion of long-term debt		1,094		1,003
Financed vendor accounts payable		95,180		136,386
Accounts payable		910,199		791,330
Accrued expenses		407,568		372,510
Other current liabilities		48,650		43,177
Total current liabilities		1,470,677		1,364,994
Long-term debt		279,010		455,161
Other long-term liabilities		72,236		68,744
Commitments and contingencies				
Stockholders' equity:				
Preferred stock, nonvoting, $0.0001 par value, 10,000 shares authorized; no shares issued or outstanding		-		-
Common stock, voting, $0.0001 par value, 200,000 shares authorized; 103,385 shares issued and 95,237 outstanding at April 25, 2009 and 103,000 shares issued and 94,852 outstanding at January 3, 2009		10		10

Additional paid-in capital		351,961		335,991
Treasury stock, at cost, 8,148 and 8,148 shares		(291,114)		(291,114)
Accumulated other comprehensive loss		(8,544)		(9,349)
Retained earnings		1,127,492		1,039,628
Total stockholders' equity		1,179,805		1,075,166
	$	3,001,728	$	2,964,065

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, 2009 and April 19, 2008
(in thousands, except per share data)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Net sales	$ 1,683,636	$ 1,526,132
Cost of sales, including purchasing and warehousing costs	861,648	801,278
Gross profit	821,988	724,854
Selling, general and administrative expenses	664,406	580,576
Operating income	157,582	144,278
Other, net:		
Interest expense	(7,611)	(12,325)
Other (expense) income, net	(104)	28
Total other, net	(7,715)	(12,297)
Income before provision for income taxes	149,867	131,981
Provision for income taxes	56,282	49,895
Net income	$ 93,585	$ 82,086
Basic earnings per share	$ 0.99	$ 0.86
Diluted earnings per share	$ 0.98	$ 0.86
Average common shares outstanding	94,473	94,987
Average common shares outstanding - assuming dilution	94,889	95,607

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, 2009 and April 19, 2008
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Cash flows from operating activities:		
Net income	$ 93,585	$ 82,086
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	45,155	44,620
Amortization of deferred debt issuance costs	111	111
Share-based compensation	4,171	5,715
Loss (gain) on property and equipment, net	6,351	(1,246)
Provision (benefit) for deferred income taxes	2,180	(2,182)
Excess tax benefit from share-based compensation	(723)	(327)
Net decrease (increase) in:		
Receivables, net	9,684	900
Inventories, net	(58,248)	(88,851)
Other assets	14,852	26,233
Net increase in:		
Accounts payable	118,869	112,244
Accrued expenses	50,296	28,162
Other liabilities	6,439	6,136
Net cash provided by operating activities	292,722	213,601
Cash flows from investing activities:		
Purchases of property and equipment	(50,216)	(58,863)
Proceeds from sales of property and equipment	76	4,117
Other	-	(1,750)
Net cash used in investing activities	(50,140)	(56,496)
Cash flows from financing activities:		
Decrease in bank overdrafts	(12,602)	(28,127)
Decrease in financed vendor accounts payable	(41,206)	(6,625)
Dividends paid	(11,378)	(11,659)
Payments on note payable	(226)	(165)
Borrowings under credit facilities	173,400	239,700
Payments on credit facilities	(349,900)	(190,700)
Proceeds from the issuance of common stock, primarily exercise of stock options	11,485	2,926
Excess tax benefit from share-based compensation	723	327
Repurchase of common stock	-	(158,308)
Other	666	-
Net cash used in financing activities	(229,038)	(152,631)

Net increase in cash and cash equivalents		13,544		4,474
Cash and cash equivalents, beginning of period		37,358		14,654
Cash and cash equivalents, end of period	$	50,902	$	19,128

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

Advance Auto Parts, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows - (Continued)
For the Sixteen Week Periods Ended
April 25, 2009 and April 19, 2008
(in thousands)
(unaudited)

	Sixteen Week Periods Ended	
	April 25, 2009	April 19, 2008
Supplemental cash flow information:		
Interest paid	$ 8,907	$ 12,807
Income tax payments, net	11,070	30,499
Non-cash transactions:		
Accrued purchases of property and equipment	18,442	19,272
Changes in other comprehensive income (loss)	805	(3,082)

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, 2009 and April 19, 2008
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1. Basis of Presentation:

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

The condensed consolidated balance sheets as of April 25, 2009 and January 3, 2009, the condensed consolidated statements of operations for the sixteen weeks ended April 25, 2009 and April 19, 2008, and the condensed consolidated statements of cash flows for the sixteen week periods ended April 25, 2009 and April 19, 2008, 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 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 3, 2009.

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 accounting principles generally accepted in the United States of America 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.

Vendor Incentives

The Company receives incentives in the form of reductions to amounts owed and/or payments from vendors related to cooperative advertising allowances, volume rebates and other promotional considerations. The Company accounts for vendor incentives in accordance with Emerging Issues Task Force, or EITF, No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor." Many of these incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis or less (short-term). Both cooperative advertising allowances and volume rebates are earned based on inventory purchases and initially recorded as a reduction to inventory. These deferred amounts are included as a reduction to cost of sales as the inventory is sold since these payments do not represent reimbursements for specific, incremental and identifiable costs. Total deferred vendor incentives included in Inventory, net were $47,585 and $50,527 at April 25, 2009 and January 3, 2009, respectively.

Similarly, the Company recognizes other promotional incentives earned under long-term agreements as a reduction to cost of sales. However, these incentives are recognized based on the cumulative net purchases as a percentage of total estimated net purchases over the life of the agreement. The Company's margins could be impacted positively or negatively if actual purchases or results from any one year differ from its estimates; however, the impact over the life of the agreement would be the same. Short-term incentives (terms less than one year) are generally recognized as a reduction to cost of sales over the duration of any short-term agreements.

Advance Auto Parts, Inc. and Subsidiaries
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Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the accompanying condensed consolidated balance sheets. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date has been included in Other current liabilities in the accompanying condensed consolidated balance sheets. Earned amounts that are receivable from vendors are included in Receivables, net except for that portion expected to be received after one year, which is included in Other assets, net on the accompanying condensed consolidated balance sheets.

Preopening Expenses

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

Warranty Liabilities

The warranty obligation on the majority of merchandise sold by the Company with a manufacturer’s warranty is the responsibility of the Company’s vendors. However, the Company has an obligation to provide customers free replacement of merchandise or merchandise at a prorated cost if under a warranty and not covered by the manufacturer. Merchandise sold with warranty coverage by the Company primarily includes batteries but may also include other parts such as brakes and shocks. The Company estimates its warranty obligation based on the historical return experience of the product sold and records any change as income or expense in the period the product is sold.

Sales Returns and Allowances

The Company’s accounting policy for sales returns and allowances consists of establishing reserves for estimated returns at the time of sale. The Company estimates returns based on current sales levels and the Company’s historical return experience on a specific product basis. The Company’s reserve for sales returns and allowances was not material at April 25, 2009 and January 3, 2009.

Financed Vendor Accounts Payable

The Company is party to a short-term financing program with a bank allowing it to extend its payment terms on certain merchandise purchases. The substance of the program is for the Company to borrow money from the bank to finance purchases from vendors. The Company records any discount given by the vendor to its inventory and accretes this discount to the resulting short-term payable to the bank through interest expense over the extended term. At April 25, 2009 and January 3, 2009, $95,180 and $136,386, respectively, was payable to the bank by the Company under this program and is included in the accompanying condensed consolidated balance sheets as Financed vendor accounts payable.

The balance in Financed vendor accounts payable continues to diminish as the Company transitions its merchandise vendors to customer-managed services arrangements.

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Cost of Sales and Selling, General and Administrative ("SG&A") Expenses

The following table illustrates the primary costs classified in each major expense category:

Cost of Sales	SG&A
Total cost of merchandise sold including: – Freight expenses associated with moving merchandise inventories from our vendors to our distribution center, – Vendor incentives, and – Cash discounts on payments to vendors;	Payroll and benefit costs for retail and corporate team members;
Inventory shrinkage;	Occupancy costs of retail and corporate facilities;
Defective merchandise and warranty costs;	Depreciation related to retail and corporate assets;
Costs associated with operating our distribution network, including payroll and benefit costs, occupancy costs and depreciation; and	Advertising;
Freight and other handling costs associated with moving merchandise inventories through our supply chain – From our distribution centers to our retail store locations, and – From our Local Area Warehouses, or LAWs, and Parts Delivered Quickly warehouses, or PDQs®, to our retail stores after the customer has special-ordered the merchandise.	Costs associated with our commercial delivery program, including payroll and benefit costs, and transportation expenses associated with moving merchandise inventories from our retail stores to our customer locations;
	Self-insurance costs;
	Professional services; and
	Other administrative costs, such as credit card service fees, supplies, travel and lodging.

Please see Note 2 for a discussion of a change in accounting principle for costs included in inventory.

New Accounting Pronouncements

In June 2008, the Financial Accounting Standards Board, or FASB, issued EITF No. 08-3, “Accounting by Lessees for Nonrefundable Maintenance Deposits.” EITF 08-3 requires that nonrefundable maintenance deposits paid by a lessee under an arrangement accounted for as a lease be accounted for as a deposit asset until the underlying maintenance is performed. When the underlying maintenance is performed, the deposit may be expensed or capitalized in accordance with the lessee’s maintenance accounting policy. Upon adoption entities must recognize the effect of the change as a change in accounting principle. The Company adopted the provisions of EITF 08-3 effective January 4, 2009. The adoption of EITF 08-3 had no impact on the Company’s financial position, results of operations or cash flows.

In April 2008, the FASB issued FASB Staff Position, or FSP, FAS 142-3, “Determination of the Useful Life of Intangible Assets”, which amends the factors that must be considered in developing renewal or extension assumptions used to determine the useful life over which to amortize the cost of a recognized intangible asset under Statement of Financial Accounting Standards, or SFAS, No. 142, “Goodwill and Other Intangible Assets.” The FSP requires an entity to consider its own assumptions about renewal or extension of the term of the arrangement, consistent with its expected use of the asset, and is an attempt to improve consistency between the useful life of a recognized intangible asset under SFAS No. 142 and the period of expected cash flows used to measure the fair value of the asset under SFAS No. 141, “Business Combinations.” The Company adopted the provisions of FSP FAS 142-3 effective January 4, 2009. The adoption of the FSP had no impact on the Company’s financial position, results of operations or cash flows.

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On April 9, 2009, the FASB issued FSP SFAS 157-4, “Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly” which amends SFAS 157 by incorporating a two-step process to determine whether a market is not active and a transaction is not distressed. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of FSP FAS 157-4 to have a material impact on the Company's consolidated financial statements.

On April 9, 2009, the FASB issued FSP FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Statements” which amends the interim disclosure requirements in scope for SFAS No. 107, “Disclosures about Fair Value of Financial Instruments.” This FSP is effective for interim and annual periods ending after June 15, 2009. The Company does not expect the adoption of this FSP to have a material impact on the Company’s consolidated financial statements.

2. Change in Accounting Principle:

Effective January 4, 2009, the Company implemented a change in accounting principle for costs included in inventory. Under the Company’s historical accounting policy, freight and other handling costs (collectively “handling costs”) associated with moving merchandise inventories from our distribution centers to our retail stores and handling costs associated with moving our merchandise inventories from our vendors to our distribution centers were capitalized as inventory and expensed in cost of sales as inventory is sold. However, handling costs associated with moving merchandise inventories from our LAWs and PDQs to our retail stores after a customer had special-ordered the merchandise were expensed as incurred in SG&A.

The change relates to capitalizing handling costs associated with moving merchandise inventories from our LAWs and PDQs to our retail stores, which are now treated as inventory product costs. Such costs are includable in inventory and expensed in cost of sales as inventory is sold because it relates to the acquisition of goods for resale by the Company. The Company has determined that it is preferable to capitalize such handling costs into inventory because it better represents the costs incurred to prepare inventory for sale to the customer and it is consistent with the Company’s treatment of other handling costs associated with moving merchandise inventories from our distribution centers to our retail stores.

In accordance with SFAS No. 154, “Accounting Changes and Error Corrections,” the change in accounting principle has been retrospectively applied to all prior periods presented herein related to cost of sales and SG&A. However, because the inventory transferred is typically at the retail store for only one or two days until customer pick-up, the current and historical impact of this change on the consolidated balance sheets, consolidated net income, earnings per share, and consolidated statements of cash flows is not material and, as a result, Inventories, net was not adjusted. Accordingly, there is no impact on any financial statement line items other than cost of sales and SG&A, and there was no cumulative effect of the change in accounting principle on retained earnings as of December 30, 2007, the beginning of the earliest period presented. The tables below represent the impact of the accounting change on the current period and on previously reported amounts:

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Sixteen week period ended April 25, 2009	Prior to Effect of Accounting Change