ADVANCE AUTO PARTS INC
Form 10-K
March 04, 2009

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

(Mark One)
x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 3, 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 (State or other jurisdiction of incorporation or organization)	54-2049910 (I.R.S. Employer Identification No.)
5008 Airport Road Roanoke, Virginia (Address of Principal Executive Offices)	24012 (Zip Code)

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

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

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

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

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

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

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

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

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

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

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

As of July 11, 2008, the last business day of the registrant’s most recently completed second fiscal quarter, the aggregate market value of the 95,066,907 shares of Common Stock held by non-affiliates of the registrant was $3,499,412,847, based on the last sales price of the Common Stock on July 11, 2008, as reported by the New York Stock Exchange.

As of March 2, 2009, the registrant had outstanding 94,999,986 shares of Common Stock, par value $0.0001 per share (the only class of common equity of the registrant outstanding).

Documents Incorporated by Reference:

Portions of the definitive proxy statement of the registrant to be filed within 120 days of January 3, 2009, pursuant to Regulation 14A under the Securities Exchange Act of 1934, for the 2009 Annual Meeting of Stockholders to be held on May 20, 2009, are incorporated by reference into Part III.

TABLE OF CONTENTS

			Page
Part I.			
	Item 1.	Business	2
	Item 1A.	Risk Factors	9
	Item 1B.	Unresolved Staff Comments	13
	Item 2.	Properties	14
	Item 3.	Legal Proceedings	15
	Item 4.	Submission of Matters to a Vote of Security Holders	15
Part II.			
	Item 5.	Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities	16
	Item 6.	Selected Consolidated Financial Data	17
	Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	20
	Item 7A.	Quantitative and Qualitative Disclosures About Market Risks	37
	Item 8.	Financial Statements and Supplementary Data	37
	Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	37
	Item 9A.	Controls and Procedures	38
	Item 9B.	Other Information	38
Part III.			
	Item 10.	Directors, Executive Officers and Corporate Governance	39
	Item 11.	Executive Compensation	39
	Item 12.	Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters	39
	Item 13.	Certain Relationships and Related Transactions, and Director Independence	39

	Item 14.	Principal Accountant Fees and Services	39
Part IV.			
	Item 15.	Exhibits, Financial Statement Schedules	40

FORWARD-LOOKING STATEMENTS

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

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

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

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

- a decrease in demand for our products;
- deterioration in general economic conditions, including unemployment, inflation, consumer debt levels, energy costs and unavailability of credit leading to reduced consumer spending on discretionary items;
- our ability to develop and implement business strategies and achieve desired goals;
- our ability to expand our business, including locating available and suitable real estate for new store locations and the integration of any acquired businesses;
- competitive pricing and other competitive pressures;
- our overall credit rating, which impacts our debt interest rate and our ability to borrow additional funds to finance our operations;
- deteriorating and uncertain credit markets could negatively impact our merchandise vendors, as well as our ability to secure additional capital at favorable (or at least feasible) terms in the future;
- our relationships with our vendors;
- our ability to attract and retain qualified team members;
- the occurrence of natural disasters and/or extended periods of unfavorable weather;
- our ability to obtain affordable insurance against the financial impacts of natural disasters and other losses;
- high fuel costs, which impacts our cost to operate and the consumer’s ability to shop in our stores;
- 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;
- adherence to the restrictions and covenants imposed under our revolving and term loan facilities;
- acts of terrorism; and
- other statements that are not of historical fact made throughout this report, including the sections entitled “Business,” "Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Risk Factors."

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

PART I

Item 1. Business.

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

Overview

We operate primarily within the United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive chemicals for cars and light trucks (pickup trucks, vans, minivans and sport utility vehicles). We currently are the second largest specialty retailer of automotive parts, accessories and maintenance items to "do-it-yourself," or DIY, and "do-it-for-me," or Commercial, customers in the United States, based on store count and sales.

We were founded in 1929 as Advance Stores Company, Incorporated and operated as a retailer of general merchandise until the 1980s. During the 1980s, we sharpened our focus to target sales of automotive parts and accessories to DIY customers. From the 1980s to the present, we have grown significantly as a result of comparable store sales growth, new store openings and strategic acquisitions. Since 1996, we have aggressively expanded our sales to Commercial customers through our commercial delivery program. Our parent company, Advance Auto Parts, Inc., was incorporated in 2001 in conjunction with the acquisition of Discount Auto Parts, Inc., or Discount. In 2005, we acquired Autopart International, Inc., or AI.

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

Operating Segments

We operate in two reportable segments: Advance Auto Parts, or AAP, and AI. The AAP segment is comprised of our store operations within 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.” The AI segment consists solely of the operations of Autopart International, Inc., which operates as an independent, wholly-owned subsidiary and primarily serves the Commercial market.

Financial information on our segments is included in Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations, of this Annual Report on Form 10-K. In addition, selected financial data for our segments is available in Note 18, Segment and Related Information, of the Notes to Consolidated Financial Statements, included in Item 15. Exhibits, Financial Statement Schedules, of this Annual Report on Form 10-K.

AAP Segment

At January 3, 2009, our 2008 fiscal year-end, we operated 3,243 AAP stores within the United States, Puerto Rico and the Virgin Islands. 3,215 stores were located throughout 40 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores operated under the “Advance Auto Parts” trade name except for certain stores in the state of Florida, which operated under the “Advance Discount Auto Parts” trade name. These stores offer a broad selection of brand name and proprietary automotive replacement parts, accessories and maintenance items for domestic and imported cars and light trucks. In addition, we operated 28 stores under the “Western Auto” and “Advance Auto Parts” trade names, located outside the United States, or Offshore.

AAP Stores

Store Overview.   Our stores generally are located in freestanding buildings in areas with high vehicle traffic counts, good visibility and easy access to major roadways. We believe that our stores exhibit a customer-friendly format with the majority of our stores featuring an updated exterior and interior, bright lighting, and a well-designed and easily navigated floor plan. The average size of our stores is 7,400 square feet with the size of our typical new stores approximating 6,000 to 7,000 square feet. Our stores generally are open from 7:30 a.m. to 9:00 p.m. six days a week and 9:00 a.m. to 9:00 p.m. on Sundays and most holidays to meet the needs of our DIY and Commercial customers. We offer extended hours in a limited number of our stores, including 24 hours per day in certain stores.

Our stores carry a standard product offering of approximately 16,000 stock keeping units, or SKUs. Certain stores carry slightly more SKUs within centralized market locations where there is demand for a more customized assortment of merchandise. Additionally, some of our stores carry an additional customized assortment of 10,000 SKUs for same-day or next-day delivery to other select stores within the respective service area. The standard SKU offering within each of our stores is replenished from one of our eight distribution centers once per week on average.

We also utilize a network of Parts Delivered Quickly, or PDQ®, facilities and one Master PDQ® facility to ensure our stores have the right product at the right time for our customers' needs. Our PDQ® and Master PDQ® network of facilities provide our customers with an additional assortment of approximately 64,000 less common SKUs on a same-day or overnight basis. Lastly, our customers have access to over 280,000 SKUs by ordering directly from one of our vendors for delivery to a particular store or other destination as chosen by the customer.

Store team members utilize our proprietary point-of-sale, or POS, system, including a fully integrated electronic parts catalog to identify and suggest the appropriate quality and price options for the SKUs we carry, as well as the related products, tools or additional information that is required by our customers to complete their automotive repair projects properly and safely. We strive to be the leader in the automotive aftermarket industry in serving our customers by providing quality products at the right price and backed by a solid warranty and outstanding customer service. We offer many of the products in our stores at a good, better or best recommendation differentiated by price and quality.

The products offered in our stores include the following:

Filters	Alternators	Transmissions	Windshield Wipers
Radiators	Batteries	Clutches	Windshield Washer Fluid
Brake Pads	Shock Absorbers	Electronic Ignition Components	Floor Mats
Belts and Hoses	Struts	Engines	Steering Wheel Covers
Radiator Hoses	Suspension Parts	Oil and Transmission Fluid	Lighting
Starters	Spark Plugs	Antifreeze	Wash and Waxes

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

Battery installation	"How-To" Project Brochures	Electrical system testing
Wiper installation	"How-To" Video Clinics	Oil and battery recycling

Our retail stores are 100% company operated and are divided into three geographic areas. Each geographic area is managed by a senior vice president, who is supported by seven regional vice presidents. District managers report to the regional vice presidents and have direct responsibility for store operations in a specific district, which typically consists on average of 14 stores. Depending on store size and sales volume, each store is staffed by 8 to 16 team members under the leadership of a general manager. We offer training to our employees, who we refer to as Team Members. Team Member training includes formal classroom workshops, online seminars and certification by the

National Institute for Automotive Service Excellence, or ASE, which is broadly recognized for training certification in the automotive industry. We also continue to increase the number of bilingual team members in our stores to better serve an increasingly diverse customer base.

Commercial Sales. Our commercial sales consist of sales to both our walk-in and delivery Commercial customers, which represented approximately 27% of our AAP sales in fiscal 2008. Since 1996, we have aggressively expanded our sales to Commercial customers through our Commercial delivery program. For delivered sales, we utilize our Commercial delivery fleet to deliver product from our store locations to our Commercial customers' place of business, including independent garages, service stations and auto dealers. Our stores are supported by a Commercial sales team who are dedicated to the development of our Commercial customers, which include national and regional accounts.

Under our Commercial Acceleration strategy, we are focused on increasing our Commercial sales at a faster pace in light of the favorable market dynamics. The Commercial team is led by a senior vice president who is building a sales force whose sole focus is on the Commercial customer. Initiatives include the addition of key product brands in our stores that are well recognized by our Commercial customers, as well as increasing the parts knowledge of our store Team Members. We believe these initiatives will enable us to gain more Commercial customers as well as increase our sales from existing customers who will use us as their "first call" supplier. At January 3, 2009, we had 2,755 AAP stores, or 85% of total AAP stores, with Commercial delivery programs, which was up slightly from 83% at December 29, 2007.

Store Development. Our store development program has historically focused on adding new stores within existing markets, remodeling or relocating existing stores and entering new markets. The addition of new stores, along with strategic acquisitions, has played a significant role in our growth and success. We believe the opening of new stores, and their strategic location in relation to our DIY and Commercial customers, will continue to play a significant role in our future growth and success. Additionally, we will continue to monitor existing stores based on cash flow, market importance and occupancy cost rates.

Our 3,243 AAP stores were located in the following states and territories at January 3, 2009:

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Alabama	119	Maryland	72	Oklahoma	32
Arkansas	35	Massachusetts	54	Pennsylvania	158
Colorado	41	Michigan	91	Puerto Rico	27
Connecticut	36	Minnesota	16	Rhode Island	8
Delaware	7	Mississippi	58	South Carolina	125
Florida	457	Missouri	41	South Dakota	7
Georgia	229	Nebraska	20	Tennessee	142
Illinois	83	New Hampshire	11	Texas	177
Iowa	26	New Mexico	1	Vermont	7
Indiana	97	New Jersey	50	Virgin Islands	1
Kansas	24	New York	120	Virginia	167
Kentucky	91	North Carolina	234	West Virginia	66
Louisiana	61	North Dakota	4	Wisconsin	47
Maine	12	Ohio	186	Wyoming	3

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

	2008	2007	2006	2005	2004
Beginning Stores	3,153	2,995	2,810	2,652	2,539
New Stores (1)	109	175	190	169	125
Stores Closed	(19)	(17)	(5)	(11)	(12)

Ending Stores (2)	3,243	3,153	2,995	2,810	2,652

4

(1) Does not include stores that opened as relocations of previously existing stores within the same general market area or substantial renovations of stores.
(2) Includes 2 and 7 stores not operating at December 30, 2006 and December 31, 2005, respectively, primarily due to hurricane damage.

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

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

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

Store Support Center

Merchandising. Purchasing for virtually all of the merchandise for our stores is handled by our merchandise teams located in our store support center in Roanoke, Virginia and in our regional office in Minneapolis, Minnesota. In fiscal 2008, we purchased merchandise from over 400 vendors, with no single vendor accounting for more than 9% of purchases. Our purchasing strategy involves negotiating agreements with certain vendors to purchase merchandise over a specified period of time along with other terms, including pricing, payment terms and volume.

Our merchandising team is skilled in sourcing high quality products globally and maintaining consistent inventory levels. The merchandising team has developed strong vendor relationships in the industry and, in a collaborative effort with our vendor partners, utilizes a category management process. We believe this process, which develops a customer-focused business plan for each merchandise category, has been highly effective and is critical to improving comparable store sales, gross margin and inventory turns.

Our merchandising strategy is to carry a broad selection of high quality brand name automotive parts and accessories such as Bosch®, Castrol®, Sylvania®, Prestone®, Monroe®, Wagner®, Purolator®, Dayco®, Trico® and Federal-Mogul Moog®, or Moog®, which generates DIY customer traffic and also appeals to Commercial customers. In addition to these branded products, we stock a wide selection of high quality proprietary products that appeal to value conscious customers. These lines of merchandise include everything from chemical and wash-and-wax products to tools, batteries, parts and interior automotive accessories under various private label names.

Supply Chain. Our supply chain consists of centralized inventory management and transportation functions which support a logistics network of distribution centers, PDQ® warehouses and stores. Our inventory management team utilizes a replenishment system to monitor the distribution center, PDQ® warehouse and store inventory levels and orders additional product when appropriate while streamlining handling costs. Our replenishment system utilizes the most up-to-date information from our POS system as well as inventory movement forecasting based upon sales history, sales trends by SKU, seasonality and demographic shifts in demand. Our replenishment system combines these factors with service level goals, vendor lead times and cost of inventory assumptions to determine the timing and size of purchase orders. A significant portion of our purchase orders are sent via electronic data interchange, with the remainder being sent by computer generated e-mail or facsimile.

Our transportation team utilizes a transportation management system to efficiently manage incoming shipments to our distribution centers and stores. Benefits from this system include (i) reduced vendor to distribution center freight costs, (ii) visibility of purchase orders and shipments for the entire supply chain, (iii) a reduction in distribution center inventory, or safety stock, due to consistent transit times, (iv) decreased third party freight and billing service costs, (v) decreased distribution center to store freight costs and (vi) higher store in-stock position. We recently announced our plan to outsource our private fleet operations to two reputable dedicated carriers. We believe outsourcing our private fleet operations will allow us to focus resources on achieving our key strategies, improve our ability to manage transportation as we continue to grow and reduce costs.

We currently operate eight distribution centers. All of these distribution centers are equipped with our distribution center management system, or DCMS. Our DCMS provides real-time inventory tracking through the processes of receiving, picking, shipping and replenishing inventory at our distribution centers. The DCMS, integrated with technologically advanced material handling equipment, significantly reduces warehouse and distribution costs, while improving efficiency. This equipment includes carousels, “pick-to light” systems, radio frequency technology, voice technology and automated sorting systems. Through the continued implementation of our supply chain initiatives we expect to further increase the efficient utilization of our distribution capacity. We believe our current capacity will allow us to support in excess of 3,400 AAP stores. We plan to open a new distribution center in Indiana in 2010.

We currently offer approximately 60,000 SKUs to support all of our retail stores via our 15 stand-alone PDQ® warehouses and/or our eight distribution centers (all of which stock PDQ® items). Stores have system visibility to inventory in their respective PDQ® warehouses and distribution centers and can place orders to these facilities, or as an alternative, through an online ordering system to virtually any of the other facilities. Ordered parts are delivered to substantially all stores on a same day or next day basis through our dedicated PDQ® trucking fleet and third party carriers. Store inventories are replenished from our eight distribution centers. In addition, we operate a Master PDQ® warehouse that stocks approximately 26,000 incremental SKUs of harder-to-find automotive parts and accessories and utilizes our existing PDQ® distribution infrastructure and/or third party arrangements to provide next day service to substantially all of our stores.

Marketing & Advertising. We have an extensive marketing and advertising program designed to communicate our ability to meet consumers’ needs through our merchandise offerings, parts assortment and availability, competitive prices, free services and commitment to customer service. Our marketing and advertising program is focused on establishing Advance Auto Parts as the primary resource for a customer's automotive needs. We reinforce our brand image through a mix of media that includes television, radio, promotional signage, outdoor media, print and our Internet site.

Our marketing and advertising plan is a brand-building program primarily built around television and radio advertising. The plan is supported by in-store signage, online advertising and print. Our television advertising is a combination of national and regional media in both sports and entertainment programming. Radio advertising generally airs during peak drive times. We use Spanish-language radio and television advertising to market to our Hispanic customers. Our advertising program is also supported through sponsorships of sporting events, racing teams and other grass-root level events intended to positively impact individual communities, including Hispanic and other ethnic communities, to create awareness and drive traffic for our stores. Since 2004, we have used an integrated consumer education program to build our image as not only the best source for parts, but also the best resource for vehicle information. Our goal with our consumer education initiative is to continue our long-term brand building success, increase customer loyalty and expand our customer base.

In February 2008, we launched a new branding campaign, “Keep the wheels turning.” This campaign was developed based on a strategic review of our business as well as extensive research conducted with our customers and Team Members. We believe this campaign, which targets core DIY and Commercial customers, is differentiating Advance Auto Parts in our industry by positioning us as (i) the brand that best understands customers’ needs, (ii) the source for brand name parts and products and (iii) the resource for expert advice and knowledge to help customers keep their vehicles running. The campaign includes creative and compelling television and radio commercials designed to drive sales and build an enduring, positive image of Advance Auto Parts with our targeted customers.

AI Segment

We acquired AI in September 2005. The acquisition included 61 stores throughout New England and New York, a distribution center and AI’s wholesale distribution business. AI complements our growing presence in the Commercial market in the Northeast.

AI’s business primarily serves the Commercial market, with an emphasis on import parts, from its store locations. In addition, its North American Sales Division serves warehouse distributors and jobbers throughout North America. We believe AI provides a high level of service to its Commercial customers by providing quality parts, unsurpassed customer service and efficient parts delivery. As a result of its extensive sourcing network, AI is able to serve its customers in search of replacement parts for both domestic and imported cars and light trucks with a greater focus on imported parts. The vast majority of AI’s product is sold under its own proprietary brand. The AI stores offer approximately 11,000 SKUs with access to an additional 17,000 unique SKUs through its logistics network.

At January 3, 2009, we operated 125 stores under the “Autopart International” trade name in the following states throughout the Northeast:

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Connecticut	17	New Hampshire	8	Pennsylvania	20
Delaware	1	New Jersey	14	Rhode Island	4
Maine	4	New York	23	Vermont	1
Massachusetts	33				

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

	2008	2007	2006	2005
Beginning Stores	108	87	62	-
New Stores	18	21	25	62(1)
Stores Closed	(1)	-	-	-
Ending Stores	125	108	87	62

(1) Of the 62 new stores in 2005, 61 stores were acquired in September 2005 as a result of our AI acquisition.

Seasonality

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

Team Members

At March 2, 2009, we employed 27,396 full-time Team Members and 20,186 part-time Team Members. Our

7

workforce consisted of 89% of our Team Members employed in store-level operations, 8% employed in distribution and 3% employed in our corporate offices. We have never experienced any labor disruption and are not party to any collective bargaining agreements. We believe that our Team Member relations are good.

Intellectual Property

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

Competition

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

Environmental Matters

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

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

Item 1A. Risk Factors.

Risks Relating to Our Business

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

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

- the economy, because during periods of declining economic conditions (including higher unemployment, lower wages, higher credit costs or unavailability of credit, and higher fuel or energy prices), both DIY and Commercial customers may defer vehicle maintenance or repair; conversely, during periods of favorable economic conditions, more of our DIY customers may pay others to repair and maintain their cars or they may purchase new cars;
- the weather, as vehicle maintenance may be deferred during periods of unfavorable weather;
- the average duration of manufacturer warranties and the decrease in the number of annual miles driven, because newer cars typically require fewer repairs and will be repaired by the manufacturer's dealer network using dealer parts; and lower vehicle mileage decreases the need for maintenance and repair (while higher miles driven increases the need);
- the quality of vehicles manufactured, because vehicles that have high part failure rates will require more frequent repairs using aftermarket parts; and
- the refusal of vehicle manufacturers to make available diagnostic, repair and maintenance information to the automotive aftermarket industry that our DIY and Commercial customers require to diagnose, repair and maintain their vehicles may force consumers to have all diagnostic work, repairs and maintenance performed by the vehicle manufacturers' dealer network.

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

Deterioration in general economic conditions, including unemployment, inflation or deflation, consumer debt levels or unavailability of credit and high energy costs will likely have a negative impact on our customers' ability to purchase our products and our business, financial condition, results of operations and cash flows will suffer.

The deterioration in general macro-economic conditions that occurred during the fourth quarter of 2008 led many U.S. companies to announce plant closings and employee layoffs, which resulted in higher unemployment that may continue for a prolonged period of time. Unemployment of our customers or any decrease in the market value of their homes would have a negative impact on our customers' net worth and financial resources, and could reduce their willingness or ability to pay for accessories, maintenance or repair of their vehicles. Although the price of gasoline decreased substantially in November and December of 2008, the price of fuel or other energy resources may increase substantially in the future. Higher fuel and energy costs may reduce the amount of customers' disposable income available to purchase our products, as well as reduce the number of miles driven. Rising energy prices may impact demand for the products we sell, overall transaction count and our profitability. In addition, higher energy prices impact our merchandise distribution, commercial delivery, utility and product costs, and inflation or deflation could also result in a potentially material negative impact on our business, financial condition, profitability and cash flows.

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

The sale of automotive parts, accessories and maintenance items is highly competitive in many ways, including name recognition, location, price, quality, product availability and customer service. We compete in both the DIY and Commercial categories of the automotive aftermarket industry, primarily with: (i) national and regional retail automotive parts chains, (ii) discount stores and mass merchandisers that carry automotive products, (iii) wholesalers or jobber stores, (iv) independent operators and (v) automobile dealers that supply parts. These competitors and the level of competition vary by market. Some of our competitors may possess advantages over us in certain markets we share, including a greater amount of marketing activities, a larger number of stores, store locations, store layouts, longer operating histories, greater name recognition, larger and more established customer bases, lower prices, and better product warranties. Our response to these competitive disadvantages may require us to reduce our prices below our normal selling prices or increase our promotional spending, which would lower revenue and profitability. Competitive disadvantages may also prevent us from introducing new product lines, require us to discontinue current product offerings, or change some of our current operating strategies. If we do not have the resources or expertise, or otherwise fail to develop successful strategies to address these competitive disadvantages, we may lose customers, our revenues and profit margins may decline and we may be less profitable or potentially unprofitable.

Disruptions in our relationships with vendors, or disruptions in or changes in our vendors' operations, could increase our cost of goods sold and/or affect the supply of automotive parts and supplies we sell.

Our business depends on developing and maintaining close relationships with our vendors and on our vendors' ability or willingness to sell quality products to us at favorable prices and terms. Many factors outside of our control may harm these relationships and the ability or willingness of these vendors to sell us products on favorable terms. For example, financial or operational difficulties that some of our vendors may face could increase the cost of the products we purchase from them or our ability to source product from them. In addition, the trend towards consolidation among automotive parts suppliers as well as the off-shoring of manufacturing capacity to foreign countries may disrupt or end our relationship with some vendors, and could lead to less competition and result in higher prices. We could also be negatively impacted by suppliers who might experience work stoppages, labor strikes or other interruptions to or difficulties in the manufacture or supply of the products we purchase from them.

Deteriorating and uncertain credit markets could negatively impact our vendors, as well as our liquidity and ability to secure additional capital at favorable cost-effective terms in the future.

Impact on the Company’s Suppliers

During the fourth quarter of 2008, the Company, our suppliers (also referred to as vendors) and our customers were exposed to deteriorating and uncertain credit markets. The general decline in the economy and economic conditions could negatively affect our suppliers by making it difficult for them to obtain the credit lines or loans necessary to finance their operations in the short-term, or long-term.

Additionally, if any of the major U. S. automobile manufacturers files a petition in bankruptcy, or if other factors result in a substantial reduction in the number of new cars manufactured, or in a company-wide shut-down, it would likely have a material negative short-term (as well as potentially long-term) impact on the operations and cash flows of some of our suppliers. Any such negative impacts to our suppliers will likely result in the loss of certain suppliers and/or in higher product costs.

Impact on the Company

Supplier bankruptcies would likely decrease the production output and supply of domestic (and possibly foreign) automobile parts and accessories, thereby decreasing the availability and increasing the cost of our parts and accessories. We might not be able to pass our increased costs onto our customers. Any increased per unit costs of our suppliers, would likely result in the Company paying a higher per unit price for parts and accessories, potentially resulting in higher cost of goods sold, lower gross profit margins and reduced operating profits if such increased costs could not be passed onto our customers.

Our overall credit rating may be negatively impacted by the deteriorating and uncertain credit markets. (See Item 7., Management's Discussion and Analysis of Financial Condition and Results of Operations -- Credit Ratings.) The interest rates on our credit facilities are linked directly to our credit ratings. Accordingly, any negative impact on our credit rating would likely result in higher interest rates and interest expense we pay on borrowed funds. Additionally, we may be limited in our ability to borrow additional funds to finance our operations. In light of

10

the uncertainty in the credit markets, it is possible that one or more of the banks that provides us with financing under our credit facilities may fail to honor the terms of our existing credit facilities or be financially unable to provide the unused credit. An inability to obtain sufficient financing at cost-effective rates could have a materially adverse affect on our business, financial condition, results of operations and cash flows.

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

Our success depends to a significant extent on the continued services and experience of our Team Members. At March 2, 2009, we employed 47,582 Team Members. We may not be able to retain our current qualified Team Members, or attract and retain additional qualified Team Members that may be needed in the future. Our ability to maintain an adequate number of qualified Team Members is highly dependent on an attractive and competitive compensation and benefits package. If we fail or are unable to maintain such a package, our customer service and execution levels could suffer by reason of a declining quality of our workforce, which could adversely affect our business, financial condition, results of operations and cash flows.

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

We have implemented numerous initiatives as part of our business strategy, including four key turnaround strategies introduced in 2008, to increase comparable store sales, enhance our margins and increase our return on invested capital in order to increase our earnings and cash flow. If we are unable to implement these initiatives efficiently and effectively, or if these initiatives are unsuccessful, our business, financial condition, results of operations and cash flows could be adversely affected.

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

- general economic conditions, including the current U.S. recession which could continue into the future, and unfavorable conditions in our local markets, which could reduce our sales;
- the competitive environment in the automotive aftermarket parts and accessories retail sector that may force us to reduce prices below our desired pricing level or increase promotional spending;
- changes in the automotive aftermarket parts manufacturing industry, such as manufacturer consolidation or closures, which may disrupt or sever one or more of our supplier relationships and increase the cost of the parts and accessories we sell;
- our ability to anticipate changes in consumer preferences and to meet customers' needs for automotive products (particularly parts availability) in a timely manner;
- our ability to stimulate DIY customer traffic as well as grow our Commercial business; and
- our continued ability to hire and retain qualified personnel, which depends in part on the types of recruiting, training, compensation and benefit programs we adopt or maintain.

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

New Store Openings

We have increased our store count significantly from 814 stores at the end of fiscal 1997 to 3,368 stores at January 3, 2009. We intend to continue to increase the number of our stores and expand the markets we serve as part of our growth strategy, primarily by opening new stores. We may also grow our business through strategic acquisitions. We do not know whether the implementation of our growth strategy will be successful. The actual number of new stores to be opened and their success will depend on a number of factors, including, among other things:

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

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

Acquisitions, Investments or Strategic Alliances

We may acquire stores or businesses from, make investments in, or enter into strategic alliances with companies that have stores or distribution networks in our current markets or in areas into which we intend to expand our presence. Any future acquisitions, investments, strategic alliances or related efforts will be accompanied by risks, including but not limited to:

- the difficulty of identifying appropriate strategic partners or acquisition candidates;
- securing adequate financing on cost-effective terms for acquisition or post-acquisition expenditures;
- the potential disruption to our ongoing business and diversion of our management's attention;
- inability or failure to discover liabilities prior to completion of an acquisition, including the assumption of legal liabilities;
- the difficulty of assimilating and integrating the operations of the respective entities to realize anticipated economic, operational or other favorable benefits;
- the inability to maintain uniform standards, controls, procedures and policies;
- inability or failure to retain key personnel from the acquired business; and
- the impairment of relationships with team members and customers as a result of changes in management.

We are unsure whether we will be successful in overcoming these risks or any other problems encountered with any acquisitions, investments, strategic alliances or related efforts. If we fail to successfully open and operate new stores or make strategic acquisitions or alliances, then our business, financial condition, results of operations and cash flows may be negatively impacted.

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

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

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

War or acts of terrorism, or the threat of either, may negatively impact the availability and cost of merchandise and our customers and adversely impact our sales and profitability.

War or acts of terrorism, or the threat of either, may have a negative impact on our ability to obtain merchandise available for sale in our stores. Some of our merchandise is imported from other countries. If imported goods become difficult or impossible to import into the United States, and if we cannot obtain such merchandise from other sources at similar costs, our sales and profit margins may be negatively affected.

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

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

Risks Relating to Our Financial Condition

The covenants governing our revolving and term loan facilities impose restrictions on us.

The terms of our revolving and term loan facilities include covenants that impose operating and financial restrictions on us and our subsidiaries and require us to meet certain financial ratios and conditions. These restrictions may also have a negative impact on our business, financial condition, results of operations and cash flows by significantly limiting or prohibiting us from engaging in certain transactions, including:

- incurring or guaranteeing additional indebtedness;
- making capital expenditures and other investments;
- incurring liens on our assets and engaging in sale-leaseback transactions;
- issuing or selling capital stock of our subsidiaries;
- transferring or selling assets currently held by us; and
- engaging in mergers or acquisitions.

The failure to comply with any of these covenants would cause a default under our credit facilities. Furthermore, our credit facilities contain certain financial covenants, including a maximum leverage ratio and a minimum coverage ratio, which, if not maintained by us, will cause us to be in default under our credit facilities. Any of these defaults, if not waived, could result in the acceleration of all of our debt, in which case the debt would become immediately due and payable. If this occurs, we may not be able to repay our debt or borrow sufficient funds to refinance it. Even if new financing were available, it may be on terms that are less favorable or otherwise not acceptable to us.

Item 1B. Unresolved Staff Comments.

None.

Item 2. Properties.

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

Facility	Opening Date	Area Served	Size (Sq. ft.)(1)	Nature of Occupancy
Main Distribution Centers:				
Roanoke, Virginia	1988	Mid-Atlantic	433,681	Leased
Lehigh, Pennsylvania	2004	Northeast	635,487	Owned
Lakeland, Florida	1982	Florida	552,796	Owned
Gastonia, North Carolina	1969	South, Offshore	634,472	Owned
Gallman, Mississippi	2001	South	388,168	Owned
Salina, Kansas	1971	West, Midwest	413,500	Owned
Delaware, Ohio	1972	Northeast	480,100	Owned
Thomson, Georgia	1999	Southeast	374,400	Owned
Master PDQ® Warehouse:				
Andersonville, Tennessee	1998	All	115,019	Leased
PDQ® Warehouses:				
Youngwood, Pennsylvania	1999	East	39,878	Leased
Riverside, Missouri	1999	West	43,912	Leased
Guilderland Center, New York	1999	Northeast	40,950	Leased
Temple, Texas	1999	Southwest	61,343	Leased
Altamonte Springs, Florida	1996	Central Florida	10,000	Owned
Jacksonville, Florida	1997	Northern Florida and Southern Georgia	12,712	Owned
Tampa, Florida	1997	West Central Florida	10,000	Owned
Hialeah, Florida	1997	South Florida	12,500	Owned
West Palm Beach, Florida	1998	Southeast Florida	13,300	Leased
Mobile, Alabama	1998	Alabama and Mississippi	10,000	Owned
Atlanta, Georgia	1999	Georgia and South Carolina	16,786	Leased
Tallahassee, Florida	1999	South Georgia and Northwest Florida	10,000	Owned
Fort Myers, Florida	1999	Southwest Florida	14,330	Owned
Cleveland, Ohio	2008	Northeast Ohio	22,000	Leased
Chicago, Illinois(2)	2009	Northern Illinois, Wisconsin and Northern Indiana	45,485	Leased
Corporate/Administrative Offices:				
Roanoke, Virginia	1995	All	49,000	Leased
Roanoke, Virginia	2002	All	144,000	Leased

	Minneapolis, Minnesota	2008	All	51,674	Leased
AI Properties:					
	Norton, Massachusetts	2006	AI corporate office	30,000	Leased
	Norton, Massachusetts	2006	New England, New York - AI	317,500	Leased

(1) Square footage amounts exclude adjacent office space.
(2) This facility opened in January 2009.

At January 3, 2009, we owned 633 of our stores and leased 2,735 stores. The expiration dates, including the exercise of renewal options, of the store leases are summarized as follows:

Years	AAP Stores	AI Stores	Total
2008-2009	24	1	25
2010-2014	235	62	297
2015-2019	616	32	648
2020-2029	815	30	845
2030-2039	790	-	790
2040-2056	130	-	130
	2,610	125	2,735

Item 3. Legal Proceedings.

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

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

Item 4. Submission of Matters to a Vote of Security Holders.

None.

PART II

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

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

	High	Low
Fiscal Year Ended January 3, 2009		
Fourth Quarter	$ 37.37	$ 24.17
Third Quarter	$ 44.61	$ 36.75
Second Quarter	$ 41.74	$ 33.57
First Quarter	$ 37.99	$ 31.20
Fiscal Year Ended December 29, 2007		
Fourth Quarter	$ 40.73	$ 31.53
Third Quarter	$ 40.15	$ 29.51
Second Quarter	$ 43.62	$ 39.22
First Quarter	$ 40.80	$ 34.90

The closing price of our common stock on March 2, 2009 was $36.31. At March 2, 2009, there were 384 holders of record of our common stock (which does not include the number of individual beneficial owners whose shares were held on their behalf by brokerage firms in street name).

On February 15, 2006, our Board of Directors declared a quarterly cash dividend, the first in our history. The $0.06 per share quarterly cash dividend has been declared in each quarter since its inception in fiscal 2006. Any payments of dividends in the future will be at the discretion of our Board of Directors and will depend upon our results of operations, earnings, capital requirements and other factors deemed relevant by our Board of Directors.

Stock Price Performance

The following graph shows a comparison of our cumulative total return on our common stock, the Standard & Poor's 500 Index and the Standard & Poor's 500 Specialty Retail Index. The graph assumes that the value of an investment in our common stock and in each such index was $100 on January 3, 2004, and that any dividends have been reinvested. The comparison in the graph below is based solely on historical data and is not intended to forecast the possible future performance of our common stock.

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

Company / Index	Jan 3, 2004	Jan 1, 2005	Dec 31, 2005	Dec 30, 2006	Dec 29, 2007	Jan 3, 2009
Advance Auto Parts	100	107.30	160.13	131.88	142.46	128.29
S&P 500 Index	100	111.23	116.69	135.12	143.53	92.64
S&P 500 Specialty Retail Index	100	114.63	117.91	125.73	99.82	79.42

Item 6. Selected Consolidated Financial Data.

The following table sets forth our selected historical consolidated statement of operations, balance sheet and other operating data. Included in this table are key metrics and operating results used to measure our financial progress. The selected historical consolidated financial and other data at January 3, 2009 and December 29, 2007 and for the three years ended January 3, 2009 have been derived from our audited consolidated financial statements and the related notes included elsewhere in this report. The historical consolidated financial and other data at December 30, 2006, December 31, 2005 and January 1, 2005 and for the years ended December 31, 2005 and January 1, 2005 have been derived from our audited consolidated financial statements and the related notes that have not been included in this report. You should read this data along with "Management's Discussion and Analysis of Financial Condition and Results of Operations," and our consolidated financial statements and the related notes included elsewhere in this report.

	Fiscal Year (1)(2)				
	2008	2007	2006	2005	2004
	(in thousands, except per share data)				
Statement of Operations Data:					
Net sales	$ 5,142,255	$ 4,844,404	$ 4,616,503	$ 4,264,971	$ 3,770,297
Cost of sales (3)	2,679,191	2,523,435	2,415,339	2,250,493	2,016,926
Gross profit	2,463,064	2,320,969	2,201,164	2,014,478	1,753,371
Selling, general and administrative expenses	2,048,137	1,904,540	1,797,814	1,605,986	1,424,613
Operating income	414,927	416,429	403,350	408,492	328,758
Interest expense	(33,729)	(34,809)	(35,992)	(32,384)	(20,069)
Gain (loss) on extinguishment of debt	-	-	986	-	(3,230)
Other income, net	(506)	1,014	1,571	2,815	289
Income from continuing operations before income taxes and loss on discontinued operations	380,692	382,634	369,915	378,923	305,748
Income tax expense	142,654	144,317	138,597	144,198	117,721
Income from continuing operations before loss on discontinued operations	238,038	238,317	231,318	234,725	188,027
Discontinued operations:					
Loss from operations of discontinued Wholesale Distribution Network	-	-	-	-	(63)
Benefit for income taxes	-	-	-	-	(24)
Loss on discontinued operations	-	-	-	-	(39)
Net income	$ 238,038	$ 238,317	$ 231,318	$ 234,725	$ 187,988
Per Share Data:(4)					
Income from continuing operations before loss on discontinued operations per basic share	$ 2.51	$ 2.30	$ 2.18	$ 2.17	$ 1.70
Income from continuing operations before loss on discontinued operations per diluted share	$ 2.50	$ 2.28	$ 2.16	$ 2.13	$ 1.66
Net income per basic share	$ 2.51	$ 2.30	$ 2.18	$ 2.17	$ 1.70
Net income per diluted share	$ 2.50	$ 2.28	$ 2.16	$ 2.13	$ 1.66
Cash dividends declared per basic share	$ 0.24	$ 0.24	$ 0.24	$ -	$ -
Weighted average basic shares outstanding	94,655	103,826	106,129	108,318	110,846

Weighted average diluted shares outstanding	95,305	104,654	107,124	109,987	113,222
Cash flows provided by (used in):					
Operating activities	$ 478,739	$ 410,542	$ 333,604	$ 321,632	$ 260,397
Investing activities	(181,609)	(202,143)	(258,642)	(302,780)	(166,822)
Financing activities	(274,426)	(204,873)	(104,617)	(34,390)	(48,741)

	Fiscal Year (1)(2)				
	2008	2007	2006	2005	2004
	(in thousands, except per share data and ratios)				
Balance Sheet and Other Financial Data:					
Cash and cash equivalents	$ 37,358	$ 14,654	$ 11,128	$ 40,783	$ 56,321
Inventory	$ 1,623,088	$ 1,529,469	$ 1,463,340	$ 1,367,099	$ 1,201,450
Inventory turnover(5)	1.70	1.69	1.71	1.75	1.74
Inventory per store(6)	$ 482	$ 469	$ 475	$ 476	$ 453
Accounts payable to inventory ratio(7)	57.2%	55.1%	53.2%	54.8%	53.7%
Net working capital(8)	$ 442,632	$ 456,897	$ 498,553	$ 406,476	$ 416,302
Capital expenditures	$ 184,986	$ 210,600	$ 258,586	$ 216,214	$ 179,766
Total assets	$ 2,964,065	$ 2,805,566	$ 2,682,681	$ 2,542,149	$ 2,201,962
Total debt	$ 456,164	$ 505,672	$ 477,240	$ 438,800	$ 470,000
Total net debt(9)	$ 439,394	$ 521,018	$ 500,318	$ 448,187	$ 433,863
Total stockholders' equity	$ 1,075,166	$ 1,023,795	$ 1,030,854	$ 919,771	$ 722,315
Selected Store Data:					
Comparable store sales growth (10)	1.5%	0.7%	1.6%	8.2%	6.0%
Number of stores at beginning of year	3,261	3,082	2,872	2,652	2,539
New stores	127	196	215	231	125
Closed stores	(20)	(17)	(5)	(11)	(12)
Number of stores, end of period	3,368	3,261	3,082	2,872	2,652
Relocated stores	10	29	47	54	34
Stores with commercial delivery program, end of period	2,880	2,712	2,526	2,254	1,945
Total commercial sales, as a percentage of total sales	29.5%	26.6%	25.0%	21.8%	18.4%
SG&A expenses per store (in 000s)(11)(12)	$ 618	$ 601	$ 604	$ 586	$ 549
Operating income per team member (in 000s)(13)	$ 9.02	$ 9.40	$ 9.29	$ 10.30	$ 9.01
Total store square footage, end of period	24,711	23,982	22,753	21,246	19,734
Average net sales per store (in 000s)(12)(14)	$ 1,551	$ 1,527	$ 1,551	$ 1,555	$ 1,453
Average net sales per square foot(12)(15)	$ 211	$ 207	$ 210	$ 209	$ 195
Gross margin return on inventory(16)	$ 3.56	$ 3.39	$ 3.38	$ 3.43	$ 3.18

(1)

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

(2)The statement of operations data for each of the years presented reflects the operating results of the wholesale distribution segment as discontinued operations.

(3)Cost of sales includes a non-cash obsolete inventory write-down of $37.5 million recorded in fiscal 2008 due to a change in our inventory management approach for slow moving inventory.

(4)Basic and diluted shares outstanding for each of the years presented gives effect to a 3-for-2 stock split effectuated by us in the form of a 50% stock dividend distributed on September 23, 2005.

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

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

(7)Accounts payable to inventory ratio is calculated as ending accounts payable divided by ending inventory. Beginning in fiscal 2004, as a result of our new vendor financing program, we aggregate financed vendor accounts payable with accounts payable to calculate our accounts payable to inventory ratio.

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

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

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

(11)Selling, general and administrative, or SG&A, expense per store is calculated as total SG&A expenses divided by the average of beginning and ending store count. Excluding the SG&A impact of the 53rd week of fiscal 2008 of approximately $28.0 million, SG&A expenses per store in fiscal 2008 was $609.

(12)The ending store count and/or store square footage used in the calculation of the 2005 ratios has been weighted for the period of the AI acquisition.

(13)Operating income per team member is calculated as operating income divided by an average of beginning and ending number of team members. Excluding the operating income impact of the 53rd week of fiscal 2008 of approximately $16.0 million and a $37.5 million non-cash obsolete inventory write-down, operating income per team member in fiscal 2008 was $9.49.

(14)Average net sales per store is calculated as net sales divided by the average of the beginning and the ending number of stores for the respective period. Excluding the net sales impact of the 53rd week of fiscal 2008 of approximately $89.0 million, average net sales per store in fiscal 2008 was $1,524.

(15)Average net sales per square foot is calculated as net sales divided by the average of the beginning and ending total store square footage for the respective period. Excluding the net sales impact of the 53rd week of fiscal 2008 of approximately $89.0 million, average net sales per square foot in fiscal 2008 was $208.

(16)Gross margin return on inventory is calculated as gross profit divided by an average of beginning and ending inventory, net of accounts payable and financed vendor accounts payable. Excluding the gross profit impact of the 53rd week of fiscal 2008 of approximately $44.0 million and a $37.5 million non-cash obsolete inventory write-down, gross margin return on inventory in fiscal 2008 was $3.46.

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

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

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

Introduction

We operate primarily within the United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive chemicals for cars and light trucks (pickup trucks, vans, minivans and sport utility vehicles). We currently are the second largest specialty retailer of automotive parts, accessories and maintenance items to “do-it-yourself,” or DIY, and "do-it-for-me," or Commercial, customers in the United States, based on store count and sales. At January 3, 2009, we operated 3,368 stores throughout 40 states.

We operate in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of our store operations within the 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 January 3, 2009, we operated 3,243 stores in the AAP segment, of which 3,215 stores operated under the trade names “Advance Auto Parts” and “Advance Discount Auto Parts” throughout 40 states in the Northeastern, Southeastern and Midwestern regions of the United States. These stores offer automotive replacement parts, accessories and maintenance items. In addition, we operated 28 stores under the “Western Auto” and “Advance Auto Parts” trade names, located in Puerto Rico and the Virgin Islands, or Offshore.

At January 3, 2009, we operated 125 stores in the AI segment under the “Autopart International” trade name. We acquired AI in September 2005. AI operates as an independent, wholly-owned subsidiary. AI’s business primarily serves the Commercial market from its store locations. In addition, its North American Sales Division services warehouse distributors and jobbers throughout North America.

Management Overview

During fiscal 2008, in a challenging year of deteriorating macroeconomic conditions, we accelerated top-line sales growth by 6.1% and recorded earnings per diluted share of $2.50 compared to $2.28 in fiscal 2007. Our fiscal 2008 financial results included an extra week of operations (53rd week) as well as a non-cash obsolete inventory write-down of $37.5 million due to a change in inventory management approach for slow moving inventory. We continued to generate significant operating cash flow that allowed us to invest in business initiatives and return capital to shareholders through cash dividends and share repurchases.

Fiscal 2008 was a transitional year for Advance, which included several executive management changes and the introduction of key strategies and initiatives, as we embarked on a concentrated effort to drive changes in response to diminished sales and earnings growth during fiscal 2006 and 2007. In January 2008, Darren Jackson was appointed to the position of President and Chief Executive Officer. Mr. Jackson, who had previously served on our Board of Directors, Audit Committee and Finance Committee, had already been involved with management on the completion of certain strategic business assessments during fiscal 2007 and the formulation of key initiatives discussed below. In addition to our CEO, other new management leaders joined Advance in fiscal 2008 to work with existing leaders on developing and executing a turnaround plan.

Fiscal 2008 Highlights

Highlights from our fiscal 2008 include:

Financial

We recorded earnings per diluted share of $2.50 compared to $2.28 for fiscal 2007. These results included approximately $0.10 of diluted earnings per share from the 53rd week as well as a reduction in diluted earnings per share of $0.25 from the non-cash obsolete inventory write-down. In addition to these items, our increase in earnings per share was driven by increased operating income, reduced interest expense and a lower outstanding share count as a result of 6.1 million shares having been repurchased during fiscal 2008.

Total sales for fiscal 2008 increased 6.1% over fiscal 2007 to $5.14 billion, primarily driven by new store growth, the 1.7% impact of the 53rd week's sales ($88.8 million) on total sales and a comparable store sales increase of 1.5%. Our fourth quarter comparable sales increase of 3% was the highest in 11 quarters.

We generated operating cash flow of $478.7 million for the year, an increase of $68.2 million over the comparable period in fiscal 2007, which was primarily driven by higher earnings and the impact of the 53rd week.

During fiscal 2008, we repurchased 6.1 million shares of common stock for $216.5 million at an average price of $35.28 per share, of which 4.6 million shares were repurchased under our previous $500 million stock repurchase program.

Operational

Executive management introduced four key turnaround strategies as the primary catalyst for our transformation and turnaround. These four strategies are:

1. Commercial Acceleration
2. DIY Transformation
3. Availability Excellence
4. Superior Experience

A majority of the initiatives we began and/or completed during fiscal 2008 are centered around these four strategies, some of which are discussed in the following section.