

ADVANCE AUTO PARTS INC  
Form 10-K  
February 25, 2014  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549  
Form 10-K

(Mark One)

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

For the fiscal year ended December 28, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 001-16797

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

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Delaware  
(State or other jurisdiction of  
incorporation or organization)  
5008 Airport Road  
Roanoke, VA  
(Address of Principal Executive Offices)

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

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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  No

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

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

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

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

Accelerated filer

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

Smaller reporting company

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

As of July 12, 2013, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the 72,442,669 shares of Common Stock held by non-affiliates of the registrant was \$5,984,488,886, based on the last sales price of the Common Stock on July 12, 2013, as reported by the New York Stock Exchange.

As of February 20, 2014, the registrant had outstanding 72,926,574 shares of Common Stock, par value \$0.0001 per share (the only class of common stock of the registrant outstanding).

Documents Incorporated by Reference:

Portions of the definitive proxy statement of the registrant to be filed within 120 days of December 28, 2013, pursuant to Regulation 14A under the Securities Exchange Act of 1934, for the 2014 Annual Meeting of Stockholders to be held on May 14, 2014, are incorporated by reference into Part III.

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FORWARD-LOOKING STATEMENTS

Certain statements in this report are “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933 (the “Securities Act”) and Section 21E of the Securities Exchange Act of 1934 (the “Exchange Act”). 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,” “will,” or similar expressions. We intend for any forward-looking statements to be covered by, and we claim the protection under, the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995.

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

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

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

- a decrease in demand for our products;
- competitive pricing and other competitive pressures;
- the risk that the anticipated benefits of the acquisition of General Parts International, Inc. (“GPI”), including synergies, may not be fully realized or may take longer to realize than expected, that we may experience difficulty integrating GPI’s operations into our operations, or that management’s attention may be diverted from our other businesses in association with the acquisition of GPI;
- the possibility that the acquisition of GPI may not advance our business strategy or prove to be an accretive investment or may impact third-party relationships, including customers, wholesalers, independently-owned and jobber stores and suppliers;
- the risk that the additional indebtedness from the new financing agreements in association with the acquisition of GPI may limit our operating flexibility or otherwise strain our liquidity and financial condition;
- the risk that we may experience difficulty retaining key GPI employees;
- our ability to implement our business strategy;
- our ability to expand our business, including the location of available and suitable real estate for new store locations, the integration of any acquired businesses and the continued increase in supply chain capacity and efficiency;
- our dependence on our suppliers to provide us with products that comply with safety and quality standards;
- our ability to attract and retain qualified employees, or Team Members;
- the potential for fluctuations in the market price of our common stock and the resulting exposure to securities class action litigation;
- deterioration in general macro-economic conditions, including unemployment, inflation or deflation, consumer debt levels, high fuel and energy costs, higher tax rates or uncertain credit markets;
- regulatory and legal risks, including being named as a defendant in administrative investigations or litigation, and the incurrence of legal fees and costs, the payment of fines or the payment of sums to settle litigation cases or

administrative investigations or proceedings;  
• a security breach or other cyber security incident;  
• business interruptions due to the occurrence of natural disasters, extended periods of unfavorable weather, computer system malfunction, wars or acts of terrorism;  
• the impact of global climate change or legal and regulatory responses to such change; and  
• other statements that are not of historical fact made throughout this report, including the sections entitled “Business,” “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and “Risk Factors.”

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

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PART I

Item 1. Business.

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

References to the acquisition of GPI refer to our January 2, 2014 acquisition of General Parts International, Inc. The discussion in this report relates to a period prior to our acquisition of GPI and, except as otherwise noted, does not give effect to the GPI acquisition.

Overview

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

We were founded in 1929 as Advance Stores Company, Incorporated and operated as a retailer of general merchandise until the 1980s. During the 1980s, we sharpened our focus to target sales of automotive parts and accessories to DIY customers. From the 1980s to the present, we have grown significantly as a result of comparable store sales growth, new store openings and strategic acquisitions. We began our Commercial delivery program in 1996 and have significantly increased our sales to Commercial customers since 2000. Our parent company, Advance Auto Parts, Inc., a Delaware corporation, was incorporated in 2001 in conjunction with the acquisition of Discount Auto Parts, Inc. As of December 28, 2013, the end of our 2013 fiscal year, or Fiscal 2013, we operated 4,049 total stores.

Subsequent to the end of Fiscal 2013, we acquired GPI on January 2, 2014. GPI, formerly a privately held company, is a leading distributor and supplier of original equipment and aftermarket automotive replacement products for commercial markets operating under the Carquest and Worldpac brands. As of the acquisition date, GPI operated 1,248 Carquest stores and 105 Worldpac branches located in 45 states and Canada and serviced approximately 1,400 independently owned Carquest stores. We believe the acquisition will allow us to expand our geographic presence, Commercial capabilities and overall scale to better serve our customers.

Our Internet address is [www.AdvanceAutoParts.com](http://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 Exchange Act as soon as reasonably practicable after we electronically file such material with, or furnish them to, the SEC. The SEC maintains a website that contains reports, proxy statements and other information regarding issuers that file electronically with the SEC. These materials may be obtained electronically by accessing the SEC’s website at [www.sec.gov](http://www.sec.gov).

Operating Segments

As of December 28, 2013, we operated in two reportable segments: Advance Auto Parts, or AAP, and Autopart International, or AI. The AAP segment is comprised of our store operations, which operate under the trade names “Advance Auto Parts” and “Advance Discount Auto Parts”. The AI segment consists solely of the operations of Autopart



International, Inc. which operates under the “Autopart International” trade name.

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

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### AAP Segment

As of December 28, 2013, we operated 3,832 AAP stores throughout 39 states in the Northeastern, Southeastern and Midwestern (inclusive of South Central) regions of the United States, Puerto Rico and the Virgin Islands. These stores operated under the "Advance Auto Parts" trade name except for certain stores in the state of Florida, which operated under the "Advance Discount Auto Parts" trade name. These stores offer a broad selection of brand name and private label automotive replacement parts, accessories, batteries and maintenance items for domestic and imported cars and light trucks. Through our integrated operating approach, we serve our DIY and Commercial customers from our store locations and online at [www.AdvanceAutoParts.com](http://www.AdvanceAutoParts.com). Our online website allows our DIY customers to pick up merchandise at a conveniently located store or have their purchases shipped directly to their home or business. Our Commercial customers can conveniently place their orders online.

### AAP Stores

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

Our stores carry a product offering of approximately 20,000 stock keeping units, or SKUs, generally consisting of a custom mix of product based on each store's respective market. Supplementing the inventory on-hand at our stores, we have 374 larger stores, known as HUB stores, which stock an additional 15,000 less common SKUs which are available to our stores within the HUB store's service areas on a same-day or next-day basis. Our stores also have access to a total assortment of 93,000 SKUs for same-day or next-day delivery from our network of 19 Parts Delivered Quickly, or PDQ<sup>®</sup>, facilities. Additionally, our customers have access to over 522,000 SKUs by ordering directly from one of our vendors for delivery to a particular store or other destination as chosen by the customer.

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

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

- Parts, including alternators, batteries, belts and hoses, brakes and brake pads, chassis parts, clutches, driveshafts, engines and engine parts, ignition parts, lighting, radiators, starters, spark plugs and wires, steering and alignment parts, transmissions, water pumps and windshield wiper blades;
- Accessories, including air fresheners, anti-theft devices, emergency road kits, floor mats, ice scrapers, mirrors, vent shades, MP3 and cell phone accessories, and seat and steering wheel covers;
- Chemicals, including antifreeze, brake and power steering fluid, freon, fuel additives, windshield washer fluid and car washes and waxes;
- Oil, transmission fluid and other automotive petroleum products; and
- Other miscellaneous offerings, including certain eServices.

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

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Except where prohibited, we also provide a variety of services free of charge to our customers including:

- Battery & wiper installation;
- Battery charging;
- Check engine light reading;
- Electrical system testing, including batteries, starters, alternators and sensors;
- “How-To” video clinics;
- Oil and battery recycling; and
- Loaner tool programs.

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

**Commercial Sales.** Our Commercial sales consist of sales to both our walk-in and delivery customers, which represented approximately 37.2% of our AAP sales in Fiscal 2013. Since 2000, we have aggressively expanded our sales to Commercial customers through our Commercial delivery program. For delivered sales, we utilize our Commercial delivery fleet to deliver product from our store locations to our Commercial customer's places of business, including independent garages, service stations and auto dealers. Our stores are supported by a Commercial sales team which is dedicated to the development of our national, regional and local Commercial customers. Our Commercial sales management is closely aligned with our store management as part of our overall integrated store operation.

Since 2008, we have concentrated a significant amount of our investments on increasing our Commercial sales at a faster rate in light of the favorable market dynamics. We have added key product brands in our stores that are well recognized by our Commercial customers and have increased the number of parts professionals, delivery trucks and other support services to serve those customers. In 2012, we added eService offerings to our Commercial customers, including online training solutions, fully searchable, diagnostic and repair resources and online marketing services which are available on a subscription basis. We believe these investments and the commitment to consistent delivery times and order accuracy will enable us to gain more Commercial customers as well as increase our sales to existing customers who will use us as their “first call” supplier. As of December 28, 2013, 3,485 AAP stores, or 90.9% of total AAP stores, had Commercial delivery programs.

**Store Development.** Our store development program has historically focused on adding new stores within existing markets where we can achieve a larger presence, remodeling or relocating existing stores and entering new markets. The addition of new stores, along with strategic acquisitions, 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.

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

estate.

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Our 3,832 AAP stores were located in the following states and territories as of December 28, 2013:

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Alabama	122	Maryland	90	Pennsylvania	210
Arkansas	28	Massachusetts	96	Puerto Rico	25
Colorado	58	Michigan	119	Rhode Island	22
Connecticut	59	Minnesota	19	South Carolina	137
Delaware	13	Mississippi	57	South Dakota	7
Florida	479	Missouri	48	Tennessee	141
Georgia	246	Nebraska	24	Texas	179
Illinois	127	New Hampshire	22	Vermont	18
Indiana	110	New Jersey	95	Virgin Islands	1
Iowa	28	New Mexico	1	Virginia	192
Kansas	28	New York	194	West Virginia	73
Kentucky	104	North Carolina	256	Wisconsin	64
Louisiana	62	Ohio	227	Wyoming	4
Maine	16	Oklahoma	31		

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

	2013	2012	2011	2010	2009
Beginning Stores	3,576	3,460	3,369	3,264	3,243
New Stores <sup>(1)</sup>	284	<sup>(2)</sup> 116	95	110	75
Stores Closed	(28)	) <sup>(3)</sup> —	(4	) (5	) (54
Ending Stores	3,832	3,576	3,460	3,369	3,264

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

<sup>(2)</sup> Includes 124 stores resulting from our acquisition of B.W.P. Distributors, Inc. ("BWP") on December 31, 2012.

<sup>(3)</sup> The number of store closures in 2013 includes the planned consolidations of 20 BWP stores.

**Store Technology.** Our store-based information systems are comprised of a proprietary and integrated Point of Sale, electronic parts catalog, or EPC, and store-level inventory management system (collectively "store system"). Information maintained by our store system is used to formulate pricing, marketing and merchandising strategies and to replenish inventory accurately and rapidly. Our fully integrated system enables our store Team Members to assist our customers in their parts selection and ordering based on the year, make, model and engine type of their vehicles. Our store system provides real-time inventory tracking at the store level allowing store Team Members to 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. If a hard-to-find part or accessory is not available at one of our stores, the store system can determine whether the part is carried and in-stock through our HUB or PDQ<sup>®</sup> networks or can be ordered directly from one of our vendors. Available parts and accessories are then ordered electronically from another store, HUB, PDQ<sup>®</sup> or directly from the vendor with immediate confirmation of price, availability and estimated delivery time.

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. We also support our store operations with additional proprietary systems and customer driven labor scheduling capabilities. 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. In Fiscal 2013, we began rolling out a new and enhanced EPC to a limited number of stores which is expected to simplify and improve the customer experience. Among the improvements is a more efficient way to systematically identify add-on sales to ensure our customers have what they need to complete their automotive repair project.

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### Store Support Center

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

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

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

In Fiscal 2013, we purchased merchandise from approximately 490 vendors, with no single vendor accounting for more than 9% of purchases. Our purchasing strategy involves negotiating agreements with most of our vendors to purchase merchandise over a specified period of time along with other terms, including pricing, payment terms and volume.

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

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

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

We operate nine AAP distribution centers. All of these distribution centers are equipped with a warehouse management system, or WMS, which provides real-time inventory tracking through the processes of receiving, picking, shipping and replenishing inventory at our distribution centers. The WMS, integrated with material handling equipment, reduces warehouse and distribution costs, while improving efficiency. This equipment includes carousels, “pick-to-light” systems, radio frequency technology, voice technology and automated sorting systems. We opened our newest distribution center in Remington, Indiana in late 2012. It incorporates our more advanced warehouse management system which has enabled us to roll out daily replenishment to many of the stores serviced by Remington. We have ongoing supply chain initiatives to further increase the efficient utilization of our distribution capacity including planning for the roll-out of the advanced technology used at the Remington facility to other



facilities in our supply chain network.

Store inventories are replenished from our nine distribution centers. We utilize reputable dedicated carriers to ship product from our distribution centers to our stores. In addition to a store's normal inventory assortment, our stock PDQ® warehouses (nine of which are included in our distribution centers) offer approximately 93,000 SKUs to support all of our retail stores. Stores have visibility, through our EPC system, to inventory in their respective PDQ® warehouses and distribution centers as well as facilities throughout the Company and can place orders to these facilities through an online ordering system. Ordered parts are delivered to substantially all stores on a same-day or next-day basis through our dedicated PDQ® trucking fleet and third-party carriers.

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

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The ‘Service is our best part®’ campaign was developed based on extensive research with our customers and Team Members. It has become the Company’s promise which has been embraced by each of our 71,867 Team Members. The campaign targets core DIY and Commercial customers and emphasizes our commitment to provide market-leading service to our customers. The campaign is built around a multi-channel communications plan which brings together radio, outdoor, direct marketing and digital media. The plan is supported by in-store and event signage as well as mobile and social media.

A final component of our marketing plan is event marketing. Previously, Advance was the title sponsor of the Advance Auto Parts Monster Jam, a live family-oriented monster truck event tour. Our sponsorship programs have shifted to local, grass-roots level events intended to positively impact the individual communities we serve, including Latino and other ethnic communities, and to drive awareness and repeated store visits.

## AI Segment

AI’s business primarily serves the Commercial market, with an emphasis on parts for imported cars, from its store locations located primarily throughout the Northeastern, Mid-Atlantic and Southeastern regions of the United States. 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 premium parts, expert customer service and efficient parts delivery. As a result of its extensive sourcing network, AI is able to serve its customers in search of replacement parts for both domestic and imported cars and light trucks with a greater focus on imported parts. The vast majority of AI’s product is sold under its own proprietary brand. The AI stores offer approximately 30,000 SKUs through routine replenishment from its supply chain with access to over 200,000 SKUs through local sourcing networks.

AI has significantly increased its store count since our acquisition of AI in September 2005. As of December 28, 2013, we operated 217 stores under the “Autopart International” trade name in the following states:

Location	Number of Stores	Location	Number of Stores	Location	Number of Stores
Alabama	1	Maine	4	New York	33
Connecticut	16	Maryland	11	Ohio	5
Delaware	1	Massachusetts	31	Pennsylvania	22
DC	1	North Carolina	5	Rhode Island	4
Florida	40	New Hampshire	8	South Carolina	2
Georgia	6	New Jersey	18	Virginia	9

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

	2013	2012	2011	2010	2009
Beginning Stores	218	202	194	156	125
New Stores	12	21	9	38	32
Stores Closed	(13	) (5	) (1	) —	(1
Ending Stores	217	218	202	194	156

## Seasonality

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

Team Members

As of February 20, 2014, we employed 41,238 full-time Team Members and approximately 30,629 part-time Team Members. Our workforce consisted of 87% of our Team Members employed in store-level operations, 9% employed in distribution and 4% employed in our corporate offices. Our team member counts reflect the GPI acquisition. As of February 20, 2014, less than 1% of our Team Members were represented by labor unions. We have never experienced any labor disruption. We believe that our Team Member relations are solid.

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### Intellectual Property

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

### 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, (iv) independent operators, (v) automobile dealers that supply parts and (vi) internet-based parts providers. We believe that chains of automotive parts stores that, like us, have multiple locations in one or more markets, have competitive advantages in customer service, marketing, inventory selection, purchasing and distribution as compared to independent retailers and jobbers that are not part of a chain or associated with other retailers or jobbers. The principal methods of competition in our business include customer service, product offerings, availability, quality, price and store location.

### Environmental Matters

We are subject to various federal, state and local laws and governmental regulations relating to the operation of our business, including those governing collection, transportation and recycling of automotive lead-acid batteries, used automotive oil and other recyclable items, 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, used automotive oil or other recyclable items onto our properties. We currently provide collection and recycling programs for used lead-acid batteries, used oil and other recyclable items at substantially all of our stores as a service to our customers. Pursuant to agreements with third party vendors, lead-acid batteries, used oil and other recyclable items 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. Our third party vendors 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, used oil and other recyclable items as these costs are borne by the respective third party vendors.

We own and lease real property. Under various environmental laws and regulations, a current or previous owner or operator of real property may be liable for the cost of removal or remediation of hazardous or toxic substances on, under or in such property. These laws often impose joint and several liability and may be imposed without regard to whether the owner or operator knew of, or was responsible for, the release of such hazardous or toxic substances. Other environmental laws and common law principles also could be used to impose liability for releases of hazardous materials into the environment or work place, and third parties may seek recovery from owners or operators of real properties for personal injury or property damage associated with exposure to released hazardous substances. From time to time, we receive notices from the Environmental Protection Agency and state environmental authorities indicating that there may be contamination on properties we own, lease or operate or may have owned, leased or

operated in the past or on adjacent properties for which we may be responsible. Compliance with these laws and regulations and clean up of released hazardous substances have not had a material impact on our operations to date.

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### Item 1A. Risk Factors.

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

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

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

the number and average age of vehicles being driven, because the majority of vehicles that are seven years old and older are generally no longer covered under the manufacturers' warranties and tend to need maintenance and repair. If the number and average age of vehicles being driven were to decrease it would negatively impact demand for our products;

the economy, because during periods of declining economic conditions, both DIY and Commercial customers may defer vehicle maintenance or repair; conversely, during periods of favorable economic conditions, more of our DIY customers may pay others to repair and maintain their cars or they may purchase new cars;

the weather, because milder weather conditions may lower the failure rates of automobile parts while extended periods of rain and winter precipitation may cause our customers to defer elective maintenance and repair of their vehicles;

the average duration of manufacturer warranties and the decrease in the number of annual miles driven, because newer cars typically require fewer repairs and will be repaired by the manufacturer's dealer network using dealer parts; and lower vehicle mileage, which may be affected by gas prices and other factors, decreases the need for maintenance and repair (while higher miles driven increases the need);

technological advances and the increase in quality of vehicles manufactured, because vehicles that need less frequent maintenance and have low part failure rates will require less frequent repairs using aftermarket parts;

our vendors, because if any of our key vendors do not supply us with products on terms that are favorable to us or fail to develop new products we may not be able to meet the demands of our customers and our results of operations could be negatively affected;

our reputation and our brands, because our reputation is critical to our continued success. If we fail to maintain high standards for, or receive negative publicity whether through social media or normal media channels relating to, product safety, quality or integrity, it could reduce demand for our products. The product we sell is branded both in brands of our vendors and in our own private label brands. If the perceived quality or value of the brands we sell declines in the eyes of our customers, our results of operations could be negatively affected; and

the refusal of vehicle manufacturers to make available diagnostic, repair and maintenance information to the automotive aftermarket industry that our DIY and Commercial customers require to diagnose, repair and maintain their vehicles, because this may force consumers to have a majority of diagnostic work, repairs and maintenance performed by the vehicle manufacturers' dealer network.

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

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

The sale of automotive parts, accessories and maintenance items is highly competitive in many ways, including name recognition, location, price, quality, product availability and customer service. We compete in both the DIY and

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

Our response to these competitive disadvantages may require us to reduce our prices below our normal selling prices or increase our promotional spending, which would lower our revenue and profitability. Competitive disadvantages may also prevent us from introducing new product lines, require us to discontinue current product offerings, or change some of our

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current operating strategies. If we do not have the resources, expertise, consistent execution or otherwise fail to develop successful strategies to address these competitive disadvantages, we may lose customers, our revenues and profit margins may decline and we may be less profitable or potentially unprofitable.

We may not be able to successfully integrate GPI's operations with ours; the GPI business may not achieve the expected business results and could cause us to incur unexpected liabilities; the GPI acquisition has caused and may continue to cause us to incur significant transaction and integration costs; our level of indebtedness could limit the cash flow available for operations and could adversely affect our ability to service our debt or obtain additional financing; and we may not be able to retain key GPI personnel.

### Integration Issues and Business Expectations

We cannot be certain whether, and to what extent, any strategic, operational, financial or other anticipated benefits resulting from the acquisition of GPI will be achieved. In order to obtain the anticipated benefits of the transaction, we must integrate GPI's operations with ours. This integration may be complex and failure to do so quickly and effectively may negatively affect our earnings. The market price of our common stock may decline as a result of the acquisition if our integration of GPI is unsuccessful, takes longer than expected or fails to achieve financial benefits to the extent anticipated by financial analysts or investors, or the effect of the acquisition on our financial results is otherwise not consistent with the expectations of financial analysts or investors.

The acquisition of GPI could cause disruptions in and create uncertainty surrounding GPI's and our businesses, including affecting GPI's and our relationships with existing and future customers, wholesalers, independently-owned and jobber stores, suppliers and employees, which could have an adverse effect on GPI's and our business, financial results and operations. In particular, GPI and Advance could lose customers or suppliers, and new customer or supplier contracts could be delayed or decreased or otherwise adversely affected in economic value. In addition, we have diverted, and will continue to divert, significant management resources towards the integration efforts, which could adversely affect our business and results of operations.

In connection with our acquisition of GPI, we assumed all of the liabilities of GPI, including any actual or contingent liabilities to which GPI is or may become subject. GPI may be or may become subject to loss contingencies, known or unknown, which could relate to past, present, or future facts, events, circumstances and occurrences. Although the agreement pursuant to which we acquired GPI provides us with certain indemnification provisions, potential costs relating to any such liabilities could exceed the amount of any such indemnification.

### Additional Transaction and Integration Costs

In connection with the GPI acquisition, we have incurred significant one-time transaction costs and entered into new financing agreements and issued new debt instruments. We expect to incur additional transaction and integration costs in connection with the acquisition. Although efficiencies related to the integration of the businesses may allow us to offset incremental transaction and integration costs over time, this net benefit may not be achieved in the near term, or at all.

### Level of Indebtedness

In connection with our acquisition of GPI our level of indebtedness increased significantly. Our indebtedness could restrict our operations and make it more difficult for us to satisfy our debt obligations. For example, our level of indebtedness could, among other things:

-



affect our liquidity by limiting our ability to obtain additional financing for working capital, or limit our ability to obtain financing for capital expenditures and acquisitions or make any available financing more costly;

- require us to dedicate all or a substantial portion of our cash flow to service our debt, which would reduce funds available for other business purposes, such as capital expenditures, dividends or acquisitions;

• limit our flexibility in planning for or reacting to changes in the markets in which we compete;

• place us at a competitive disadvantage relative to our competitors who may have less indebtedness;

• render us more vulnerable to general adverse economic and industry conditions; and

• make it more difficult for us to satisfy our financial obligations, including those relating to the notes associated with the acquisition of GPI.

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In addition, the indenture governing the notes related to the GPI acquisition and the credit agreement governing the new credit facilities contain financial and other restrictive covenants that limit our ability to engage in activities that may be in our long-term best interests. Our failure to comply with those covenants could result in an event of default which, if not cured or waived, could result in the acceleration of all of our debt, including such notes.

### Retention of Key GPI Personnel

The success of the integration with GPI will depend in part on the ability to retain key GPI employees who are expected to continue employment with the combined company. If any of these employees decide not to remain with the combined company, it is possible we may be unable to locate suitable replacements for such key employees or to secure employment of suitable replacements on reasonable terms. In addition, if key employees terminate their employment, management's attention might be diverted from successfully integrating GPI's operations to hiring suitable replacements and the combined company's business might suffer.

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, cash flows and liquidity.

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

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

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

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

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

### New Store Openings

We have increased our store count significantly in the last ten years from 2,539 stores at the end of our 2003 fiscal year to 4,049 stores as of December 28, 2013. We intend to continue to increase the number of our stores and expand the markets we serve as part of our growth strategy, primarily by opening new stores. We may also grow our business

through strategic acquisitions. We do not know whether the implementation of our growth strategy will be successful. As we open more stores it becomes more critical that we have consistent execution across our entire store chain. The actual number of new stores to be opened and their success will depend on a number of factors, including, among other things:

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

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

### Supply Chain

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

We are dependent on our suppliers to supply us with products that comply with safety and quality standards.

If our merchandise offerings do not meet our customers' expectations regarding safety and quality, we could experience lost sales, increased costs and exposure to legal and reputational risk. All of our suppliers must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety and quality standards. Events that give rise to actual, potential or perceived product safety concerns could expose us to government enforcement action and/or private litigation and result in costly product recalls and other liabilities. To the extent our suppliers are subject to added government regulation of their product design and/or manufacturing processes, the cost of the merchandise we purchase may rise. In addition, negative customer perceptions regarding the safety or quality of the products we sell could cause our customers to seek alternative sources for their needs, resulting in lost sales. In those circumstances, it may be difficult and costly for us to regain the confidence of our customers.

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. As of February 20, 2014, we employed 71,867 Team Members. We may not be able to retain our current qualified Team Members or attract and retain additional qualified Team Members who 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.

The market price of our common stock may be volatile and could expose us to securities class action litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions. Downturns in the stock market may cause the price of our common stock to decline. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Deterioration in global credit markets and changes in our credit ratings and deterioration in general macro-economic conditions, including unemployment, inflation or deflation, consumer debt levels, high fuel and energy costs, and

higher tax rates could have a negative impact on our business, financial condition, results of operations and cash flows.

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

#### Impact of Credit Market Uncertainty and Changes in Credit Ratings

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

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our revolving credit facility may fail to honor the terms of our existing credit facility or be financially unable to provide the unused credit.

Our overall credit rating may be negatively impacted by deteriorating and uncertain credit markets or other factors which may or may not be within our control. The interest rates on our publicly issued debt, term loan and revolving credit facility are linked directly to our credit ratings. Accordingly, any negative impact on our credit rating would likely result in higher interest rates and interest expense on any borrowings under our revolving credit facility, term loan or from future issuances of public debt and less favorable terms on other operating and financing arrangements. In addition, it could reduce the attractiveness of our vendor payment program, where certain of our vendors finance payment obligations from us with designated third party financial institutions, which could result in increased working capital requirements. An inability to obtain sufficient financing at cost-effective rates could have a material adverse effect on our business, financial condition, results of operations and cash flows.

### Impact on our Suppliers

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

### Impact on our Customers

Deterioration in macro-economic conditions may have a negative impact on our customers' net worth, financial resources and disposable income. While macro-economic conditions have improved since 2008 and 2009, unemployment rates have remained at relatively high levels, consumer confidence continues to fluctuate, payroll taxes increased for most U.S. workers as a result of the changes in tax legislation effective for 2013 and many consumers are now facing increased healthcare costs as a result of the recently enacted Affordable Care Act. This impact could reduce our customers' willingness or ability to pay for accessories, maintenance or repair of their vehicles, which results in lower sales in our stores. Higher fuel costs may also reduce the overall number of miles driven by our customers resulting in fewer parts failures and elective maintenance required to be completed.

### Impact on Operating Costs

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

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

We are subject to numerous federal, state and local laws and governmental regulations relating to, among other things, environmental protection, product quality standards, building and zoning requirements, and employment law matters. The implementation of and compliance with existing and future laws and regulations could increase the cost of doing business and

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adversely affect our results of operations. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital and operating expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations.

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

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

Consequently, despite our efforts, our security measures have been breached in the past and may be breached in the future due to cyber attack, team member error, malfeasance, fraudulent inducement or other acts; and unauthorized parties have in the past obtained, and may in the future, obtain access to our data or our customers' data. While costs associated with past security breaches have not been significant, any breach or unauthorized access in the future could result in significant legal and financial exposure and damage to our reputation that could potentially have an adverse effect on our business. While we also seek to obtain assurances that others we interact with will protect confidential information, there is a risk the confidentiality of data held or accessed by others may be compromised. If a compromise of our data security or function of our computer systems or website were to occur, it could have a material adverse effect on our operating results and financial condition and, possibly, subject us to additional legal, regulatory and operating costs and damage our reputation in the marketplace.

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

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

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

Terrorist attacks, war in the Middle East, or insurrection involving any oil producing country would likely result in an abrupt increase in the price of crude oil, gasoline, diesel fuel and other types of energy. Such price increases would increase the cost of doing business for us and our suppliers, and also would negatively impact our customers'



disposable income and have an adverse impact on our business, sales, profit margins and results of operations.

We rely extensively on our computer systems and the systems of our business partners to manage inventory, process transactions and report results. Any such systems are subject to damage or interruption from power outages, telecommunication failures, computer viruses, security breaches and catastrophic events. If our computer systems or those of our business partners fail we may experience loss of critical data and interruptions or delays in our ability to process transactions and manage inventory. Any such loss, if widespread or extended, could adversely affect the operation of our business and our results of operations.

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

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

Item 1B. Unresolved Staff Comments.

None.

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## Item 2. Properties.

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

Facility <sup>(1)</sup>	Opening Date	Area Served	Size (Sq ft.) <sup>(2)</sup>	Nature of Occupancy
<b>Main Distribution Centers:</b>				
Gastonia, North Carolina	1969	North Carolina, South Carolina	634,472	Owned
Salina, Kansas	1971	West, Midwest	413,500	Owned
Delaware, Ohio	1972	Midwest	480,100	Owned
Lakeland, Florida	1982	South, Offshore	552,796	Owned
Roanoke, Virginia	1988	Mid-Atlantic	433,681	Leased
Gallman, Mississippi	1999	Southwest, Midwest	388,168	Owned
Thomson, Georgia	1999	Southeast	374,400	Owned
Lehigh, Pennsylvania	2005	Northeast	655,991	Owned
Norton, Massachusetts	2006	All AI Stores	317,500	Leased
Remington, Indiana	2012	Midwest	542,064	Owned
<b>PDQ<sup>®</sup> Warehouses:</b>				
Altamonte Springs, Florida	1996	Central and Northeast Florida	10,000	Owned
Jacksonville, Florida	1997	Southeastern Georgia	12,712	Owned
Tampa, Florida	1997	West Central Florida	10,000	Owned
Hialeah, Florida	1997	South Florida	12,500	Owned
Andersonville, Tennessee	1998	All	113,300	Leased
Youngwood, Pennsylvania	1998	East	48,320	Leased
Mobile, Alabama	1998	Florida Panhandle	10,000	Owned
Riverside, Missouri	1999	West	43,912	Leased
Atlanta, Georgia	1999	Georgia	16,786	Leased
Tallahassee, Florida	1999	Northwest Florida	10,000	Owned
Fort Myers, Florida	1999	Southwest Florida	14,330	Owned
Chicago, Illinois	2009	Mid-West	42,600	Leased
Rochester, New York	2009	Northeast	40,000	Leased
Leicester, Massachusetts	2009	Northeast	34,200	Leased
Washington, DC	2009	East	33,124	Leased
Houston, Texas	2009	Southwest	36,340	Leased
Denver, Colorado	2009	West	25,400	Leased
West Deptford, New Jersey	2009	East	33,029	Leased
Durham, North Carolina	2010	East	41,652	Leased
<b>Corporate/Administrative Offices:</b>				
Roanoke, Virginia	2002	All	270,247	Leased
Norton, Massachusetts	2006	AI corporate office	30,000	Leased
Minneapolis, Minnesota	2008	All	51,674	Leased

(1) Excluded from our list of principal facilities are two distribution centers operated by BWP. These two distribution centers are expected to remain in operation during our integration of the BWP stores.

(2) Square footage amounts reported for the distribution centers exclude adjacent office space.



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As of December 28, 2013, we owned 792 of our stores and leased 3,257 stores. The expiration dates, including the exercise of renewal options, of the store leases are summarized as follows:

Years	AAP Stores	AI Stores	Total
2014	37	44	81
2015-2019	297	165	462
2020-2024	535	8	543
2025-2034	1,006	—	1,006
2035-2044	1,102	—	1,102
2045-2069	63	—	63
	3,040	217	3,257

## 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 Team Members. Although we diligently defend against these claims, we may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements, if we believe settlement is in the best interests of the Company and our shareholders. The damages claimed against us in some of these proceedings are substantial. Although the amount of liability that may result from these matters cannot be ascertained, we do not currently believe that, in the aggregate, they will result in liabilities material to our consolidated financial condition, future results of operations or cash flow.

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

## Item 4. Mine Safety Disclosures.

Not applicable.



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## PART II

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

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

	High	Low
Fiscal Year Ended December 28, 2013		
Fourth Quarter	\$111.94	\$80.28
Third Quarter	\$84.93	\$78.91
Second Quarter	\$88.74	\$78.75
First Quarter	\$83.52	\$71.30
Fiscal Year Ended December 29, 2012		
Fourth Quarter	\$84.00	\$64.36
Third Quarter	\$74.39	\$66.31
Second Quarter	\$93.08	\$60.87
First Quarter	\$91.60	\$68.79

The closing price of our common stock on February 20, 2014 was \$127.56. At February 20, 2014, there were 1,787 holders of record of our common stock (which does not include the number of individual beneficial owners whose shares were held on their behalf by brokerage firms in street name).

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

The following table sets forth information with respect to repurchases of our common stock for the fourth quarter ended December 28, 2013 (amounts in thousands, except per share amounts):

Period	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(1)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs <sup>(2)</sup>	Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs <sup>(2)</sup>
October 6, 2013 to November 2, 2013	—	\$—	—	\$415,092
November 3, 2013 to November 30, 2013	—	—	—	415,092
December 1, 2013 to December 28, 2013	21	103.35	—	415,092
Total	21	\$103.35	—	\$415,092

We repurchased 21,000 shares of our common stock at an aggregate cost of \$2.2 million, or an average purchase price of \$103.35 per share, in connection with the net settlement of shares issued as a result of the vesting of restricted stock during the fourth quarter ended December 28, 2013. We did not repurchase any shares under our \$500.0 million stock repurchase program during our fourth quarter ended December 28, 2013.

- (2) Our stock repurchase program authorizing the repurchase of up to \$500.0 million in common stock was authorized by our Board of Directors and publicly announced on May 14, 2012.



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## Stock Price Performance

The following graph shows a comparison of the cumulative total return on our common stock, the Standard & Poor's 500 Index and the Standard & Poor's 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, 2009, 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 RETAIL INDEX

Company/Index	January 3, 2009	January 2, 2010	January 1, 2011	December 31, 2011	December 29, 2012	December 28, 2013
Advance Auto Parts	\$ 100.00	\$ 119.28	\$ 195.80	\$ 206.86	\$ 213.14	\$ 327.63
S&P 500 Index	100.00	119.67	134.97	134.96	150.51	197.62
S&P Retail Index	100.00	141.28	174.70	179.79	219.77	321.02

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## Item 6. Selected Consolidated Financial Data.

The following table sets forth our selected historical consolidated statement of operations, balance sheet, cash flows and other operating data. Included in this table are key metrics and operating results used to measure our financial progress. The selected historical consolidated financial and other data (excluding the Selected Store Data and Performance Measures) as of December 28, 2013 and December 29, 2012 and for the three years ended December 28, 2013 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 as of December 31, 2011, January 1, 2011 and January 2, 2010 and for the years ended January 1, 2011 and January 2, 2010 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 <sup>(1)</sup>				
	2013	2012	2011	2010	2009
	(in thousands, except per share data, store data and ratios)				
Statement of Operations Data:					
Net Sales	\$6,493,814	\$6,205,003	\$6,170,462	\$5,925,203	\$5,412,623
Cost of sales	3,241,668	3,106,967	3,101,172	2,963,888	2,768,397
Gross Profit	3,252,146	3,098,036	3,069,290	2,961,315	2,644,226
Selling, general and administrative expenses <sup>(2)</sup>	2,591,828	2,440,721	2,404,648	2,376,382	2,189,841
Operating income	660,318	657,315	664,642	584,933	454,385
Interest expense <sup>(3)</sup>	(36,618 )	(33,841 )	(30,949 )	(26,861 )	(23,337 )
Other income (expense), net	2,698	600	(457 )	(1,017 )	607
Income before provision for income taxes	626,398	624,074	633,236	557,055	431,655
Income tax expense	234,640	236,404	238,554	211,002	161,282
Net income	\$391,758	\$387,670	\$394,682	\$346,053	\$270,373
Per Share Data:					
Net income per basic share	\$5.36	\$5.29	\$5.21	\$4.00	\$2.85
Net income per diluted share	5.32	5.22	5.11	3.95	2.83
Cash dividends declared per basic share	0.24	0.24	0.24	0.24	0.24
Weighted average basic shares outstanding	72,930	73,091	75,620	86,082	94,459
Weighted average diluted shares outstanding	73,414	74,062	77,071	87,155	95,113
Cash flows provided by (used in):					
Operating activities	\$545,250	\$685,281	\$828,849	\$666,159	\$699,690
Investing activities	(362,107 )	(272,978 )	(289,974 )	(199,350 )	(185,539 )
Financing activities	331,217	127,907	(540,183 )	(507,618 )	(451,491 )
Balance Sheet and Other Financial Data:					
Cash and cash equivalents	\$1,112,471	\$598,111	\$57,901	\$59,209	\$100,018

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Inventory	2,556,557	2,308,609	2,043,158	1,863,870	1,631,867	
Inventory turnover <sup>(4)</sup>	1.33	1.43	1.59	1.70	1.70	
Inventory per store <sup>(5)</sup>	631	609	558	523	477	
Accounts payable to Inventory ratio <sup>(6)</sup>	85.3	% 87.9	% 80.9	% 71.0	% 61.2	%
Net working capital <sup>(7)</sup>	\$1,224,599	\$624,562	\$105,945	\$276,222	\$421,591	
Capital expenditures	195,757	271,182	268,129	199,585	192,934	
Total assets	5,564,774	4,613,814	3,655,754	3,354,217	3,072,963	
Total debt	1,053,584	605,088	415,984	301,824	204,271	
Total net debt <sup>(8)</sup>	(58,887	) 6,977	358,083	252,171	113,781	
Total stockholders' equity	1,516,205					