



FORM 10-K

ADVANCE AUTO PARTS INC – AAP

Filed: March 27, 2003 (period: December 28, 2002)

Annual report which provides a comprehensive overview of the company for the past year

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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, 2002

OR

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

For the transition period from _____ to _____.

Commission file number 001-16797

ADVANCE AUTO PARTS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of incorporation or organization)

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

5673 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 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 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.

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Act). Yes No

As of March 19, 2003, the registrant had outstanding 35,765,812 shares of Common Stock, par value \$0.0001 per share (the only class of common equity of the registrant outstanding).

As of July 12, 2002, the last business day of the registrant's most recently completed second fiscal quarter, the aggregate market value of the 15,661,972 shares of Common Stock held by non-affiliates of the registrant (excluding, for this purpose, shares held by executive officers, directors or 10% stockholders) was \$759,762,262, based on the last sales price of the Common Stock on July 12, 2002, as reported by the New York Stock Exchange.

Documents Incorporated by Reference:

Portions of the definitive proxy statement of the registrant to be filed within 120 days of December 28, 2002, pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the 2003 Annual Meeting of Stockholders to be held on May 20, 2003, 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 and Section 21E of the Securities Exchange Act of 1934, which are usually identified by the use of words such as “will,” “anticipates,” “believes,” “estimates,” “expects,” “projects,” “forecasts,” “plans,” “intends,” “should” or similar expressions. We intend those forward-looking statements to be covered by the safe harbor provisions for forward-looking statements contained in the Private Securities Litigation Reform Act of 1995 and are included in this statement for purposes of complying with these safe harbor provisions.

These forward-looking statements reflect current views about our plans, strategies and prospects, which are based on the information currently available and on current assumptions.

Although we believe that our plans, intentions and expectations as reflected in or suggested by those forward-looking statements are reasonable, we can give no assurance that the plans, intentions or expectations will be achieved. 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 the forward-looking statements made in this report. These risks, uncertainties and contingencies include, but are not limited to, the following:

- our ability to expand our business;
- the implementation of our business strategies and goals;
- integration of our previous and future acquisitions;
- a decrease in demand for our products;
- competitive pricing and other competitive pressures;
- our relationships with our vendors;
- our involvement as a defendant in litigation or incurrence of judgements, fines or legal costs;
- deterioration in general economic conditions;
- our ability to meet debt obligations and adhere to the restrictions and covenants imposed under our debt instruments;
- our critical accounting policies; and
- other statements that are not of historical fact made throughout this report, including in 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 and 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, 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 31 of each year.

Overview

We primarily operate within the large and growing United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive fluids for cars and light trucks (pickup trucks, vans, minivans and sport utility vehicles).

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We are the second largest specialty retailer of automotive parts, accessories and maintenance items to “do-it-yourself,” or DIY, customers in the United States, based on store count and sales. We are the largest specialty retailer of automotive products in the majority of the states in which we currently operate, based on store count. Our combined operations are conducted in two operating segments, retail and wholesale. The retail segment consists of our retail operations operating under the trade names “Advance Auto Parts”, “Advance Discount Auto Parts” and “Discount Auto Parts” in the United States and “Western Auto” primarily in Puerto Rico and the Virgin Islands. Our wholesale segment includes a wholesale distribution network. See note 22 of our financial statements for financial information reported for these segments.

Our Internet address is www.advanceautoparts.com. We make available, and prior to December 15, 2002 have made 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 Act of 1934 as soon as reasonably practicable after we electronically file such material with, or furnish it to, the United States Securities and Exchange Commission.

Retail Segment

At December 28, 2002, we had 2,435 stores, which included 2,000 stores operating under the “Advance Auto Parts” trade name in 37 states in the Northeastern, Southeastern and Midwestern regions of the United States. In Florida, we operated 51 stores under the new “Advance Discount Auto Parts” trade name and 347 stores under the “Discount Auto Parts” trade name. In addition, as of that date, we had 37 stores operating under the “Western Auto” trade name located primarily in Puerto Rico and the Virgin Islands.

Our stores offer a broad selection of brand name and proprietary automotive products for domestic and imported cars and light trucks. Our stores average approximately 7,500 square feet in size and carry between 16,000 and 21,000 stock keeping units, or SKUs. We also offer approximately 105,000 additional SKUs that are available on a same day or overnight basis through our Parts Delivered Quickly, or PDQ[®], distribution systems.

In addition to our DIY business, we serve “do-it-for-me”, or DIFM, customers via sales to commercial accounts. Sales to DIFM customers represented approximately 15% of our retail sales in 2002 and consisted of sales to both walk-in commercial customers and sales delivered to our commercial customers’ places of business, including independent garages, service stations and auto dealers. At December 28, 2002, we had 1,411 stores participating in our commercial delivery programs.

As part of our participation in www.partsamerica.com, or pa.com, we also provide our customers online shopping and access to over 1 million SKUs. [Pa.com](http://pa.com) allows our customers to pick up merchandise at a conveniently located store or have their purchase shipped directly to their home or garage.

Wholesale Segment

Our wholesale segment consists of a wholesale distribution network, which offers automotive parts, accessories and certain specialty merchandise and/or certain services to approximately 415 independently-owned dealer stores in 42 states. The dealer stores consist of associate, sales center and franchise dealers. Associate and franchise dealers have rights to the use of the “Western Auto” name and certain services provided by us. Sales centers only have the right to purchase certain products from us. We also provide services to the wholesale dealer network through various administrative and support functions, as negotiated by each independent location. Our wholesale distribution network is managed by a senior vice president (who is also responsible for the Western Auto retail stores and two regions of Advance stores in the retail segment), a vice president, a national sales manager, an operations manager and various field and support personnel. Our wholesale operations generated approximately 2.5% of our net sales in 2002.

Competitive Strengths

We believe our competitive strengths include the following:

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Leading Market Position. We compete in both the DIY and DIFM categories of the automotive aftermarket industry. Our primary competitors include national and regional retail automotive parts chains, wholesalers or jobber stores, independent operators, automobile dealers that supply parts, discount stores and mass merchandisers that carry automotive products. Although the number of competitors and level of competition vary by market, both the DIY and DIFM categories are highly fragmented and generally very competitive. We enjoy significant advantages over most of our competitors. We believe we have strong brand recognition and customer traffic in our stores as a result of our number one position in the majority of our markets, based on store count, and our significant marketing activities. In addition, we have purchasing, distribution, marketing and advertising efficiencies due to our economies of scale. In particular, our acquisition of Discount Auto Parts in November 2001 has provided us with the leading market position in Florida, which is especially attractive due to that state's strong DIY customer demographics.

Industry Leading Selection of Quality Products. As the number of automotive replacement parts has proliferated, we believe discount stores and mass merchandisers have had increasing difficulties in maintaining a broad inventory selection that DIY customers demand. We believe this has created a strong competitive advantage for specialty automotive parts retailers, like us, that have the distribution capacity, sophisticated information systems and knowledgeable sales staff needed to offer a broad inventory selection to DIY customers. We offer one of the largest selections of brand name and proprietary automotive parts, accessories and maintenance items in the automotive aftermarket industry. Our stores carry between 16,000 and 21,000 in-store stock keeping units, or SKUs. We also offer approximately 105,000 additional SKUs that are available on a same-day or overnight basis through our PDQ[®] distribution systems, including harder-to-find replacement parts, which typically carry a higher gross margin.

Superior Customer Service. We believe that our customers place significant value on our well-trained sales associates, who offer knowledgeable assistance in product selection and installation, and that this differentiates us from mass merchandisers. We invest substantial resources in the recruiting and training of our employees, who we refer to as team members, and provide formal classroom workshops, seminars and Automotive Service Excellence(TM) certification to build technical, managerial and customer service skills. In addition, we recently implemented a new performance management process that will allow us to align each team member's goals with our strategic corporate goals. This process will result in increased team member retention, which we believe leads to increased customer satisfaction and higher sales, and differentiates us from mass merchandisers.

Experienced Management Team with Proven Track Record. The 15 members of our senior management team have an average of 11 years experience with us and 14 years in the industry and have successfully grown our company to the second largest specialty retailer of automotive products in the United States. Our management team has accomplished this using a disciplined strategy of growing comparable store sales, opening new stores, increasing the penetration of our commercial delivery program and making selective acquisitions.

Growth Strategy

Our growth strategies consist of the following:

Increase Our Comparable Store Sales. We have been an industry leader in comparable store sales growth over the last five years, averaging 6.8% annually. We plan to increase our comparable store sales in both the DIY and DIFM categories by, among other things, (1) implementing merchandising and marketing initiatives, (2) investing in store-level systems to enhance our ability to recommend complementary products in order to increase sales per customer, (3) refining our store selection and in-stock availability through customized assortments and other supply chain initiatives, (4) continuing to increase customer service through store staffing and retention initiatives and (5) increasing our commercial delivery sales primarily by focusing on key customers to grow average sales per program. In particular, we intend to continue to make the necessary investments in several applications that are critical to improving our customer service and in-stock availability. We have established strong inventory management systems at the store and distribution center level and have implemented Advance Parts Accessories Lookup, or APAL, our new fully-integrated point-of-sale system and electronic parts catalog, in approximately one-half of our stores.

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Continue to Enhance Our Margins. In addition to driving operating margin expansion via continued strong comparable store sales growth, we will continue to focus on increasing margins by: (1) improving our purchasing efficiencies with vendors; (2) utilizing our supply chain infrastructure and existing distribution network to optimize our inventory mix and maximize distribution capacity; (3) leveraging our overall scale to reduce other operating expenses as a percentage of sales and (4) continuing to implement our category management processes and custom mix initiatives.

Increase Return on Invested Capital. We believe we can continue to successfully increase our return on invested capital by generating strong comparable store sales growth and increasing our margins. We believe we can also increase our return on invested capital by leveraging our supply chain initiatives to increase inventory turns and selectively expanding our store base in existing markets. Based on our experience, such in-market openings provide higher returns on our invested capital by enabling us to leverage our distribution infrastructure, marketing expenditures and local management resources. We intend to add approximately 125 stores in existing markets in 2003 primarily through new store openings and selective acquisitions.

Industry

The United States automotive aftermarket industry is generally grouped into two major categories DIY and DIFM. According to the Automotive Aftermarket Industry Association, or AAIA, Aftermarket Factbook, from 1991 to 2001, the DIY category grew at a 5.0% compound annual growth rate from approximately \$22 billion to \$35 billion. This category represents sales to consumers who maintain and repair vehicles themselves. We believe this category is characterized by stable, more recession-resistant demand than most retailers because of the need-based characteristics of the DIY category. Additionally, in difficult economic times, we believe people tend to drive more and use air travel less. We also believe difficult economic times result in people retaining their vehicles longer, which moves these vehicles in the range of years in age when more repairs are needed. From 1991 to 2001, the DIFM category grew at a 6.4% compound annual growth rate, from approximately \$36 billion to \$68 billion according to the AAIA Aftermarket Factbook. This category represents sales to professional installers, such as independent garages, service stations and auto dealers. DIFM parts and services are typically offered to vehicle owners who are less price sensitive or who are less inclined to repair their own vehicles.

We believe the United States automotive aftermarket industry will continue to benefit from several favorable trends, including the:

- increasing number and age of vehicles in the United States, increasing number of miles driven annually, increasing number of cars coming off of warranty, particularly previously leased vehicles;
- higher cost of replacement parts as a result of technological changes in recent models of vehicles and increasing number of light trucks and sport utility vehicles that require more expensive parts, resulting in higher average sales per customer; and
- continued consolidation of automotive aftermarket retailers, resulting in a reduction in the number of stores in the marketplace and enhanced profitability and returns on capital.

We believe these trends will continue to support strong comparable store sales growth in the industry.

History

We were formed in 1929 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 strong comparable store sales growth, new store openings and strategic acquisitions, including our 1998 Western Auto Supply Company acquisition and our 2001 acquisition of Discount Auto Parts, or Discount. Additionally, in 1996, we began to aggressively expand our sales to DIFM customers by implementing a commercial delivery program.

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Discount Acquisition. In November 2001, we acquired Discount which was the fifth largest specialty retailer of automotive products to both DIY and DIFM customers in the United States, based on store count. At November 28, 2001, Discount had 671 stores operating under the "Discount Auto Parts" trade name in six southern states, with 437 of them located in the state of Florida. During 2002, we completed the conversion of all 164 acquired Discount stores located outside the state of Florida and in the Florida panhandle. We also completed the alignment of merchandise offerings in all Discount stores in the state of Florida to our product offerings, physically converted 51 of the Florida stores to the new "Advance Discount Auto Parts" format and converted approximately half of the Florida stores to our store systems. During the integration process, we closed 109 of the acquired Discount locations in overlapping markets with our existing locations.

Trak Auto Parts Acquisition. During the third quarter of fiscal 2002, we entered into and closed on an arrangement to acquire certain assets of Trak Auto Corporation, or Trak, including the leases on 57 stores in Virginia, Washington, D.C. and Maryland. At December 28, 2002, we had converted all 57 stores to the Advance Auto Parts store format and assumed the respective lease obligations.

Store Operations

The retail store is the focal point of our operations. Our stores generally are located in free-standing buildings in high vehicle traffic areas with good visibility and easy access to major roadways. Our stores typically range in size from 5,000 to 10,000 square feet with an average of approximately 7,500 square feet, and offer between 16,000 and 21,000 SKUs. We also offer approximately 105,000 additional SKUs that are available on a same day or overnight basis through our PDQ® and Master PDQ® systems, including harder-to-find replacement parts, which typically carry a higher gross margin. Additionally, our local area warehouse concept utilizes existing space in selected stores to ensure the availability of certain PDQ® items on a same-day basis. At December 28, 2002, we operated 22 local area warehouses that carried a customized assortment of between 7,500 and 12,000 SKUs. In addition, our proprietary electronic parts catalog enables our sales team to identify an extensive number of applications for the SKUs that we carry, as well as parts that are required by our customers to complete their automotive repair projects. Replacement parts sold at our stores include radiators, brake pads, fan belts, radiator hoses, starters, alternators, batteries, shock absorbers, struts, CV shafts, spark plugs, transmission parts, clutches, electronic ignition components, suspension parts, engines and transmissions.

Our retail stores are company operated and divided into five areas. A senior vice president, who is supported by regional vice presidents, manages each area. Division managers report to the regional vice presidents and have direct responsibility for store operations in a specific division, which typically consists of 10 to 15 stores. Depending on store size and sales volume, each store is staffed by 8 to 30 team members under the leadership of a store manager. Stores generally are open from 8:00 a.m. to 9:00 p.m. six days a week and 9:00 a.m. to 6:00 p.m. on Sundays.

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Total stores. Our 2,435 retail stores were located in the following states and territories at December 28, 2002:

Location	Number of Stores
Alabama	104
Arkansas	21
California	1
Colorado	15
Connecticut	23
Delaware	5
District of Columbia	1
Florida	430
Georgia	191
Illinois	23
Iowa	24
Indiana	71
Kansas	26
Kentucky	66
Louisiana	58
Maine	7
Maryland	60
Massachusetts	21
Michigan	49
Mississippi	47
Missouri	35
Nebraska	17
New Hampshire	4
New Jersey	22
New York	98
North Carolina	179
Ohio	145
Oklahoma	1
Pennsylvania	135
Puerto Rico	34
Rhode Island	3
South Carolina	103
South Dakota	6
Tennessee	118
Texas	54
Vermont	3
Virgin Islands	2
Virginia	150
West Virginia	63
Wisconsin	18
Wyoming	2

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

	2002	2001	2000	1999	1998
Beginning Stores	2,484	1,729	1,617	1,567	814
New Stores ⁽¹⁾	110 ⁽²⁾	781 ⁽⁴⁾	140	102	821 ⁽⁵⁾
Stores Closed	(159) ⁽³⁾	(26)	(28)	(52)	(68) ⁽⁵⁾
Ending Stores	2,435	2,484	1,729	1,617	1,567

⁽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 57 stores acquired during the third and fourth quarters of fiscal 2002 as a result of the Trak acquisition.

⁽³⁾ Includes 133 "Advance Auto Parts" and "Discount Auto Parts" stores closed as a result of the Discount integration.

⁽⁴⁾ Includes 30 Carport stores acquired on April 23, 2001 and 671 Discount stores acquired on November 28, 2001.

⁽⁵⁾ Includes 560 Parts America stores (net of 52 closures) acquired as part of the Western merger in November 1998. Subsequent to 1998, we closed an additional 15 Western stores resulting in a net 545 stores obtained in the Western merger. Three Advance stores were also closed during fiscal 1998 in connection with the Western merger.

Purchasing and Merchandising

Virtually all of our merchandise is selected and purchased for our stores by personnel at our corporate offices in Roanoke, Virginia. In addition, specialty merchandise for our wholesale segment and our Western Auto retail stores is purchased in our Kansas City, Missouri office. In 2002, we purchased merchandise

from over 200 vendors, with no single vendor accounting for more than 8% of purchases. Our purchasing strategy involves negotiating multi-year agreements with certain vendors, which allows us to achieve more favorable terms and pricing. Accordingly, in connection with the Discount acquisition and our resulting increased volume, we were able to renegotiate several long-term agreements that provided more favorable terms and pricing.

Our purchasing team is currently led by a group of six senior professionals, who have an average of over 16

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years of automotive purchasing experience and over 20 years in retail. This team is skilled in sourcing products globally and maintaining high quality levels, while streamlining costs associated with the handling of merchandise through the supply chain. The purchasing team has developed strong vendor relationships in the industry and is involved currently in implementing a “best-in-class” category management process to improve 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 Monroe, Bendix, Purolator and AC Delco, which generates DIY customer traffic and also appeals to commercial delivery customers. In addition to these branded products, we stock a wide selection of high quality proprietary products that appeal to value conscious customers. Sales of replacement parts account for a majority of our net sales and typically generate higher gross margins than maintenance items or general accessories. We are currently in the process of customizing our product mix based on a merchandising program designed to optimize inventory mix at each individual store based on that store’s historical and projected sales mix and regionally specific customer needs.

Advertising

We have an extensive advertising program designed to communicate our merchandise offerings, product assortment, competitive prices, free services (battery installation and wiper replacements) and commitment to customer service. The program is focused on establishing us as the solution for a customer’s automotive needs. We utilize a media blend that reinforces our brand image, including print, promotional signage, television, radio and outdoor media, plus our proprietary in-store television network and internet site.

Our advertising plan is based on a monthly program built around a promotional theme and a seasonally relevant product campaign. The plan is supported by print and in-store signage. Our television advertising is a combination of regional and national media focused to sports programming. Radio advertising, which is used as a supplementary medium, generally airs during peak drive times. We also sponsor sporting events, racing teams and other events at all levels in a grass-roots effort to positively impact individual communities, including Hispanic and other ethnic communities, to create awareness and drive traffic for our stores.

In February 2003, we launched our new advertising campaign, “We’re ready in Advance.” We believe this advertising campaign differentiates Advance in the customer’s mind by positioning us as both a source for brand name auto parts at low prices and as a resource for expert advice and useful tips to help customers keep their vehicles running smoothly. The campaign includes creative and compelling television and radio commercials designed to drive sales and build an enduring, positive image of Advance as a special place to shop.

Management Information Systems

We have developed a flexible technology infrastructure that supports our growth strategy. Our information technology infrastructure is comprised of software and hardware designed to integrate store, distribution and vendor services into a seamless network. All stores, corporate and regional offices, and distribution centers are linked via a communications network, which is based on frame relay technology. Our stores in Puerto Rico are linked to the communications network via satellite. Electronic documents transferred between us and our vendors expedite the ordering, receiving and merchandise payment processes. We expect to complete the implementation of our technology platform into the Discount Auto Parts stores and the Lakeland distribution center, including the administrative offices, in 2003.

Enterprise Information System

Our management team has online access to certain financial information via Hyperion Analyzer, a web-enabled front-end tool, which retrieves information from our Hyperion Essbase database. This system, which is tightly integrated to our “best in class” PeopleSoft Financial and Human Resource systems, helps ensure that accurate, consistent, and timely financial information is available to all levels of management, including our sales, margin, payroll and other key metrics. This system assists the management team in planning and responding to our business

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and industry trends quickly and cost-effectively. This system contains analysis tools that provide our management the ability to rank and rate their operations and identify “best practices” opportunities for business improvement.

Store Based Information Systems

Our store based information systems, which are designed to improve the efficiency of our operations and enhance customer service, are comprised of point-of-sale, or POS, electronic parts catalog, or EPC, store-level inventory management, and store intranet, or STORENET, systems. Additionally, we support store level operations with our management planning and training and customer contact systems. These systems are integrated tightly and together provide real time, comprehensive information to store and merchandising personnel, resulting in improved customer service levels, team member utilization and in-stock availability. We have completely implemented our store based information systems into all of the Discount stores located outside of the Florida market (including the Florida panhandle) and plan to complete the implementation of the Discount stores located in the Florida market in 2003.

Point-of-Sale. Our POS system is used to formulate pricing, marketing and merchandising strategies and to replenish inventory accurately and rapidly. We have fully implemented our new POS system, or APAL, in one half of our stores and are in the process of implementing APAL in the remaining half of our stores. APAL is designed to improve customer checkout time and decrease the time required to train newly-hired team members. In addition, APAL will provide additional customer purchase history, which may be used for customer demographic analysis.

Electronic Parts Catalog. Our EPC system is a software system that enables our store team members to identify over 40 million application uses for automotive parts and accessories. The EPC system enables store team members to assist our customers in their parts selection and ordering based on year, make, model and engine type of their vehicle. 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® Express system. The EPC system also enables our store team members to identify additional parts that are required by our customers to complete their automotive repair projects. This generally leads to an increase in average sales per transaction. The integration of this system with our POS system improves customer service by reducing time spent at the cash register and fully automating the sales process between the parts counter and our POS register. This system enables store team members to order parts and accessories electronically through our PDQ® Express system, with immediate confirmation of price, availability and estimated delivery time. Additionally, information about a customer's automobile can be entered into a permanent customer database that can be accessed immediately whenever the customer visits or telephones one of our stores.

In conjunction with the rollout of APAL, we are also enhancing our EPC system in our stores. The enhanced EPC system, which is fully integrated with APAL, will provide the capability of cataloging non-application specific parts and additional product information, such as technical service bulletins, installation instructions, images of parts, and related diagrams of automotive systems. The enhanced EPC system contains enhanced search engines and more user-friendly navigation tools that enhance our store team members' ability to look-up any needed parts as well as additional products the customer needs to complete their automotive repair project. We believe these components will enhance our customers' shopping experience with us and help them accurately complete the repair job the first time, saving them time and money.

To ensure ongoing improvement of EPC information in all stores, we have developed a centrally based EPC data management system that enables us to reduce the time needed to exchange data with our vendors and ultimately catalogue and deliver updated, accurate product information to our stores. Additionally, we are enhancing the EPC system to provide additional methods of parts lookup while reducing keystrokes and allowing our store team members to more efficiently serve our customers.

Store Level Inventory Management System. 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 SKU's for cycle counts and track merchandise transfers. In conjunction with the roll-out of APAL, we are also implementing radio frequency hand held devices in all of our stores, which will help ensure the accuracy of inventory.

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Store Intranet. Installed in June of 1998, our STORENET system delivers product information, electronic manuals, forms, store operating results, in-store training opportunities and internal communications to all store team members. In addition STORENET provides online tools that enhance the productivity of our team members as follows:

- our online learning center delivers online training programs to all team members. A tracking and reporting function provides human resources and management with an overview of training schedules and results by team member;
- our online budgeting site allows stores more direct input to the budgeting process, significantly reduces telecommunications usage by store management and results in efficiencies in the overall corporate budgeting process;
- our online inventory cycle count accuracy report facilitates maintaining more accurate stock levels and reduce out of stock and overstock conditions; and
- our online telecommunications audit reports application provides managers access to detailed information regarding company telecommunications expenses, promoting targeted efforts to reduce ineffective expenses.

Management Planning and Training. MPT is our proprietary system designed to streamline our store labor management and training processes. MPT gives our store managers the tools to plan for peak customer traffic to ensure we have knowledgeable and friendly sales people in our stores and well-stocked shelves to meet our customers' needs. After a thorough review of all our store processes, we believe MPT improves our results of operations through industry-leading labor utilization on all store labor events, including sales, training and unloading of weekly product deliveries.

Customer Contact Center. In 2001, we installed new call routing software and customer service software, established a customer contact center in Roanoke, Virginia and consolidated all support centers. Implementation of the customer contact center has resulted in a substantial improvement in the average speed in which in a call is answered, a reduction in calls to voice mail and a reduction in the number of outbound calls required to respond to voice mail. We believe these improvements have allowed us to better support each of our stores, therefore, increasing customer service.

Logistics and Purchasing Information Systems

Distribution Center Management System. Our distribution management system, or DCMS, provides real-time inventory tracking through the processes of receiving, picking, shipping and replenishing at our distribution centers. The DCMS, integrated with material handling equipment, significantly reduces warehouse and distribution costs, while improving efficiency. Seven of our eight distribution facilities currently use this technology, and we anticipate that the eighth distribution facility, which we acquired as part of the Discount acquisition, will be converted to this technology in 2003. Additionally, fourteen of our nineteen PDQ® Express facilities currently use this technology, and we expect the remaining five PDQ® Express facilities will be converted to this technology in 2003.

Replenishment Systems. Our E3 Replenishment System monitors the distribution center and PDQ® Express warehouse inventory levels and orders additional product when appropriate. In addition, the system tracks sales trends by SKU, allowing us to adjust future orders to support seasonal and demographic shifts in demand. During 2001, we completed the implementation of a store-level replenishment version of E3 for our Advance Auto Parts stores, and as Discount stores are converted to our new POS system, E3 replenishment is being implemented in those stores.

Transportation Management System. Our transportation management system is an effective planning tool that allows for the efficient management of incoming shipments. Benefits from this system include reduced vendor to distribution center freight costs, visibility of purchase orders and shipments for the entire supply chain, the reduction in distribution center inventory, or safety stock, due to consistent transit times and decreased third party freight and

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billing service costs.

Team Members

At March 19, 2003, we employed approximately 20,329 full-time team members and 10,135 part-time team members. Approximately 83.8% of our workforce is employed in store-level operations, 10.6% is employed in distribution and 5.6% is employed in our corporate offices in Roanoke, Virginia and Kansas City, Missouri. We have never experienced any labor disruption and are not party to any collective bargaining agreements. We believe that our labor relations are good.

We allocate substantial resources to the recruiting, training and retaining of team members. We have recently implemented a performance management process to align each team member's goals with our corporate strategic goals. We believe this program will provide us with a well-trained, productive workforce that is committed to high levels of customer service and assures a qualified team to support future growth.

Trade Names, Service Marks and Trademarks

We own and have registrations for the trade names "Advance Auto Parts," "Western Auto" and "Parts America" and the trademark "PDQ®" with the United States Patent and Trademark Office for use in connection with the automotive parts retailing business. In addition, we own and have registered a number of trademarks with respect to our proprietary products, and we also acquired from Discount various registered trademarks, service marks and copyrights. 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 marks and actively defend and enforce them.

Competition

Our primary competitors are both national and regional retail chains of automotive parts stores, including AutoZone, Inc., O'Reilly Automotive, Inc. and The Pep Boys-Manny, Moe & Jack, wholesalers or jobber stores, including those associated with national parts distributors or associations, such as NAPA, independent operators, automobile dealers that supply parts, discount stores and mass merchandisers that carry automotive products, including Wal-Mart, Target and K-Mart. We believe that chains of automotive parts stores, like us, with 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 competitive factors that affect our business include price, store location, customer service and product offerings, quality and availability.

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 batteries and used lubricants, and regarding ownership and operation of real property. We handle hazardous materials as part of our operations, and our customers may also use hazardous materials on our properties or bring hazardous materials or used oil onto our properties. We currently provide collection and recycling programs for used automotive batteries and used lubricants at all of our stores as a service to our customers under agreements with third party vendors. Pursuant to these agreements, used batteries and lubricants are collected by our team members, deposited into vendor supplied containers or pallets and stored by us until collected by the third party vendors for recycling or proper disposal. Persons who arrange for the 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.

We own and lease real property. Under various environmental laws and regulations, a current or previous owner

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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 EPA and state environmental authorities indicating that there may be contamination on properties we own or operate 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. We believe that we are currently in material compliance with these laws and regulations.

Item 2. Properties.

Distribution Centers and Warehouses. We operate eight distribution centers. Seven of these eight distribution centers are equipped with our distribution management system, which includes technologically advanced material handling equipment, including carousels, “pick-to-light” systems, radio frequency technology and automated sorting systems. The eighth distribution center, which we acquired in the Discount acquisition, has an existing system similar to ours, but will be converted to our system in fiscal 2003. Through the continued implementation of our supply chain initiatives, we expect to further increase the efficient utilization of our distribution capacity, which currently provides us the capacity to service over 3,400 stores and our wholesale segment from these distribution centers.

We currently offer over 30,000 SKUs to substantially all of our retail stores via our nineteen PDQ® Express warehouses. Stores have visibility to inventory in their respective facilities 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. In addition, we operate a PDQ® warehouse that stocks approximately 80,000 SKUs of harder to find automotive parts and accessories. This facility is known as the “Master PDQ®” warehouse and utilizes existing PDQ® distribution infrastructure to provide next day service to substantially all of our stores. At December 28, 2002, we operated 22 local area warehouse facilities which utilize excess store space to provide certain markets with a customized mix of approximately 7,500 to 12,000 SKUs.

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

Facility	Opening Date	Area Served	Size (Sq. ft.)	Nature of Occupancy
Main Distribution Centers:				
Roanoke, Virginia ⁽¹⁾	1988	Mid-Atlantic	440,000	Leased
Gadsden, Alabama	1994	South	240,000	Owned
Lakeland, Florida	1982	Florida, Georgia and South Carolina	600,000	Owned
Gastonia, North Carolina	1969	Advance retail stores in the Southeast, Western Auto retail stores, wholesale segment	663,000	Owned
Gallman, Mississippi	2001	Alabama, Mississippi and Louisiana	400,000	Owned
Salina, Kansas	1971	West	441,000	Owned
Delaware, Ohio	1972	Northeast	510,000	Owned
Thomson, Georgia ⁽²⁾	1999	Southeast	383,000	Owned
Master PDQ® Warehouse:				
Andersonville, Tennessee	1998	All	116,000	Leased
PDQ® Express Warehouses:				
Salem, Virginia	1983	Mid-Atlantic	50,400	Leased
Smithfield, North Carolina	1991	Southeast	42,000	Leased
Jeffersonville, Ohio ⁽³⁾	1996	Midwest	50,000	Owned
Thomson, Georgia ⁽⁴⁾	1998	South, Southeast	50,000	Owned
Goodlettsville, Tennessee	1999	Central	41,900	Leased
Youngwood, Pennsylvania	1999	East	49,000	Leased
Riverside, Missouri	1999	West	45,000	Leased
Guilderland Center, New York	1999	Northeast	47,400	Leased
Temple, Texas	1999	Southwest	61,943	Leased
Palmas, Puerto Rico	2002	Puerto Rico	38,000	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
Corporate/Administrative Offices:				
Roanoke, Virginia—corporate ⁽⁵⁾	1995	All	49,000	Leased
Kansas City, Missouri—corporate	1999	All	12,500	Leased
Roanoke, Virginia—administrative	1998	All	40,000	Leased
Lakeland, Florida – administrative ⁽⁴⁾	1982	All	67,000	Owned
Roanoke, Virginia—administrative	2002	All	69,200	Leased

(1) This facility is owned by Nicholas F. Taubman. See “Item 13. Certain Relationships and Related Transactions.” Nicholas F. Taubman was the chairman of our board of directors through February 2003, at which time he resigned from our board of directors.

(2) The construction of this facility was financed in 1997 by a \$10.0 million industrial revenue bond issuance from the Development Authority of McDuffie County of the State of Georgia, from whom we purchased this facility for \$10.00 in November 2002.

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- (3) Total capacity of this facility is approximately 433,000 square feet, of which 50,000 square feet continues to be used as a PDQ [®] Express warehouse. This facility was also used as a distribution center prior to its closure in the fourth quarter of 2001. This facility is currently held for sale.
- (4) This facility is located within one of our main distribution centers.
- (5) This facility is owned by Ki, L.C., a Virginia limited liability company owned by two trusts for the benefit of a child and grandchild of Nicholas F. Taubman. See “Item 13. Certain relationships and Related Transactions.”

At December 28, 2002, we owned 536 of our stores and leased 1,899 stores. The expiration dates, including the exercise of renewal options, of the store leases are summarized as follows:

Years	Stores ⁽¹⁾
2003–2004	65
2005–2009	208
2010–2014	434
2015–2024	1007
2025–2034	68
2035–2049	117

(1) Of these stores, 16 are owned by our affiliates. See “Item 13. Certain Relationships and Related Transactions.”

Item 3. Legal Proceedings.

In February 2000, the Coalition for a Level Playing Field and over 100 independent automotive parts and accessories aftermarket warehouse distributors and jobbers filed a lawsuit styled Coalition for a Level Playing Field, et al. v. AutoZone, Inc. et al., Case No. 00–0953 in the United States District Court for the Eastern District of New York against various automotive parts and accessories retailers. In March 2000, we were notified that we had been named defendants in the lawsuit. The plaintiffs claimed that the defendants knowingly induced and received volume discounts, rebates, slotting and other allowances, fees, free inventory, sham advertising and promotional payments, a share in the manufacturers’ profits, and excessive payments for services purportedly performed for the manufacturers in violation of the Robinson–Patman Act. In January 2003, a trial was held and the jury found that we did not violate the Robinson–Patman Act.

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, Discount and Parts America 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. The number of cases in which we or one of our subsidiaries has been named as a defendant has increased in the past year. Many of the cases pending against us or our subsidiaries were filed recently and 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 that are named as defendants in these lawsuits have declared bankruptcy, which will limit plaintiffs’ ability to recover monetary damages from those defendants. We believe that we have valid defenses against these claims. 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.

In addition to the above matters, we currently and from time to time are involved in litigation incidental to the conduct of our business. 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

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aggregate, they will result in liabilities material to our consolidated financial condition, future results of operations or cash flow.

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

None.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters.

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. Our common stock has been listed on the NYSE since November 29, 2001, the closing date of the Discount acquisition. Prior to that date, there was no public market for our common stock.

	<u>High</u>	<u>Low</u>
Fiscal Year Ended December 28, 2002		
Fourth Quarter	\$ 58.34	\$ 46.70
Third Quarter	\$ 55.60	\$ 41.40
Second Quarter	\$ 62.19	\$ 44.90
First Quarter	\$ 50.05	\$ 39.85
Fiscal Year Ended December 29, 2001		
Fourth Quarter from November 29	\$ 47.65	\$ 39.70

The closing sale price of our common stock on March 19, 2003 was \$45.20. At March 19, 2003, there were 434 holders of record of our common stock.

We have not declared or paid cash dividends on our common stock in the last two years. We anticipate that we will retain all of our earnings in the foreseeable future to finance the expansion of our business and, therefore, do not anticipate paying any dividends on our common stock. In addition, our amended senior credit facility and the indentures governing our senior subordinated notes and senior discount debentures contain restrictions on the amount of cash dividends or other distributions we may declare and pay on our capital stock. 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, contractual restrictions contained in our amended senior credit facility and indentures, or other agreements, and other factors deemed relevant by our board of directors. As recently announced, we plan to redeem our currently outstanding senior subordinated notes and senior discount debentures on April 15, 2003, which will relieve the above restrictions under the indentures.

Equity Compensation Plan Information

The following table sets forth our shares authorized for issuance under our equity compensation plans at December 28, 2002.

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	Number of shares to be issued upon exercise of outstanding options, warrants, and rights ⁽¹⁾	Weighted-average exercise price of outstanding options, warrants, and rights	Number of securities remaining available for future issuance under equity compensation plans ⁽²⁾
Equity compensation plans approved by stockholders	2,768,698	\$ 26.25	1,699,472
Equity compensation plans not approved by stockholders	—	—	—
Total	2,768,698	\$ 26.25	1,699,472

(1) Excludes immediately exercisable options to purchase 250,000 shares of our common stock granted to each of Nicholas F. Taubman and the Arthur Taubman Trust dated July 13, 1964. See “Item 13. Certain Relationships and Related Transactions.”

(2) Excludes shares reflected in the first column.

Item 6. Selected Financial Data.

The following table sets forth our selected historical consolidated statement of operations, balance sheet and other operating data. The selected historical consolidated financial and other data at December 28, 2002 and December 29, 2001 and for the three years ended December 28, 2002 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, 2000, January 1, 2000 and January 2, 1999 and for the years ended January 1, 2000 and January 2, 1999 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 the consolidated financial statements and the related notes of Advance included elsewhere in this report.

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	Fiscal Year ⁽¹⁾				
	2002	2001	2000	1999	1998
(in thousands, except per share data)					
Statement of Operations Data:					
Net sales	\$ 3,287,883	\$ 2,517,639	\$ 2,288,022	\$ 2,206,945	\$ 1,220,759
Cost of sales	1,839,889	1,441,613	1,392,127	1,404,113	766,198
Supply chain initiatives ⁽²⁾	—	9,099	—	—	—
Gross profit	1,447,994	1,066,927	895,895	802,832	454,561
Selling, general and administrative expenses ⁽³⁾	1,210,477	947,531	801,521	740,481	392,353
Expenses associated with supply chain initiatives ⁽⁴⁾	—	1,394	—	—	—
Impairment of assets held for sale ⁽⁵⁾	—	12,300	856	—	—
Expenses associated with the recapitalization ⁽⁶⁾	—	—	—	—	14,277
Expenses associated with the merger related restructuring ⁽⁷⁾	597	3,719	—	—	6,774
Expenses associated with merger and integration ⁽⁸⁾	34,935	1,135	—	41,034	7,788
Expenses associated with private company ⁽⁹⁾	—	—	—	—	845
Non-cash stock option compensation expense ⁽¹⁰⁾	—	11,735	729	1,082	695
Operating income	201,985	89,113	92,789	20,235	31,829
Interest expense	(78,219)	(61,895)	(66,640)	(62,792)	(35,038)
Expenses associated with secondary offering	(1,733)	—	—	—	—
Other income, net	1,158	1,283	1,012	4,647	943
Income (loss) before income taxes, extraordinary items and cumulative effect of a change in accounting principle	123,191	28,501	27,161	(37,910)	(2,266)
Income tax expense (benefit)	47,799	11,312	10,535	(12,584)	(84)
Income (loss) before extraordinary items and cumulative effect of a change in accounting principle	75,392	17,189	16,626	(25,326)	(2,182)
Extraordinary items, (loss) gain on debt extinguishment, net of \$6,449, \$2,424 and (\$1,759) income taxes, respectively	(10,373)	(3,682)	2,933	—	—
Cumulative effect of a change in accounting principle, net of \$1,360 income taxes	—	(2,065)	—	—	—
Net income (loss)	\$ 65,019	\$ 11,442	\$ 19,559	\$ (25,326)	\$ (2,182)
Income (loss) before extraordinary items and cumulative effect of a change in accounting principle per basic share	\$ 2.15	\$ 0.60	\$ 0.59	\$ (0.90)	\$ (0.12)
Income (loss) before extraordinary items and cumulative effect of a change in accounting principle per diluted share	\$ 2.08	\$ 0.59	\$ 0.58	\$ (0.90)	\$ (0.12)
Net income (loss) per basic share	\$ 1.86	\$ 0.40	\$ 0.69	\$ (0.90)	\$ (0.12)
Net income (loss) per diluted share	\$ 1.80	\$ 0.39	\$ 0.68	\$ (0.90)	\$ (0.12)
Weighted average basic shares outstanding	35,049	28,637	28,296	28,269	18,606
Weighted average diluted shares outstanding	36,188	29,158	28,611	28,269	18,606
Cash flows provided by (used in):					
Operating activities	\$ 242,996	\$ 103,536	\$ 103,951	\$ (20,976)	\$ 44,022
Investing activities	(78,005)	(451,008)	(64,940)	(113,824)	(230,672)
Financing activities	(169,223)	347,580	(43,579)	121,262	207,302

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	Fiscal Year ⁽¹⁾				
	2002	2001	2000	1999	1998
(in thousands, except per share data)					
Selected Store Data:					
Comparable store sales growth ⁽¹¹⁾	5.5%	6.2%	4.4%	10.3%	7.8%
Number of stores at beginning of year	2,484	1,729	1,617	1,567	814
New stores	110	781	140	102	821
Closed stores ⁽¹²⁾	(159)	(26)	(28)	(52)	(68)
Number of stores, end of period	2,435	2,484	1,729	1,617	1,567
Relocated stores	39	18	10	13	8
Stores with commercial delivery program, end of period	1,411	1,370	1,210	1,094	532
Total commercial delivery sales, as a percentage of total retail sales	12.8%	14.1%	14.1%	9.9%	9.0%
Total retail store square footage, end of period	18,108	18,717	13,325	12,476	12,084
Average net retail sales per store ⁽¹³⁾	\$ 1,303	\$ 1,346	\$ 1,295	\$ 1,267	\$ 1,270
Average net retail sales per square foot ⁽¹⁴⁾	\$ 174	\$ 175	\$ 168	\$ 164	\$ 172
Balance Sheet and Other Financial Data:					
Cash and cash equivalents	\$ 13,885	\$ 18,117	\$ 18,009	\$ 22,577	\$ 36,115
Inventory	\$ 1,048,803	\$ 982,000	\$ 788,914	\$ 749,447	\$ 726,172
Inventory turnover ⁽¹⁵⁾	1.81	1.80	1.81	1.90	1.99
Inventory per store ⁽¹⁶⁾	\$ 429,399	\$ 392,635	\$ 451,281	\$ 456,624	\$ 456,341
Accounts payable to inventory ratio ⁽¹⁷⁾	44.9%	43.7%	49.2%	45.5%	50.2%
Net working capital	\$ 462,896	\$ 442,099	\$ 318,583	\$ 355,608	\$ 310,113
Capital expenditures ⁽¹⁸⁾	\$ 98,186	\$ 63,695	\$ 70,566	\$ 105,017	\$ 65,790
Total assets	\$ 1,965,225	\$ 1,950,615	\$ 1,356,360	\$ 1,348,629	\$ 1,265,355
Total net debt ⁽¹⁹⁾	\$ 722,506	\$ 972,368	\$ 582,539	\$ 627,467	\$ 485,476
Total stockholders' equity	\$ 468,356	\$ 288,571	\$ 156,271	\$ 133,954	\$ 159,091

- (1) Our fiscal year consists of 52 or 53 weeks ending on the Saturday nearest to December 31. All fiscal years presented are 52 weeks.
- (2) Represents restocking and handling fees associated with the return of inventory as a result of our supply chain initiatives.
- (3) Selling, general and administrative expenses exclude certain non-recurring charges discussed in notes (4), (5), (6), (7), (8), (9) and (10) below.
- (4) Represents costs of relocating certain equipment held at facilities closed as a result of our supply chain initiatives.
- (5) Represents the devaluation of certain property held for sale, including the \$1.6 million charge taken in the first quarter of 2001 and a \$10.7 million charge taken in the fourth quarter of 2001.
- (6) Represents expenses incurred in the 1998 recapitalization related primarily to non-recurring bonuses paid to certain team members and fees for professional services.
- (7) Represents expenses related primarily to lease costs associated with 31 of our stores closed in overlapping markets in connection with the Western merger and 27 Advance Auto Parts stores identified to be closed at December 29, 2001 as a result of the Discount acquisition.
- (8) Represents certain expenses related to the Western merger and the Discount acquisition.
- (9) Reflects expenses eliminated after the recapitalization that related primarily to compensation and other benefits of our former chairman, who prior to our recapitalization was our principal stockholder.
- (10) Represents non-cash compensation expenses related to stock options granted to certain of our team members, including a non-recurring charge of \$8.6 million in the fourth quarter of 2001 related to variable provisions of our stock option plans that were in place when we were a private company and that have since been eliminated.
- (11) 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. The Parts America stores acquired in the Western merger and subsequently converted to Advance Auto Parts stores are included in the comparable store sales calculation after thirteen complete accounting periods following their physical conversion. The stores acquired in the Carport acquisition are included in the comparable store sales calculation following 13 complete accounting periods after their system conversion to the Advance Auto Parts store system. Stores acquired in the Discount acquisition are included in the comparable sales calculation beginning in December 2002, which was 13 complete accounting periods after the acquisition date of November 28, 2001. We do not include net sales from the 37 Western Auto retail stores in our comparable store calculation as a result of their unique offerings, including specialty merchandise and service.

- (12) Closed stores in 2002 include 133 Discount and Advance stores closed as part of the integration of Discount.
- (13) Average net retail sales per store is calculated as net sales of the retail segment divided by the average the of beginning and ending number of stores for the respective period. The 1998 amounts were calculated giving effect to the Parts America retail net sales and number of stores for the period from November 1, 1998 through January 2, 1999. The fiscal 2001 amounts were calculated giving effect to the Discount retail net sales and number of stores for the period from December 2, 2001 through December 29, 2001.
- (14) Average net retail sales per square foot is calculated as net sales of the retail segment divided by the average of the beginning and ending total store square footage for the respective period. The 1998 amounts were calculated giving effect to the Parts America retail net sales and square footage for the period from November 1, 1998 through January 2, 1999. The fiscal 2001 amounts were calculated giving effect to the Discount retail net sales and number of stores for the period from December 2, 2001 through December 29, 2001.
- (15) Inventory turnover is calculated as cost of sales divided by the average of beginning and ending inventories. The fiscal 2001 amounts were calculated giving effect to the Discount cost of sales and inventory for the period from December 2, 2001 through December 29, 2001. The fiscal 1998 amounts were calculated giving effect to the Western cost of sales and inventory for the period from November 2, 1998 through January 2, 1999.
- (16) Inventory per store calculated as ending inventory divided by ending store count. Ending inventory used in this calculation excludes certain inventory related to the wholesale segment.
- (17) Accounts payable to inventory ratio is calculated as ending accounts payable divided by ending inventory.
- (18) Capital expenditures for 2001 exclude \$34.1 million for our November 2001 purchase of Discount's Gallman, Mississippi distribution facility from the lessor in connection with the Discount acquisition.
- (19) Net debt includes total debt and bank overdrafts, less cash and cash equivalents.

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 Financial Data," our consolidated historical financial statements and the notes to those statements that appear elsewhere in this report. Our fiscal year ends on the Saturday nearest December 31 of each year. Our first quarter consists of 16 weeks, and the other three quarters consist of 12 weeks. 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.

General

At December 28, 2002, we had 2,000 stores operating under the "Advance Auto Parts" trade name, in 37 states in the Northeastern, Southeastern and Midwestern regions of the United States. Additionally, we operated 51 stores under the "Advance Discount Auto Parts" trade name and 347 stores operating under the "Discount Auto Parts" trade name in Florida. We also had 37 stores operating under the "Western Auto" trade name primarily located in Puerto Rico and the Virgin Islands. We operate in the United States automotive aftermarket industry, which includes replacement parts (excluding tires), accessories, maintenance items, batteries and automotive chemicals for cars and light trucks (pick-ups, vans, minivans and sport utility vehicles). We are the second largest specialty retailer of automotive parts, accessories and maintenance items to DIY customers in the United States, based on store count and sales. We currently are the largest specialty retailer of automotive products in the majority of the states in which we operate, based on store count.

Our combined operations are conducted in two operating segments, retail and wholesale. The retail segment consists of our retail operations operating under the trade names "Advance Auto Parts", "Advance Discount Auto Parts" and "Discount Auto Parts" in the United States and "Western Auto" primarily in Puerto Rico and the Virgin Islands. Our wholesale segment includes a wholesale distribution network which provides distribution services of automotive parts, accessories and specialty items to approximately 415 independently owned dealer stores in 42 states primarily operating under the "Western Auto" trade name. Our wholesale operations accounted for

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approximately 2.5% of our net sales for the year ended December 28, 2002.

Acquisitions

Trak Auto Parts Acquisition. In July 2002, we announced we had received bankruptcy court approval to acquire certain assets of Trak including the leases on 55 stores in Virginia, Washington, D.C. and Maryland. In September 2002, we agreed to acquire two additional Trak stores. We believe the Trak acquisition gave us the number one market position, based on store count, in the Washington DC/Baltimore area with 57 stores. The acquisition has been accounted for under the purchase method of accounting and, accordingly, each store's results of operations has been included in our financial statements from the date each store was transferred to us. Negative goodwill of \$1.7 million, resulting from excess fair value over the purchase price, was allocated proportionately as a reduction to certain noncurrent assets. As of December 28, 2002, we had taken ownership and converted all 57 stores to the Advance Auto Parts store format, assumed the respective lease obligations and had paid \$12.5 million for inventory and fixtures.

Discount Acquisition. On November 28, 2001, we acquired Discount in a transaction in which Discount's shareholders received \$7.50 per share in cash (or approximately \$128.5 million in the aggregate) plus 0.2577 shares of our common stock for each share of Discount common stock. We issued approximately 4.3 million shares of our common stock to the former Discount shareholders, which represented 13.2% of our total shares outstanding immediately following the acquisition. At November 28, 2001, Discount had 671 stores in six states, including the leading market position in Florida, based on store count, with 437 stores. The acquisition has been accounted for under the purchase method of accounting. Accordingly, the results of operations for Discount for the periods from December 2, 2001 are included in the accompanying consolidated financial statements. The purchase price has been allocated to assets acquired and liabilities assumed based on their respective fair values. Negative goodwill of \$75.7 million, resulting from total excess fair value over the purchase price, was allocated proportionately as a reduction to non-current assets, primarily property and equipment. During 2002, we reduced negative goodwill by \$17.0 million due to purchase accounting adjustments primarily made to adjust the fair market value of certain inventory, equipment, the related deferred income tax effects and to reduce certain severance and relocation liabilities.

During 2002, we integrated all of the 164 acquired Discount stores located outside the state of Florida and in the Florida panhandle. This conversion included both a system conversion to our store system and a physical conversion to the "Advance Auto Parts" store format and merchandise offerings. We also completed the alignment of merchandise offerings in all Discount stores in the state of Florida to our product offerings, physically converted 51 of the Florida stores and converted approximately half of the Florida stores to our store systems. The physically converted stores have undergone the complete conversion to the new "Advance Discount Auto Parts" format. We anticipate completing the store system conversions by the end of 2003. The physical conversion will continue through fiscal 2005. During the integration, we closed 109 Discount stores in overlapping markets with our existing stores.

Critical Accounting Policies

Our financial statements have been prepared in accordance with accounting policies generally accepted in the United States of America. Our discussion and analysis of the financial condition and results of operations are based on these financial statements. The preparation of these financial statements requires the application of these accounting policies in addition to certain estimates and judgments by our management. Our estimates and judgments are based on currently available information, historical results and other assumptions we believe are reasonable. Actual results could differ from these estimates.

The following critical accounting policies are used in the preparation of the financial statements as discussed above.

Vendor Incentives

We receive incentives from vendors related to cooperative advertising allowances, volume rebates and other functional discounts. Many of the incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis. Our vendors require us to use certain cooperative advertising allowances

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exclusively for advertising. We define these allowances as restricted cooperative advertising allowances and recognize them as a reduction to selling, general and administrative expenses as advertising expenditures are incurred. The remaining cooperative advertising allowances not restricted by our vendors, or unrestricted, rebates and other functional incentives are earned based on purchases and/or the sale of the product. Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the consolidated balance sheets included in the financial statements in Part IV, Item 15, of this report. We record unrestricted cooperative advertising and volume rebates earned as a reduction of inventory and recognize the incentives as a reduction to cost of sales as the inventory is sold. Short-term incentives are recognized as a reduction to cost of sales over the course of the annual agreement term and are not recorded as reductions to inventory.

We recognize the other functional discounts earned related to long-term agreements as a reduction to cost of sales over the life of the agreement based on the timing of purchases. These incentives are not recorded as reductions to inventory. The functional amounts earned under long-term arrangements are based on our estimate of total purchases that will be made over the life of the contracts and the amount of incentives that will be earned. The incentives are generally recognized based on the cumulative purchases as a percentage of total estimated purchases over the life of the contract. Our margins could be impacted positively or negatively if actual purchases or results from any one year differ from our estimates but over the life of the contract would be the same.

Inventory

Inventory shrink reserves are recorded related to our stores and distribution centers based on our extensive and frequent cycle counting program. Our estimates related to these shrink reserves depend on the effectiveness of the cycle counting programs. We evaluate the effectiveness of these programs on an on-going basis and believe they provide reasonable assurance for the recorded reserves.

Reserves for potentially excess and obsolete inventories are recorded as well. The nature of our inventory is such that the risk of obsolescence is minimal. In addition, we have historically been able to return excess items to the vendor for credit. We provide reserves where less than full credit will be received for such returns and where we anticipate that items will be sold at retail prices that are less than recorded cost. Future changes by vendors in their policies or willingness to accept returns of excess inventory could require us to revise our estimates of required reserves for excess and obsolete inventory.

Warranties

Our vendors are primarily responsible for warranty claims. Merchandise and services sold under warranty, which are not covered by vendors' warranties, include batteries, tires, road-side assistance and Craftsman products. We record accruals for future warranty claims based on current sales of the warranted products and historical claim experience. If claims experience differs from historical levels, revisions in our estimates may be required. We have recently seen positive trends in the defective rates of our batteries sold, which have offset historically higher trends used to develop our battery warranty accrual. We believe these positive trends are a result of quality enhancements of our currently offered battery line and better policies and procedures surrounding the testing and defecting of batteries by our store personnel.

Restructuring and Closed Store Liabilities

We recognize a provision for future obligations at the time a decision is made to close a store location and includes future minimum lease payments, common area maintenance and taxes. Additionally, we make certain assumptions related to potential subleases and lease buyouts that reduce the recorded amount of the accrual. These assumptions are based on our knowledge of the market and the relevant experience. However, the inability to enter into the subleases or obtain buyouts due to a change in the economy or prevailing real estate markets for these properties within the estimated timeframe may result in increases or decreases to these reserves.

Contingencies

We accrue for obligations, including estimated legal costs, when it is probable and the amount is reasonably

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estimable. As facts concerning contingencies become known, we reassess our position both with respect to gain contingencies and accrued liabilities and other potential exposures. Estimates that are particularly sensitive to future change include tax, environmental and legal matters, which are subject to change as events evolve and as additional information becomes available during the administrative and litigation process.

Components of Statement of Operations

Net Sales

Net sales consist primarily of comparable store sales, new store net sales, service net sales, net sales to the wholesale dealer network and finance charges on installment sales. 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. The stores acquired in the Carport acquisition are included in the comparable store sales calculation following 13 complete accounting periods after their system conversion to the Advance Auto Parts store system. Stores acquired in the Discount acquisition were included in the comparable store sales calculation beginning in December 2002, which was 13 complete accounting periods after the acquisition date of November 28, 2001. We do not include net sales from the 37 Western Auto retail stores in our comparable store sales calculation as a result of their unique product offerings, including specialty merchandise and service.

Cost of Sales

Our cost of sales includes merchandise costs and warehouse and distribution expenses as well as service labor costs of our Western Auto stores. Gross profit as a percentage of net sales may be affected by variations in our product mix, price changes in response to competitive factors and fluctuations in merchandise costs and vendor programs. We seek to avoid fluctuation in merchandise costs and instability of supply by entering into long-term purchasing agreements with vendors when we believe it is advantageous.

Selling, General and Administrative Expenses

Selling, general and administrative expenses are comprised of store payroll, store occupancy (including rent), net advertising expenses, other store expenses and general and administrative expenses, including salaries and related benefits of corporate team members, administrative office expenses, data processing, professional expenses and other related expenses. We lease a significant portion of our stores.

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Results of Operations

The following table sets forth certain of our operating data expressed as a percentage of net sales for the periods indicated.

	Fiscal Year Ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Net sales	100.0%	100.0%	100.0%
Cost of sales ⁽¹⁾	56.0	57.2	60.8
Expenses associated with supply chain initiatives	—	0.4	—
Gross profit	44.0	42.4	39.2
Selling, general and administrative expenses ⁽¹⁾	36.8	37.6	35.0
Expense associated with supply chain initiatives	—	0.1	—
Impairment of assets held for sale	—	0.5	0.0
Expenses associated with merger and integration	1.1	0.0	—
Expenses associated with merger related restructuring	0.0	0.2	—
Non-cash stock option compensation expense	—	0.5	0.1
Operating income	6.1	3.5	4.1
Interest expense	(2.4)	(2.5)	(2.9)
Expenses associated with secondary offering	0.0	—	—
Other income, net	0.0	0.1	0.0
Income tax expense	1.4	0.4	0.5
Income before extraordinary item and cumulative effect of a change in accounting principle	2.3	0.7	0.7
Extraordinary item, (loss) gain on debt extinguishment, net of income taxes	(0.3)	(0.1)	0.1
Cumulative effect of change in accounting principle, net of income taxes.	—	(0.1)	—
Net income	2.0%	0.5%	0.8%

- (1) Cost of sales and selling, general and administrative expenses presented for fiscal 2000 do not reflect the change in accounting principle related to cooperative advertising funds made in fiscal 2001. This change resulted in lower cost of sales with corresponding increases in selling, general and administrative expenses.

Fiscal 2002 Compared to Fiscal 2001

Net sales for 2002 were \$3,287.9 million, an increase of \$770.2 million, or 30.6%, over net sales for 2001. Net sales for the retail segment increased \$784.4 million, or 32.4%, to \$3,204.1. The net sales increase for the retail segment was due to an increase in the comparable store sales of 5.5%, a full year's contribution of sales from stores acquired in the Discount acquisition and contributions from new stores opened within the last year. The comparable store sales increase was a result of growth in both the DIY and DIFM market segments, as well as the continued maturation of new stores. Net sales for the wholesale segment decreased \$14.2 million due to a decline in the number of dealer stores we serviced and lower average sales to each dealer.

During 2002, we opened 110 new stores (including the 57 stores from the Trak acquisition), relocated 39 stores and closed 159 stores (133 of which were related to the Discount acquisition), bringing the total number of retail stores to 2,435. As of December 28, 2002, we had 1,411 stores participating in our commercial delivery program, as a result of adding 41 net programs during 2002. Additionally, as of December 28, 2002, we supplied approximately

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415 independent dealers through the wholesale dealer network.

Gross profit for 2002 was \$1,448.0 million, or 44.0% of net sales, as compared to \$1,066.9 million, or 42.4% of net sales, in 2001. The increase in gross profit as a percentage of sales is reflective of more favorable merchandise costs realized in fiscal 2002. Additionally, this increase represents our ability to leverage logistics costs primarily driven by a review of our logistics operations, which occurred in connection with our supply chain initiatives. We began these initiatives during the fourth quarter of fiscal 2001, in which we recorded a \$9.1 million non-recurring charge for restocking and handling fees associated with the return of inventory under these initiatives. The gross profit for the retail segment was \$1,434.4 million, or 44.8% of net sales, for 2002, as compared to \$1,052.9 million, or 43.5% of net sales, for 2001. The gross profit for the retail segment included the non-recurring charge of \$9.1 million for the fiscal year ended December 29, 2001.

Selling, general and administrative expenses increased to \$1,246.0 million, or 37.9% of net sales for 2002, from \$977.8 million, or 38.8% of net sales for 2001. Selling, general and administrative expenses include merger and integration expenses related to the integration of Discount of \$35.5 million, or 1.1% of sales, and \$4.9 million, or 0.2% of sales, for 2002 and 2001, respectively. These integration expenses are related to, among other things, merger related restructuring, overlapping administrative functions and store conversion expenses. The merger related restructuring charges primarily relate to lease costs associated with closed Advance Auto Parts stores in overlapping markets as a result of the Discount acquisition. Additionally, there are certain non-recurring expenses totaling \$20.7 million, or 0.8% of sales, in 2001 as detailed in the fiscal 2001 compared to fiscal 2000 section of this discussion. Excluding the effects of the above merger and integration and non-recurring expenses, the decrease in selling, general and administrative expenses as a percentage of sales reflects an approximate 24 basis point reduction related to our ability to leverage our store payroll expenses against a higher sales base, and an approximate 57 basis point reduction from lower rent expense as a result of owning a higher percentage of stores after the Discount acquisition.

Interest expense for 2002 was \$78.2 million, or 2.4% of net sales, as compared to \$61.9 million, or 2.5% of net sales, in 2001. Interest expense reflects the overall increase in average borrowings offset by more favorable interest rates during 2002 as compared to 2001. This increase in borrowings is a result of the additional debt incurred in conjunction with the Discount acquisition.

Income tax expense for 2002 was \$48.0 million, as compared to \$11.3 million for 2001. Our effective income tax rate decreased to 38.8% for 2002, as compared to 39.7%, for 2001. The decrease was primarily due to increases in pre-tax income, which reduced the impact of certain permanent differences on the effective rate.

During 2002, we recorded \$10.4 million in a loss on extinguishment of debt, net of tax. This loss reflects the write-off of the ratable portion of the deferred loan costs associated with our partial repayment of our tranche A and tranche B term loans and expenses associated with the refinancing of the remaining portion of our tranche B term loans. Additionally, this loss includes the write-off of the ratable portion of deferred loan costs and premiums paid associated with the partial repurchase and retirement of our outstanding senior subordinated notes and senior discount debentures.

We recorded net income of \$65.0 million, \$1.80 per diluted share for 2002, as compared to \$11.4 million, or \$0.39 per diluted share for 2001. As a percentage of sales, net income for 2002 was 2.0%, as compared to 0.5% for 2001. The effect of the above merger and integration, non-recurring items and extraordinary item on net income is \$32.1 million, or \$0.88 per diluted share for 2002 and \$26.7 million, or \$0.92 per diluted share for 2001.

Fiscal 2001 Compared to Fiscal 2000

Net sales for 2001 were \$2,517.6 million, an increase of \$229.6 million, or 10.0%, over net sales for 2000. Net sales for the retail segment increased \$252.4 million, or 11.6%. The net sales increase for the retail segment was due to an increase in comparable store sales of 6.2%, sales from the recently acquired Discount stores and contributions from new stores opened within the last year. The comparable store sales increase of 6.2% was a result of growth in both the DIY and DIFM market segments, as well as the continued maturation of new stores. Net sales for the

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wholesale segment decreased \$22.8 million due to a decline in the number of dealer stores we serviced and lower average sales to each dealer.

During 2001, we opened 110 new stores (including the 30 net stores from the Carport acquisition in April 2001), relocated 18 stores and closed 24 stores. Additionally, we acquired 671 stores in the Discount acquisition in November 2001 and closed two of these stores in December 2001, bringing the total number of stores to 2,484. We increased the number of our stores participating in our commercial delivery program to 1,370, primarily as a result of adding 167 Discount stores with existing commercial delivery programs. Additionally, as of December 29, 2001, we supplied approximately 470 independent dealers through the wholesale dealer network.

Gross profit for 2001 was \$1,066.9 million, or 42.4% of net sales, as compared to \$895.9 million, or 39.2% of net sales, in 2000. The change in accounting principle accounted for approximately 220 basis points of the increase with the remaining increase attributable to positive shifts in product mix. The fiscal 2001 \$8.3 million net gain recorded as a reduction to cost of sales during the first quarter of 2001, as a result of a vendor contract settlement, was equally offset by higher cost of sales during the last three quarters of 2001 as a result of the new supplier contract. Additionally, 2001 gross profit included a non-recurring charge of \$9.1 million, or 0.4% of sales, related to restocking and handling fees associated with the return of inventory as a result of supply chain initiatives. The gross profit for the retail segment was \$1,052.9 million, or 43.5% of net sales, for 2001, as compared to \$881.0 million, or 40.7% of net sales, in 2000.

Selling, general and administrative expenses increased to \$977.8 million, or 38.8% of net sales for 2001, from \$801.5 million, or 35.0% of net sales for 2000. Included in selling, general and administrative expenses are certain merger and integration expenses related to the integration of Discount of \$4.9 million for 2001. These integration expenses are related to, among other things, overlapping administrative functions and store conversions that have been expensed as incurred. The merger related restructuring charges primarily relate to lease costs associated with Advance Auto Parts stores in overlapping markets closed as a result of the Discount acquisition. Additionally, there are certain non-recurring expenses in 2001 as follows:

- \$1.4 million represents costs of relocating certain equipment held at facilities closed as a result of our supply chain initiatives
- \$10.7 million represented the devaluation of property held for sale
- \$8.6 million was related to stock option compensation charges resulting from the elimination of variable provisions in certain of our stock option plans

Excluding the effects of the above merger and integration and non-recurring expenses, the remaining increase consisted of 220 basis points related to the change in accounting principle, 55 basis points related to our increased investment in store staffing and retention initiatives, which were put in place in the third quarter of 2000, and 20 basis points related to higher insurance costs due to adverse changes in the insurance market.

Interest expense for 2001 was \$61.9 million, or 2.5% of net sales, as compared to \$66.6 million, or 2.9% of net sales, in 2000. The decrease in interest expense was a result of lower average outstanding borrowings and a decrease in average interest rates over 2000.

Our effective income tax rate was 39.7% of pre-tax income for 2001, as compared to 38.8% for 2000. This increase is a result of an increase in the amount of permanent differences between book and tax reporting treatment on total income tax expense.

We recorded an extraordinary loss on the extinguishment of debt during the fourth quarter of 2001. This loss is the result of the write-off of \$3.7 million, net of \$2.4 million income taxes of deferred debt issuance costs associated with refinancing our credit facility in connection with the Discount acquisition.

We also recorded a loss of \$2.1 million, net of \$1.4 million of income taxes, for the cumulative effect of a change in accounting principle during the fourth quarter of 2001. This change in accounting principle is a result of our change in accounting method related to certain cooperative advertising funds received from vendors. This

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change resulted in the reduction of the cost of inventory acquired from vendors and the resulting costs of sales.

We recorded net income of \$11.4 million, or \$0.39 per diluted share, for 2001, as compared to net income of \$19.6 million, or \$0.68 per diluted share, for 2000. We recorded certain merger and integration and non-recurring expenses in 2001, resulting in a net loss of \$0.92 per diluted share. As a percentage of sales, net income for fiscal 2001 was 0.5% as compared to 0.8% for 2000.

Quarterly Financial Results (unaudited) (in thousands, except per share data)

	16-Weeks Ended 4/21/2001	12-Weeks Ended 7/14/2001	12-Weeks Ended 10/6/2001	12-Weeks Ended 12/29/2001	16-Weeks Ended 4/20/2002	12-Weeks Ended 7/13/2002	12-Weeks Ended 10/5/2002	12-Weeks Ended 12/28/2002
Net sales	\$ 729,359	\$ 607,478	\$ 598,793	\$ 582,009	\$ 1,004,087	\$ 792,717	\$ 788,662	\$ 702,417
Gross profit	311,450	257,228	256,734	241,515	436,508	349,014	349,662	312,810
Income (loss) before extraordinary items and cumulative effect of a change in accounting principle	3,873	14,124	15,232	(16,040)	12,871	23,565	28,658	10,298
Extraordinary items, loss on debt extinguishment, net of \$2,424; \$491; \$4,834; \$187 and \$937 income taxes, respectively	—	—	—	(3,682)	(775)	(7,624)	(295)	(1,679)
Cumulative effect of a change in accounting principle, net of \$1,360 income taxes	—	—	—	(2,065)	—	—	—	—
Net income (loss)	\$ 3,873	\$ 14,124	\$ 15,232	\$ (21,787)	\$ 12,096	\$ 15,941	\$ 28,363	\$ 8,619
Basis earnings (loss) per common share:								
Before extraordinary items and cumulative effect of a change in accounting principle	\$ 0.14	\$ 0.50	\$ 0.54	\$ (0.54)	\$ 0.38	\$ 0.67	\$ 0.80	\$ 0.29
Extraordinary items, loss on debt extinguishment, net of \$2,424; \$491; \$4,834; \$187; and \$937 income taxes, respectively	—	—	—	(0.12)	(0.02)	(0.22)	—	(0.05)
Cumulative effect of a change in accounting principle, net of \$1,360 income taxes	—	—	—	(0.07)	—	—	—	—
Net income (loss)	\$ 0.14	\$ 0.50	\$ 0.54	\$ (0.73)	\$ 0.36	\$ 0.45	\$ 0.80	\$ 0.24
Diluted earnings (loss) per common share:								
Before extraordinary items and cumulative effect of a change in accounting principle	\$ 0.14	\$ 0.49	\$ 0.53	\$ (0.54)	\$ 0.36	\$ 0.64	\$ 0.77	\$ 0.28
Extraordinary items, loss on debt extinguishment, net of \$2,424; \$491; \$4,834; \$187; and \$937 income taxes, respectively	—	—	—	(0.12)	(0.02)	(0.20)	—	(0.05)
Cumulative effect of a change in accounting principle, net of \$1,360 income taxes	—	—	—	(0.07)	—	—	—	—
Net income (loss)	\$ 0.14	\$ 0.49	\$ 0.53	\$ (0.73)	\$ 0.34	\$ 0.44	\$ 0.77	\$ 0.23

Liquidity and Capital Resources

At December 28, 2002, we had outstanding indebtedness consisting of \$87.8 million of senior discount debentures, \$314.9 million of senior subordinated notes and borrowings of \$331.1 million under our senior credit facility. Additionally, we had borrowed \$1.7 million under our revolving credit facility and had \$17.1 million in letters of credit outstanding, which reduced our availability under the revolving credit facility to \$141.2 million.

Our primary capital requirements have been the funding of our continued store expansion program, including new store openings and store acquisitions, store relocations and remodels, inventory requirements, the construction and upgrading of distribution centers, the development and implementation of proprietary information systems and our strategic acquisitions. We have financed our growth through a combination of cash generated from operations, borrowings under the credit facility and issuances of equity.

Our new stores, if leased, require capital expenditures of approximately \$120,000 per store and an inventory investment of approximately \$150,000 per store, net of vendor payables. A portion of the inventory investment is held at a distribution facility. Pre-opening expenses, consisting primarily of store set-up costs and training of new store team members, average approximately \$25,000 per store and are expensed when incurred.

Our future capital requirements will depend on the number of new stores we open or acquire and the timing of those openings or acquisitions within a given year. We opened 110 new stores during each of 2002 and 2001 (including stores acquired in the Trak and Carport acquisitions, but excluding stores acquired in the Discount acquisition). In addition, we anticipate adding approximately 125 new stores during 2003 through new store openings and selective acquisitions.

Historically, we have negotiated extended payment terms from suppliers that help finance inventory growth, and we believe that we will be able to continue financing much of our inventory growth through such extended payment terms. We anticipate that inventory levels will continue to increase primarily as a result of new store openings.

Our capital expenditures were \$98.2 million in 2002 (excluding consideration paid in the Trak acquisition). These amounts related to the new store openings, the upgrade of our information systems (including our new point-of-sale and electronic parts catalog system) and remodels and relocations of existing stores, including our conversion of Discount stores. In 2003, we anticipate that our capital expenditures will be approximately \$95.0 million, of which approximately \$12.0 million will involve the continued conversion of stores associated with the Discount acquisition.

As part of normal operations, we continually monitor store performance, which results in our closing or relocating certain store locations that do not meet profitability objectives. During 2002, we closed or relocated 11 of the 12 stores identified in 2001 as not meeting profitability objectives and decided to close or relocate 57 additional stores that did not meet profitability objectives, 36 of which were closed or relocated at December 28, 2002. In addition, as part of our integration of Discount, we have closed 133 Advance Auto Parts and Discount stores that were in overlapping markets.

Our recent acquisitions have resulted in restructuring reserves recorded in purchase accounting for the closure of certain stores, severance and relocation costs and other facility exit costs. In addition, we assumed certain restructuring and deferred compensation liabilities previously recorded by Western and Discount. At December 28, 2002, the restructuring reserves had a remaining balance of \$13.2 million, of which \$6.0 million is recorded as a current liability. Additionally, at December 28, 2002, the total liability for the deferred compensation plans was \$3.9 million, of which \$1.6 million, is recorded as a current liability. The classification for deferred compensation is determined by payment terms elected by plan participants, primarily former Western team members, which can be changed upon 12 months' notice. These reserves are utilized through the settlement of the corresponding liabilities with cash provided by operations and therefore do not affect our consolidated statement of operations.

We provide certain health care and life insurance benefits for eligible retired team members through our postretirement plan. At December 28, 2002, our accrued benefit cost related to this plan was \$19.1 million. The plan has no assets and is funded on a cash basis as benefits are paid/incurred. The discount rate that we utilize for determining our postretirement benefit obligation is actuarially determined. The discount rate utilized at December 28, 2002 and December 29, 2001 was 6.75% and 7.50%, respectively. We reserve the right to change or terminate the

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benefits or contributions at any time. We also continue to evaluate ways in which we can better manage these benefits and control costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant impact on the amount of the reported obligation and annual expense. Effective December 2002, we amended our plan to only include benefits for team members who are eligible at January 1, 2005. This negative plan amendment resulted in a curtailment gain of \$2.9 million which will be amortized over 12 years to offset corresponding increases in health care cost trends.

We expect that funds provided from operations and available borrowings of approximately \$141.2 million under our revolving credit facility at December 28, 2002, will provide sufficient funds to operate our business, make expected capital expenditures of approximately \$95.0 million in 2003, finance our restructuring activities and fund future debt service on our senior subordinated notes, our senior discount debentures and our credit facility over the next 12 months. We recently announced our intention to redeem all our currently outstanding senior subordinated notes and senior discount debentures on April 15, 2003. The capital requirements to complete this retirement will be funded by incremental borrowings of \$350 million under our amended senior credit facility and cash flow from operations during our first quarter of fiscal 2003. In connection with the redemption and incremental borrowings, we expect to pay cash call premiums and refinancing expenses of approximately \$27 million and unamortized discounts of approximately \$10 million.

For 2002, net cash provided by operating activities was \$243.0 million. Of this amount, \$65.0 million was provided by net income and \$9.4 million was provided as a result of a net decrease in working capital and other long-term assets and liabilities. Significant non-cash items added back for operating cash purposes include depreciation and amortization of \$94.1 million, amortization of bond discounts and deferred debt issuance costs of \$16.6 million and provision for deferred income taxes of \$57.9 million. Net cash used for investing activities was \$78.0 million and was comprised primarily of capital expenditures. Net cash used in financing activities was \$169.2 million and was comprised primarily of \$223.3 million in net payments on the credit facility and payments to repurchase and retire outstanding bonds and a decrease in bank overdrafts of \$33.9 million, all offset by \$88.7 million in net proceeds from our equity offering in March 2002, and \$17.4 million in proceeds from team member exercises of stock options. Additionally, in November 2002, we repurchased the entire \$10 million of indebtedness under the industrial development revenue bonds.

In 2001, net cash provided by operating activities was \$103.5 million. This amount consisted of an \$11.4 million in net income, depreciation and amortization of \$71.2 million, amortization of deferred debt issuance costs and bond discount of \$14.6 million, impairment of assets held for sale of \$12.3 million, amortization of stock option compensation of \$11.7 million and an increase of \$17.7 million of net working capital and other operating activities. Net cash used for investing activities was \$451.0 million and was comprised primarily of capital expenditures of \$63.7 million and cash consideration of \$390.0 million in the Discount and Carport mergers. Net cash provided by financing activities was \$347.6 million and was comprised primarily of net borrowings and issuance of equity.

In 2000, net cash provided by operating activities was \$104.0 million. This amount consisted of \$19.6 million in net income, depreciation and amortization of \$66.8 million, amortization of deferred debt issuance costs and bond discount of \$13.1 million and a decrease of \$4.5 million in net working capital and other operating activities. Net cash used for investing activities was \$65.0 million and was comprised primarily of capital expenditures. Net cash used in financing activities was \$43.6 million and was comprised primarily of net repayments of long-term debts.

Our future contractual obligations related to long-term debt and operating leases at December 28, 2002 were as follows:

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Contractual Obligations at December 28, 2002	Total	Fiscal 2003	Fiscal 2004	Fiscal 2005	Fiscal 2006	Fiscal 2007	Thereafter
Long-term debt ⁽¹⁾	\$ 749,653	\$ 10,690	\$ 27,033	\$ 29,869	\$ 31,569	\$ 233,627	\$ 416,865
Operating leases	\$ 944,440	\$ 152,241	\$ 138,686	\$ 118,619	\$ 99,984	\$ 85,714	\$ 349,196

(1) Long-term debt includes the fully accreted senior subordinated notes and senior discount debentures.

Long Term Debt

Senior Credit Facility. In July 2002, we amended and restated our senior credit facility to take advantage of lower prevailing interest rates and more favorable terms. In connection with the amendment and the restatement, we paid a portion of our tranche A and tranche B term loans and refinanced our tranche B term loans with a tranche C term loan facility. Our credit facility, as amended and restated in July 2002, consists of (1) a tranche A term loan facility with a balance of approximately \$83.0 million at December 28, 2002 and a tranche C term loan facility with a balance of approximately \$248.1 million at December 28, 2002, and (2) a \$160 million revolving credit facility (including a letter of credit subfacility) (of which \$141.2 million was available at December 28, 2002). The credit facility is jointly and severally guaranteed by all of our domestic subsidiaries (including Discount and its subsidiaries) and is secured by all of our assets and the assets of our existing and future domestic subsidiaries (including Discount and its subsidiaries).

The tranche A term loan facility matures on November 30, 2006 and currently provides for amortization of \$1.4 million on May 31, 2003, \$7.2 million on November 30, 2003, \$11.4 million in May and November 2004 and \$12.9 million each May and November in 2005 and 2006 through maturity on November 30, 2006. The tranche C term loan facility matures on November 30, 2007 and amortizes in semi-annual installments of \$2.1 million for four years commencing on November 30, 2003, with a final payment of \$231.6 million due in November 2007. The revolving credit facility matures on November 30, 2006.

In March 2003, we amended and restated our senior credit facility to add incremental facilities of \$350 million in the form of a tranche A-1 term loan facility of \$75 million and a tranche C-1 term loan facility of \$275 million. The tranche A-1 term loan facility matures on November 30, 2006 and currently provides for amortization of \$1.3 million on May 31, 2003, \$6.5 million on November 30, 2003, \$10.4 million in May and November 2004 and \$11.6 million each May and November in 2005 and 2006 through maturity on November 30, 2006. The tranche C-1 term loan facility matures on November 30, 2007 and amortizes in semi-annual installments of \$2.3 million for the four years commencing on November 30, 2003, with a final payment of \$256.6 million due in November 2007. The amendment also modifies certain financial covenants and the existing pricing grid. The incremental facilities will be used to redeem all of our currently outstanding senior subordinated notes and senior discount debentures.

The interest rates on the tranche A and A-1 term loan facilities, the revolving credit facility and the tranche C and C-1 term loan facilities are based, at our option, on either an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. Under our senior credit facility as amended in March 2003, until our delivery of our financial statements for our third fiscal quarter ending on October 4, 2003, the initial margins for the tranche A and A-1 term loan facilities, the tranche C and C-1 term loan facilities and the revolving facility are 2.75% and 1.75% per annum for the adjusted LIBOR rate and alternate base rate borrowings, respectively. The margins subsequent to such date will be determined by a pricing grid based on our leverage ratio at that time. If our leverage ratio reduces to greater than or equal to 1.50 to 1.00 and less than 2.00 to 1.00, the margin applicable to each of the facilities will step down to a LIBOR spread of 2.50% per annum and down to 2.25% per annum if we achieve a

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leverage ratio of less than 1.50 to 1.00.

A commitment fee of 0.500% per annum is charged on the unused portion of the revolving credit facility, payable quarterly in arrears. The commitment fee applicable to the revolving credit facility will be reduced to 0.375% per annum at such time after delivering our third quarter financial statements to the banks' administrative agent if our leverage ratio reduces to less than 2.00 to 1.00. Borrowings under the credit facility are required to be prepaid, subject to certain exceptions, in certain circumstances.

The credit facility contains covenants restricting our ability and the ability of our subsidiaries to, among other things, (i) pay cash dividends on any class of capital stock or make any payment to purchase, redeem, retire, acquire, cancel or terminate capital stock, (ii) prepay, redeem, retire, acquire, cancel or terminate debt, (iii) incur liens or engage in sale-leaseback transactions, (iv) make loans, investments, advances or guarantees, (v) incur additional debt (including hedging arrangements), (vi) make capital expenditures, (vii) engage in mergers, acquisitions and asset sales, (viii) engage in transactions with affiliates, (ix) enter into any agreement which restricts the ability to create liens on property or assets or the ability of subsidiaries to pay dividends or make payments on advances or loans to subsidiaries, (x) change the nature of the business conducted by us and our subsidiaries, (xi) change our passive holding company status and (xii) amend existing debt agreements or our certificate of incorporation, by-laws or other organizational documents. We are also required to comply with financial covenants in the credit facility with respect to (a) limits on annual aggregate capital expenditures, (b) a maximum leverage ratio, (c) a minimum interest coverage ratio and (d) a ratio of current assets to funded senior debt. We were in compliance with the above covenants under the credit facility at December 28, 2002.

Senior Subordinated Notes. On October 31, 2001, in connection with the Discount acquisition, we sold an additional \$200.0 million in senior subordinated notes at an issue price of 92.802%, yielding gross proceeds of approximately \$185.6 million, the accreted value of which was \$163.5 million at December 28, 2002. These senior subordinated notes were in addition to the \$200.0 million face amount of existing senior subordinated notes that we issued in connection with the recapitalization in April 1998, of which \$151.5 million was outstanding at December 28, 2002. All of the notes mature on April 15, 2008 and bear interest at 10.25%, payable semi-annually on April 15 and October 15. The notes are fully and unconditionally guaranteed on an unsecured senior subordinated basis by each of our existing and future restricted subsidiaries that guarantees any indebtedness of us or any restricted subsidiary. The notes are redeemable at our option, in whole or in part, at any time on or after April 15, 2003, in cash at certain redemption prices plus accrued and unpaid interest and liquidating damages, if any, at the redemption date. The indentures governing the notes also contain certain covenants that limit, among other things, our and our subsidiaries' ability to incur additional indebtedness and issue preferred stock, pay dividends or make certain other distributions, make certain investments, repurchase stock and certain indebtedness, create or incur liens, engage in transactions with affiliates, enter into new businesses, sell stock of restricted subsidiaries, redeem subordinated debt, sell assets, enter into any agreements that restrict dividends from restricted subsidiaries and enter into certain mergers or consolidations.

Senior Discount Debentures. In April 1998, in connection with the recapitalization, we issued \$112.0 million in face amount of senior discount debentures. The debentures mature on April 15, 2009, accrete at a rate of 12.875%, compounded semi-annually, to an aggregate principal amount of \$112.0 million by April 15, 2003. At December 28, 2002, \$87.8 million principal amount was outstanding. After April 15, 2003, these debentures are redeemable, at our option, in whole or in part, in cash at certain redemption prices plus accrued and unpaid interest and liquidating damages, if any, at the redemption date. Commencing April 15, 2003, cash interest on the debentures will accrue and be payable semi-annually on April 15 and October 15 at a rate of 12.875% per annum. The indenture governing the debentures contains certain covenants that, among other things, limit our ability and the ability of our restricted subsidiaries to incur indebtedness and issue preferred stock, repurchase stock and certain indebtedness, engage in transactions with affiliates, create or incur certain liens, pay dividends or certain other distributions, make certain investments, enter into new businesses, sell stock of restricted subsidiaries, sell assets and engage in certain mergers and consolidations.

Redemption of Indebtedness. On March 14, 2003, we called for redemption on April 15, 2003 all of our senior subordinated notes and senior discount debentures. These redemptions will be funded with borrowings under our amended senior credit facility and cash on hand.

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.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 addresses accounting and reporting for all business combinations and requires the use of the purchase method for business combinations. SFAS No. 141 also requires recognition of intangible assets apart from goodwill if they meet certain criteria. SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangibles with indefinite useful lives are no longer amortized but are instead subject to at least an annual assessment for impairment by applying a fair-value based test. SFAS No. 141 applies to all business combinations initiated after June 30, 2001. SFAS No. 142 is effective for existing goodwill and intangible assets beginning as of December 30, 2001. SFAS No. 142 is effective immediately for goodwill and intangibles acquired after June 30, 2001. For fiscal year 2001, we had amortization expense of approximately \$444 related to existing goodwill of \$3,251 at December 29, 2001. Such amortization has been eliminated upon adoption of SFAS No. 142. We implemented SFAS No. 142 during the first quarter of 2002. The implementation had no material impact on our financial position or the results of our operations.

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for recognition and measurement of an asset retirement obligation and an associated asset retirement cost. This statement applies to all entities that have legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the assets and is effective for fiscal years beginning after June 15, 2002. We do not expect SFAS No. 143 to have a material impact on our financial position or results of operations.

In August 2001, the FASB also issued SFAS No. 144, "Accounting for the Impairment and Disposal of Long-Lived Assets." This statement replaces both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of" and Accounting Principles Board, or APB Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS No. 144 retains the basic provisions from both SFAS No. 121 and APB No. 30 but includes changes to improve financial reporting and comparability among entities. The provisions of SFAS No. 144 are effective for fiscal years beginning after December 15, 2001. We adopted SFAS No. 144 during the first quarter of fiscal 2002 with no material impact on our financial position or results of operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." As a result of rescinding FASB Statement No. 4, "Reporting Gains Losses from Extinguishment of Debt," gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. This statement also amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Additional amendments include changes to other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. We will adopt the provisions of SFAS No. 145 during the first quarter of fiscal 2003. For 2002, we recorded an extraordinary loss on the extinguishment of debt, net of tax, of \$10.4 million. Accordingly, reclassifications of this loss to income from continuing operations will be made throughout fiscal 2003 to maintain comparability for the reported periods.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Cost Associated with Exit or Disposal Activities." This statement nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred instead of at the date an entity commits to an exit plan. The statement is effective for exit and disposal activities entered into after December 31, 2002. We do not expect adopting this

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statement will have a material impact on our financial position or results of operations.

In September 2002 (as subsequently updated in November), the FASB released EITF Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." This EITF addresses how a reseller should account for consideration received from a vendor since EITF Issue No. 01-9, "Accounting for Consideration Given by a Vendor to a Customer" only addresses the accounting treatment from the vendor's perspective. The consensus is that cash received from a vendor is presumed to be a reduction of the vendor's products or services and should, therefore, be characterized as a reduction in the cost of sales when recognized in the customer's income statement, unless a reimbursement of costs is incurred by the customer to sell the vendor's products, in which case the cash consideration should be characterized as a reduction of that cost when recognized in the customer's income statement. Additionally, any rebate or refund should also be recognized as a reduction of the cost of sales based on a systematic and rational allocation. The release is effective for fiscal periods beginning after December 15, 2002. We believe our current accounting policy for vendor incentives meets the requirements of this EITF and therefore we do not expect adopting this release will have a material impact on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, "Accounting for Stock-Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123." This statement amends SFAS 123, "Accounting for Stock-Based Compensation" to allow for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock issued to team members. This statement also amends FASB No. 123 to require disclosure of the accounting method used for valuation in both annual and interim financial statements. This statement permits an entity to recognize compensation expense under the prospective method, modified prospective method or the retroactive restatement method. If an entity elects to adopt this statement, fiscal years beginning after December 15, 2003 must include this change in accounting for stock-based team member compensation. We are currently evaluating the effect of voluntarily adopting the fair value provisions of SFAS No. 123 and will elect a transition method if the fair value method is adopted.

In November 2002, the FASB issued Interpretation No. 45, "Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others." This interpretation sets forth expanded disclosure requirements in the financial statements about a guarantor's obligations under certain guarantees that it has issued. It also clarifies that, under certain circumstances, a guarantor is required to recognize a liability for the fair value of the obligation at the inception of the guarantee. Certain types of guarantees, such as product warranties, guarantees accounted for as derivatives, and guarantees related to parent-subsidiary relationships are excluded from the liability recognition provisions of Interpretation No. 45, however, they are subject to the disclosure requirements. The initial liability recognition provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of Interpretation No. 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. We have no guarantees of third party indebtedness and do not believe the adoption of these new rules will have a material impact on our financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, "Consolidation of Variable Interest Entities," an interpretation of Accounting Research Bulletin No. 51, "Consolidated Financial Statements." Interpretation No. 46 prescribes how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Interpretation No. 46 is effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. We do not have interests in variable interest entities and do not believe the adoption of Interpretation No. 46 will have a material impact on our financial position or results of operations.

Risk Factors

Risks Relating to Our Business

We will not be able to expand our business if our growth strategy is not successful.

We have increased our store count significantly from 1,567 stores at the end of 1998 to 2,435 stores at December 28, 2002. We intend to continue to expand our base of stores as part of our growth strategy, primarily by opening new stores. There can be no assurance that this 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, our ability to manage the expansion and hire, train and retain qualified sales associates, the availability of potential store locations in highly visible, well-trafficked areas and the negotiation of acceptable lease terms for new locations. There can be no assurance that we will be able to open and operate new stores on a timely or 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 our ability to properly merchandise, market and price the products required in their respective markets.

Furthermore, we may acquire or try to 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:

- the difficulty of identifying appropriate acquisition candidates;
- the difficulty of assimilating and integrating the operations of the respective entities;
- the potential disruption to our ongoing business and diversion of our management's attention;
- the inability to maintain uniform standards, controls, procedures and policies; and
- the impairment of relationships with team members and customers as a result of changes in management.

We cannot assure you that we will be successful in overcoming these risks or any other problems encountered with these acquisitions, investments, strategic alliances or related efforts.

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

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

Successful implementation of our growth strategy also depends on factors specific to the retail automotive parts industry and numerous other factors that may be beyond our control. These include adverse changes in:

- general economic conditions and conditions in 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 or increase spending;
- the automotive aftermarket parts manufacturing industry, such as consolidation, which may disrupt or sever one or more of our vendor relationships;
- our ability to anticipate and meet changes in consumer preferences for automotive products, accessories and services in a timely manner; and
- our continued ability to hire and retain qualified personnel, which depends in part on the types of recruiting, training and benefit programs we adopt.

Disruptions in our relationships with vendors or in our vendors' operations could increase our cost of goods sold.

Our business depends on developing and maintaining close relationships with our vendors and upon the vendors' ability or willingness to sell quality products to us at favorable prices and other terms. Many factors outside of our

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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 may increase the cost of the products we purchase from them. In addition, the trend towards consolidation among automotive parts suppliers may disrupt or sever our relationship with some vendors, and could lead to less competition and, consequently, higher prices.

If demand for products sold by our stores slows, our business, financial condition and results of operations will suffer.

Demand for products sold by our stores depends on many factors and may slow for a number of reasons, including:

- the weather, as vehicle maintenance may be deferred during periods of inclement weather; and
- the economy, as during periods of good economic conditions, more of our DIY customers may pay others to repair and maintain their cars instead of working on their own cars. In periods of declining economic conditions, both DIY and DIFM customers may defer vehicle maintenance or repair.

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

We depend on the services of our existing management team and may not be able to attract and retain additional qualified management personnel.

Our success depends to a significant extent on the continued services and experience of our executive officers and senior management team. If for any reason our senior executives do not continue to be active in management, our business could suffer. We have entered into employment agreements with some of our executive officers and senior management; however, these agreements do not ensure their continued employment with us. Additionally, we cannot assure you that we will be able to attract and retain additional qualified senior executives as needed in the future, which could adversely affect our financial condition and results of operations.

If we are unable to compete successfully against other companies in the retail automotive parts industry, we could lose customers and our revenues may decline.

The retail sale of automotive parts, accessories and maintenance items is highly competitive in many areas, including price, name recognition, customer service and location. We compete primarily with national and regional retail automotive parts chains, wholesalers or jobber stores, independent operators, automobile dealers that supply parts, discount stores and mass merchandisers that carry automotive replacement parts, accessories and maintenance items. Some of our competitors possess advantages over us, including substantially greater financial and marketing resources, a larger number of stores, longer operating histories, greater name recognition, larger and more established customer bases and more established vendor relationships. Our response to these competitive disadvantages may require us to reduce our prices or increase our spending, which would lower revenue and profitability. Competitive disadvantages may also prevent us from introducing new product lines or 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 could lose customers and our revenues may decline.

Because we are involved in litigation from time to time, and are subject to numerous governmental laws and 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. In particular, we are currently involved in litigation involving claims relating to, among other things, breach of contract, anti-competitive behavior, tortious conduct, employment discrimination, asbestos exposure and product defect. 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 greatly exceeds our coverage limits or our insurance policies do not cover a claim, it could have a material adverse affect on our business and

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operating results.

Additionally, we are subject to numerous federal, state and local governmental laws and regulations relating to employment matters, environmental protection and building and zoning requirements. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions. In addition, our capital expenses could increase due to remediation measures that may be required if we are found to be noncompliant with any of these or future laws or regulations.

We may not be able to successfully complete the integration of Discount, which could adversely affect our business, financial condition and results of operations.

We acquired Discount to capitalize on its leading market position in Florida, to increase our store base in our Southeastern markets and to create the opportunity for potential cost savings through operational synergies. Achieving the expected benefits of the Discount acquisition will depend in large part on our completion of the integration of Discount's operations and personnel in a timely and efficient manner. Some of the objectives we still need to accomplish include:

- successfully converting Discount's operations in the state of Florida to our information and accounting systems;
- converting the Lakeland distribution center to our Distribution Center Management System;
- successfully completing the format and signage conversion of Discount stores to "Advance Discount Auto Parts" stores in the Florida market; and
- transitioning customer awareness and loyalty to new store formats and merchandising strategy.

If we cannot successfully complete the integration of Discount, our ability to manage Discount's business effectively and profitably could suffer. In addition, key team members may leave and customer service standards could deteriorate. Moreover, the integration process itself may be disruptive to our business and Discount's business as it will divert the attention of management from its normal operational responsibilities and duties. Our failure to successfully complete the integration of Discount could harm our business, financial condition and results of operations.

Risks Relating to Our Financial Condition

Our level of debt and restrictions in our debt instruments may limit our ability to take certain actions, including obtaining additional financing in the future, that we would otherwise consider in our best interest.

We currently have a significant amount of debt. At December 28, 2002, we had total debt of approximately \$735.5 million. Our high level of debt could have important consequences to you. For example, it could:

- impair our ability to implement our growth strategy;
- impair our ability to obtain additional financing, if needed, for working capital, capital expenditures, acquisitions or other purposes in the future;
- place us at a disadvantage compared to competitors that have less debt;
- restrict our ability to adjust rapidly to changing market conditions;
- increase our vulnerability to adverse economic, industry and business conditions; or
- cause our interest expense to increase if interest rates in general were to increase because a portion of our indebtedness bears interest at a floating rate.

Our ability to service our debt will require a significant amount of cash and our operations may not generate the amount of cash we need.

We will need a significant amount of cash to service our debt. Our ability to generate cash depends on our successful financial and operating performance. We cannot assure you that we will generate sufficient cash flow from operations or that we will be able to obtain sufficient funding to satisfy all of our obligations. Our financial and

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operational performance also depends upon a number of other factors, many of which are beyond our control. These factors include:

- economic and competitive conditions in the automotive aftermarket industry; and
- operating difficulties, operating costs or pricing pressures we may experience.

If we are unable to service our debt, we will be required to pursue one or more alternative strategies, such as selling assets, refinancing or restructuring our debt or raising additional equity capital. However, we cannot assure you that any alternative strategies will be feasible or prove adequate. Also, some alternative strategies would require the consent of at least a majority in interest of the lenders under our senior credit facility, the holders of our senior subordinated notes and the holders of our senior discount debentures, and we can provide no assurances that we would be able to obtain this consent. If we are unable to meet our debt service obligations and alternative strategies are unsuccessful or unavailable, our lenders would be entitled to exercise various remedies, including foreclosing on our assets. Under those circumstances, our investors may lose all or a portion of their investments.

The covenants governing our debt impose significant restrictions on us.

The terms of our amended senior credit facility and the indentures for our senior subordinated notes and senior discount debentures impose significant operating and financial restrictions on us and our subsidiaries and require us to meet certain financial tests. These restrictions may also have a negative impact on our business, financial condition and results of operations by significantly limiting or prohibiting us from engaging in certain transactions, including:

- incurring or guaranteeing additional indebtedness;
- paying dividends or making distributions or certain other restricted payments;
- making capital expenditures and other investments;
- creating liens on our assets;
- issuing or selling capital stock of our subsidiaries;
- transferring or selling assets currently held by us;
- repurchasing stock and certain indebtedness;
- engaging in transactions with affiliates;
- entering into any agreements that restrict dividends from our subsidiaries; and
- engaging in mergers or consolidations.

The failure to comply with any of these covenants would cause a default under our indentures and other debt agreements. Furthermore, our senior credit facility contains certain financial covenants, including establishing a maximum leverage ratio and requiring us to maintain a minimum interest coverage ratio and a funded senior debt to current assets ratio, which, if not maintained by us, will cause us to be in default under our senior credit facility. 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 not be on terms that are acceptable to us.

Item 7a. Quantitative and Qualitative Disclosures about Market Risks.

We are exposed to cash flow risk due to changes in interest rates with respect to our long-term debt. While we cannot predict the impact interest rate movements will have on our debt, exposure to rate changes is managed through the use of fixed and variable rate debt. Our fixed rate debt consists primarily of outstanding balances on our senior discount debentures and senior subordinated notes. Our variable rate debt relates to borrowings under our senior credit facility. Our variable rate debt is primarily vulnerable to movements in the LIBOR, Prime, Federal Funds and Base CD rates.

Our future exposure to interest rate risk decreased during 2002 due to decreased interest rates and reduced variable rate debt. Additionally, during 2002, we entered into a hedge agreement in the form of a zero-cost collar, which will protect against interest rate fluctuations in the LIBOR rate on \$150 million of our variable rate debt. The collar consists of an interest rate ceiling of 4.5% and an interest rate floor of 1.56% for a term of twenty-four months. Under this hedge agreement, we continue to pay interest at prevailing rates plus any spread, as defined by our credit facility, but are reimbursed for any amounts paid on the LIBOR rate in excess of the ceiling. Accordingly, we are

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required to pay the financial institution that originated the collar if the LIBOR rate is less than the 1.56% floor.

In March 2003 and in conjunction with the restatement and amending of our senior credit facility, we entered into two interest rate swap agreements on an aggregate of \$125 million of our variable rate debt. The first swap allows us to fix our LIBOR rate at 2.269% thereby limiting our cash flow risk on \$75 million of debt for a term of 36 months. The remaining swap allows us to fix our LIBOR rate at 1.79% limiting our cash flow risk on an additional \$50 million of debt for a term of 24 months.

The table below presents principal cash flows and related weighted average interest rates on long-term debt we had outstanding at December 28, 2002, by expected maturity dates. Expected maturity dates approximate contract terms. Fair values included herein have been determined based on quoted market prices. Weighted average variable rates are based on implied forward rates in the yield curve at December 28, 2002. Implied forward rates should not be considered a predictor of actual future interest rates.

	<u>Fiscal 2003</u>	<u>Fiscal 2004</u>	<u>Fiscal 2005</u>	<u>Fiscal 2006</u>	<u>Fiscal 2007</u>	<u>Thereafter</u>	<u>Total</u>	<u>Fair Market Value</u>
<i>(dollars in thousands)</i>								
Long-term debt:								
Fixed rate	\$ —	\$ —	\$ —	\$ —	\$ —	\$ 416,865	\$ 416,865	\$ 435,240
Weighted average interest rate	—	—	—	—	—	10.8%	10.8%	
Variable rate	\$ 10,690	\$ 27,033	\$ 29,869	\$ 31,569	\$ 233,627	\$ —	\$ 332,788	\$ 332,788
Weighted average interest rate	3.8%	4.7%	6.0%	6.7%	7.2%	—	5.3%	

Item 8. Financial Statements and Supplementary Data.

See financial statements included in "Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K."

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

On April 3, 2002, based on the recommendations of our audit committee, we dismissed Arthur Andersen LLP and selected Deloitte & Touche LLP as our independent public accountants for 2002. For additional information regarding the dismissal, refer to our current report on Form 8-K dated April 5, 2002 (as amended by the Form 8-K/A filed on April 16, 2002).

PART III

Item 10. Directors and Executive Officers of the Registrant.

See the information set forth in the sections entitled “Proposal No. 1 –Election of Directors” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our Proxy Statement for the 2002 annual meeting of stockholders, the 2003 Proxy Statement, to be filed with the Securities and Exchange Commission within 120 days after the end of the fiscal year ended December 28, 2002, which is incorporated herein by reference.

Item 11. Executive Compensation.

See the information set forth in the section entitled “Executive Compensation” in the 2003 Proxy Statement, which is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

See the information set forth in the section entitled “Security Ownership of Certain Beneficial Owners and Management” in the 2003 Proxy Statement, which is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

See the information set forth in the sections entitled “Related-Party Transactions” and “Proposal No. 1 –Election of Directors –Compensation Committee Interlocks and Insider Participation” in the 2003 Proxy Statement, which is incorporated herein by reference.

Item 14. Controls and Procedures.

Within 90 days prior to the date of this report, we carried out an evaluation, under the supervision and with the participation of our principal executive officer and principal financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on this evaluation, our principal executive officer and principal financial officer concluded that our disclosure controls and procedures are effective to ensure that information required in our periodic reports to the Securities and Exchange Commission is recorded, processed, summarized and reported in a timely and accurate manner. Subsequent to the date of their evaluation, there were no significant changes in our internal controls or in other factors that could significantly affect the disclosure controls, including any corrective actions with regard to significant deficiencies and material weaknesses. It should be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

PART IV

Item 15. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

(a)(1) Financial Statements

Audited Consolidated Financial Statements of Advance Auto Parts, Inc. and Subsidiaries for the three years ended December 28, 2002, December 29, 2001 and December 30, 2000:

Independent Auditors' Report	F-1
Independent Auditors' Report on Additional Information	F-2
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Consolidated Statements of Changes in Stockholders' Equity	F-7
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(2) Financial Statement Schedules

Schedule I Condensed Financial Information of the Registrant	F-42
Schedule II Valuation and Qualifying Accounts	F-47

(3) Exhibits

The exhibits listed on the accompanying Exhibit Index are filed as exhibits to this report or incorporated by reference herein.

(b) Reports on Form 8-K

(i) We filed a current report on Form 8-K on November 22, 2002, announcing that Deloitte & Touche LLP had completed an audit of our consolidated financial statements as of October 5, 2002 and for the forty weeks then ended in connection with our offering of common stock. The audited consolidated financial statements were incorporated by reference and filed as Exhibit 99.1 to the Form 8-K.

EXHIBIT INDEX

Exhibit Number	Description
2.1(1)	Merger Agreement dated as of March 4, 1998 among AHC Corporation and Advance Holding Corporation (“Advance Holding”) with FS Equity Partners III, L.P., FS Equity Partners IV, L.P. (“FSEP IV”), and FS Equity Partners International, L.P.
2.2(3)	Agreement and Plan of Merger dated as of August 16, 1998 among Sears, Roebuck and Co., Western Auto Holding Co., Advance Auto, as successor in interest to Advance Holding, Advance Stores Company, Incorporated (“Advance Stores”), Western Auto Supply Company, Advance Acquisition Corporation and the stockholders of Advance listed on the signature pages thereto.
2.3(5)	Agreement and Plan of Merger dated as of August 7, 2001 among Advance Holding Corporation, Advance Auto, AAP Acquisition Corporation, Advance Stores and Discount Auto Parts, Inc. (schedules and exhibits omitted).
2.4(5)	Agreement and Plan of Merger dated as of August 7, 2001 among Advance Holding and Advance.
2.5(7)	Form of Articles of Merger of AAP Acquisition Corporation into Discount Auto Parts, Inc. and related Plan of Merger.
3.1(6)	Restated Certificate of Incorporation of Advance Auto.
3.2(6)	Bylaws of Advance Auto.
4.1(1)	Indenture dated as of April 15, 1998 between Advance Auto, as successor in interest to Advance Holding, and United States Trust Company of New York, as trustee, with respect to the 12.875% Senior Discount Debentures due 2009 (including the form of 12.875% Senior Discount Debenture due 2009).
4.2(10)	Amended and Restated Stockholders’ Agreement dated as of November 2, 1998, as amended, among FS Equity Partners IV, L.P., Ripplewood Partners, L.P., Ripplewood Advance Auto Parts Employee Fund I L.L.C., Nicholas F. Taubman, Arthur Taubman Trust dated July 13, 1964, WA Holding Co. and Advance Auto, as successor in interest to Advance Holding (including the Terms of the Registration Rights of the Common Stock).
4.3(2)	Indenture dated as of April 15, 1998 among Advance Stores, LARALEV, INC., as guarantor, and The Bank of New York, as successor to the corporate trust business of United States Trust Company of New York, as trustee, with respect to the 10.25% Senior Subordinated Notes due 2008 (including the form of 10.25% Senior Subordinated Note due 2008).
4.4(5)	Supplemental Indenture dated as of November 2, 1998 between Western Auto Supply Company and The Bank of New York, as successor to the corporate trust business of United States Trust Company of New York, as trustee, with respect to the 10.25% Senior Subordinated Notes due 2008.
4.5(7)	Indenture dated as of October 31, 2001 among Advance Stores, Advance Trucking Corporation, LARALEV, INC., Western Auto Supply Company and The Bank of New York, as trustee, with Respect to the 10 1/4% Senior Subordinated Notes due 2008 (including the form of 10 1/4% Senior Subordinated Note due 2008).
4.6(7)	Exchange and Registration Rights Agreement dated as of October 31, 2001 among Advance Stores, Advance Trucking Corporation, LARALEV, INC., Western Auto Supply Company, J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Lehman Brothers Inc.
4.7(7)	Registration Rights Agreement dated as of October 31, 2001 among Advance Stores, Advance Trucking Corporation, LARALEV, INC., Western Auto Supply Company, Mozart Investments Inc. and Mozart One L.L.C.
4.8(8)	Supplemental Indenture dated as of November 28, 2001 by and between Advance Auto, as successor in interest to Advance Holding, and the Bank of New York, as successor to the corporate trust business of United States Trust Company of New York, as trustee, with respect to the 12.875% Senior Discount Debentures due 2009.
4.9(8)	Second Supplemental Indenture dated as of June 30, 1999, by and between Advance Trucking Corporation and The Bank of New York, as successor in interest to the corporate trust business of United States Trust Company of New York, with respect to the 10.25% Senior Subordinated Notes due 2008.

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Exhibit Number	Description
4.10(8)	Third Supplemental Indenture dated as of November 28, 2001 by and among Discount, DAP Acceptance Corporation, Western Auto of Puerto Rico, Inc., Western Auto of St. Thomas, Inc., WASCO Insurance Agency, Inc., Advance Merchandising Company, Inc., Advance Aircraft Company, Inc., and The Bank of New York, as successor to the corporate trust business of United States Trust Company of New York, as trustee, with respect to the 10.25% Senior Subordinated Notes due 2008.
4.11(8)	Supplemental Indenture dated as of November 28, 2001 by and among Discount, DAP Acceptance Corporation, Western Auto of Puerto Rico, Inc., Western Auto of St. Thomas, Inc., WASCO Insurance Agency, Inc., Advance Merchandising Company, Inc., Advance Aircraft Company Inc., and The Bank of New York, as trustee, with respect to the 10 1/4% Senior Subordinated Notes due 2008.
10.1	Amended and Restated Credit Agreement dated as of March 6, 2003 among Advance Auto, Advance Stores, the lenders party thereto and, JP Morgan Chase Bank (“JP Morgan Chase”), as administrative agent.
10.2(8)	Pledge Agreement dated as of November 28, 2001 among Advance Auto, Advance Stores, the Subsidiary Pledgors listed therein and JP Morgan Chase, as collateral agent.
10.3(8)	Guarantee Agreement dated as of November 28, 2001 among Advance Auto, the Subsidiary Guarantors listed therein and JP Morgan Chase, as collateral agent.
10.4(8)	Indemnity, Subrogation and Contribution Agreement dated as of November 28, 2001 among Advance Auto, Advance Stores, the Guarantors listed therein and JP Morgan Chase, as collateral agent.
10.5(8)	Security Agreement dated as of November 28, 2001 among Advance Auto, Advance Stores, the Subsidiary Guarantors listed therein and JP Morgan Chase, as collateral agent.
10.6(2)	Lease Agreement dated as of March 16, 1995 between Ki, L.C. and Advance Stores for its headquarters located at 5673 Airport Road, Roanoke, Virginia, as amended.
10.7(2)	Lease Agreement dated as of January 1, 1997 between Nicholas F. Taubman and Advance Stores for the distribution center located at 1835 Blue Hills Drive, N.E., Roanoke, Virginia, as amended.
10.8(7)*	Advance Auto 2001 Senior Executive Stock Option Plan.
10.9(7)*	Form of Advance Auto 2001 Senior Executive Stock Option Agreement.
10.10(7)*	Advance Auto 2001 Executive Stock Option Plan.
10.11(7)*	Advance Auto 2001 Senior Executive Stock Subscription Plan.
10.12(7)*	Form of Advance Auto 2001 Stock Option Agreement.
10.13(7)*	Advance Auto 2001 Employee Stock Subscription Plan.
10.14(7)*	Form of Advance Auto Stock Subscription Agreement.
10.15(2)*	Form of Secured Promissory Note.
10.6(2)*	Form of Stock Pledge Agreement.
10.17(2)*	Form of Employment and Non-Competition Agreement between Childs, Cox, Gearheart, Gerald, Gray, Gregory, Hale, Helms, Jeter, Knighten, Kyle, Livesay, McDaniel, Miley, Quinn, Rakes, Richardson, Smith, Turner and Williams and Advance Stores.
10.18(2)*	Form of Employment and Non-Competition Agreement between Bigoney, Buskirk, Felts, Fralin, Haan, Klasing, Reid, Stevens, Vaughn, Wade, Weatherly and Wirth and Advance Stores.
10.19(2)*	Form of Indemnity Agreement between each of the directors of Advance Auto (other than Nicholas F. Taubman) and Advance Auto, as successor in interest to Advance Holding.
10.20(2)*	Consulting and Non-Competition Agreement among Nicholas F. Taubman, Advance Auto, as successor in interest to Advance Holding and Advance Stores.

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Exhibit Number	Description
10.21(2)*	Indemnity Agreement dated as of April 15, 1998 between Nicholas F. Taubman and Advance Auto, as successor in interest to Advance Holding.
10.22(2)*	Employment and Non-Competition Agreement among Garnett E. Smith, Advance Auto, as successor in interest to Advance Holding, and Advance Stores.
10.23(6)*	Amendments No. 1 dated as April 1, 2000 and Amendment No. 2 dated as of April 15, 2001 to Employment and Non-Competition Agreement among Garnett E. Smith, Advance Auto, as successor in interest to Advance Holding, and Advance Stores.
10.24(4)*	Employment and Noncompetition Agreement dated as of February 1, 2000, among Advance Stores, Advance Auto, as successor in interest to Advance Holding, and Lawrence P. Castellani.
10.25(4)*	Senior Executive Stock Subscription Agreement dated as of February 1, 2000, between Advance Auto, as successor in interest to Advance Holding, and Lawrence P. Castellani.
10.26(4)*	Restricted Stock Agreement dated as of February 1, 2000, between Advance Auto, as successor in interest to Advance Holding, and Lawrence P. Castellani.
10.27(7)*	Secured Promissory Note dated September 20, 2001 made by Garnett E. Smith, Vice Chairman of the Board of Advance Auto, as successor in interest to Advance Holding, and Advance Stores, in favor of Advance Stores.
10.28(7)*	Stock Pledge Agreement dated September 20, 2001 between Garnett E. Smith, Vice Chairman of the Board of Advance Auto and Advance Stores.
10.29(7)*	Form of Advance Auto 2001 Stock Option Agreement for holders of Discount fully converted options.
10.30(7)	Purchase Agreement dated as of October 31, 2001 among Advance Stores, Advance Trucking Corporation, LARALEV, INC., Western Auto Supply Company, J.P. Morgan Securities Inc., Credit Suisse First Boston Corporation and Lehman Brothers Inc.
10.31(8)	Joinder to the Purchase Agreement dated as of November 28, 2001 by and among Advance Aircraft Company, Inc., Advance Merchandising Company, Inc., WASCO Insurance Agency, Inc., Western Auto of Puerto Rico, Inc., Western Auto of St. Thomas, Inc., Discount, DAP Acceptance Corporation, J.P. Morgan Securities, Inc., Credit Suisse First Boston Corporation and Lehman Brothers Inc.
10.32(8)	Subsidiary Guarantee dated as of November 2, 1998, by Western Auto Supply Company, with respect to the 10.25% Senior Subordinated Notes due 2008.
10.33(8)	Subsidiary Guarantee dated as of June 30, 1999 by Advance Trucking Corporation, with respect to the 10.25% Senior Subordinated Notes due 2008.
10.34(8)	Subsidiary Guarantee dated as of November 28, 2001 by Discount, DAP Acceptance Corporation, Western Auto of Puerto Rico, Inc., Western Auto of St. Thomas, Inc., WASCO Insurance Agency, Inc., Advance Merchandising Company, Inc. and Advance Aircraft Company, Inc., with resection to the 10.25% Senior Subordinated Notes due 2008.
10.35(8)	Subsidiary Guarantee dated as of November 28, 2001 by Discount, DAP Acceptance Corporation, Western Auto of Puerto Rico, Inc., Western Auto of St. Thomas, Inc., WASCO Insurance Agency, Inc., Advance Merchandising Company, Inc. and Advance Aircraft Company, Inc., with respect to the 10 1/4% Senior Subordinated Notes due 2008.
10.36(9)	Form of Master Lease dated as of February 27, 2001 by and between Dapper Properties I, II and III, LLC and Discount.
10.37(8)	Form of Amendment to Master Lease dated as of December 28, 2001 between Dapper Properties I, II and III, LLC and Discount.
10.38(9)	Form of Sale-Leaseback Agreement dated as of February 27, 2001 by and between Dapper Properties I, II and III, LLC and Discount.
10.39(8)	Substitution Agreement dated as of November 28, 2001 by and among GE Capital Franchise Finance Corporation, Washington Mutual Bank, FA, Dapper Properties I, II and III, LLC, Autopar Remainder I, II and III, LLC, Discount and Advance Stores.
10.40(8)	First Amendment to Substitution Agreement dated as of December 28, 2001 by and among GE Capital Franchise Finance Corporation, Washington Mutual Bank, FA, Dapper Properties I, II and III, LLC, Autopar Remainder I, II and III, LLC, Discount, Advance Stores and Western Auto Supply Company.

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Exhibit Number	Description
10.41(8)	Form of Amended and Restated Guaranty of Payment and Performance dated as of December 28, 2001 by Advance Stores in favor of Dapper Properties I, II and III, LLC.
10.42(10)	Lease Agreement dated as of August 8, 2001 by and between George D. Zamas and Advance Stores.
10.43	Amendment and Restatement Agreement dated as of March 6, 2003, among Advance Stores, Advance Auto, the lenders party thereto and JP Morgan Chase, as administrative agent.
10.44	Reaffirmation Agreement dated as of March 6, 2003 among Advance Stores, Advance Auto and JP Morgan Chase, as administrative agent.
10.45(11)	Advance Auto Employee Stock Purchase Plan.
21.1	Subsidiaries of Advance Auto.
23.1	Consent of Deloitte & Touche LLP.
24.1	Power of Attorney of certain officers and directors(contained in signature page).
99.1	Certification of Chairman of the Board of the Directors and Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to section 906 of the Sarbanes–Oxley Act of 2002.

(*)	Management contract or compensatory plan or arrangement required to be filed as an exhibit to this report pursuant to Item 14(c).
(1)	Filed on June 4, 1998 as an exhibit to Registration Statement on Form S–4 (No. 333–56031) of Advance Holding Corporation.
(2)	Filed on June 4, 1998 as an exhibit to Registration Statement on Form S–4 (No. 333–56013) of Advance Stores Company, Incorporated.
(3)	Filed on October 6, 1998 as an exhibit to Amendment No. 2 of the Registration Statement on Form S–4 (No. 333–56013) of Advance Stores Company, Incorporated.
(4)	Filed on March 31, 2000 as an exhibit to Annual Report on Form 10–K of Advance Holding Corporation.
(5)	Filed on August 7, 2001 as an exhibit to Current Report on Form 8–K of Advance Stores Company, Incorporated.
(6)	Filed on August 31, 2001 as an exhibit to Registration Statement on Form S–4 (No. 333–68858) of Advance Auto Parts, Inc.
(7)	Filed on November 6, 2001 as an exhibit to Amendment No. 2 to Registration Statement on Form S–4 (No. 333–68858) of Advance Auto Parts, Inc.
(8)	Filed on January 22, 2002 as an exhibit to Registration Statement on Form S–4 (No. 333–81180) of Advance Stores Company, Incorporated.
(9)	Filed on April 2, 2001 as an exhibit to the Quarterly Report on Form 10–Q of Discount.
(10)	Filed on February 6, 2002 as an exhibit to Registration Statement on Form S–1 (No. 333–82298) of Advance Auto Parts, Inc.
(11)	Filed on April 22, 2002 as an appendix to the Definitive Proxy Statement on Schedule 14A of Advance Auto Parts, Inc.

INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Stockholders of
Advance Auto Parts, Inc:
Roanoke, Virginia

We have audited the accompanying consolidated balance sheet of Advance Auto Parts, Inc. and subsidiaries (the Company) as of December 28, 2002, and the related statement of operations, stockholders' equity, and cash flows for the year then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of Advance Auto Parts, Inc. and subsidiaries as of December 29, 2001, and for the years ended December 30, 2000 and December 29, 2001 were audited by other auditors who have ceased operations. Those auditors expressed an unqualified opinion on those financial statements in their report dated March 5, 2002.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of Advance Auto Parts, Inc. and subsidiaries as of December 28, 2002, and the results of their operations and their cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

DELOITTE & TOUCHE LLP

McLean, Virginia
March 7, 2003

INDEPENDENT AUDITORS' REPORT ON ADDITIONAL INFORMATION

To the Board of Directors and Stockholders of
Advance Auto Parts, Inc:
Roanoke, Virginia

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The supplemental schedules listed in the table of contents as item 15(a)(2) are presented for the purpose of additional analysis and are not a required part of the basic consolidated financial statements. These schedules are the responsibility of the Company's management. Such 2002 schedules have been subjected to the auditing procedures applied in our audit of the basic 2002 consolidated financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic 2002 consolidated financial statements taken as a whole.

DELOITTE & TOUCHE LLP

McLean, Virginia
March 7, 2003

**THE FOLLOWING IS A COPY OF A REPORT PREVIOUSLY ISSUED BY
ARTHUR ANDERSEN LLP AND HAS NOT BEEN REISSUED BY ARTHUR ANDERSEN LLP.**

Report of Independent Public Accountants

To the Board of Directors and Stockholders of
Advance Auto Parts, Inc.:

We have audited the accompanying consolidated balance sheets of Advance Auto Parts, Inc. (a Delaware company) and subsidiaries (the Company), as of December 29, 2001, and December 30, 2000, and the related consolidated statements of operations, changes in stockholders' equity and cash flows for each of the three years in the period ended December 29, 2001. These financial statements and the schedules referred to below are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedules based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Advance Auto Parts, Inc. and subsidiaries as of December 29, 2001, and December 30, 2000, and the results of their operations and their cash flows for each of the three years in the period ended December 29, 2001, in conformity with accounting principles generally accepted in the United States.

As explained in Note 2 to the financial statements, effective December 31, 2000, the Company changed its method of accounting for certain cooperative advertising funds.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the index to financial statements and schedules are presented for purposes of complying with the Securities and Exchange Commission's rules and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of basic financial statements and, in our opinion, fairly state in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

ARTHUR ANDERSEN LLP

Greensboro, North Carolina,
March 5, 2002.

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
December 28, 2002 and December 29, 2001
(in thousands, except per share data)

	December 28, 2002	December 29, 2001
<u>Assets</u>		
Current assets:		
Cash and cash equivalents	\$ 13,885	\$ 18,117
Receivables, net	102,574	93,704
Inventories	1,048,803	982,000
Other current assets	20,210	42,027
Total current assets	1,185,472	1,135,848
Property and equipment, net of accumulated depreciation of \$313,841 and \$239,204	728,432	711,282
Assets held for sale	28,346	60,512
Other assets, net	22,975	42,973
	\$ 1,965,225	\$ 1,950,615
<u>Liabilities and Stockholders' Equity</u>		
Current liabilities:		
Bank overdrafts	\$ 869	\$ 34,748
Current portion of long-term debt	10,690	23,715
Accounts payable	470,740	429,041
Accrued expenses	208,176	176,218
Other current liabilities	32,101	30,027
Total current liabilities	722,576	693,749
Long-term debt	724,832	932,022
Other long-term liabilities	49,461	36,273
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, nonvoting, \$0.0001 par value, 10,000 shares authorized; no shares issued or outstanding	—	—
Common stock, voting, \$0.0001 par value, 100,000 shares authorized; 35,735 and 32,692 issued and outstanding	4	3
Additional paid-in capital	610,195	496,538
Stockholder subscription receivables	(976)	(2,676)
Accumulated comprehensive loss	(592)	—
Accumulated deficit	(140,275)	(205,294)
Total stockholders' equity	468,356	288,571
	\$ 1,965,225	\$ 1,950,615

The accompanying notes to consolidated financial statements
are an integral part of these balance sheets.

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS
For the Years Ended December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands, except per share data)

	Fiscal Years Ended		
	2002	2001	2000
Net sales	\$ 3,287,883	\$ 2,517,639	\$ 2,288,022
Cost of sales, including purchasing and warehousing costs	1,839,889	1,441,613	1,392,127
Expenses associated with supply chain initiatives	—	9,099	—
Gross profit	1,447,994	1,066,927	895,895
Selling, general and administrative expenses	1,210,477	947,531	801,521
Expenses associated with supply chain initiatives	—	1,394	—
Impairment of assets held for sale	—	12,300	856
Expenses associated with merger and integration	34,935	1,135	—
Expenses associated with merger related restructuring	597	3,719	—
Non-cash stock option compensation expense	—	11,735	729
Operating income	201,985	89,113	92,789
Other, net:			
Interest expense	(78,219)	(61,895)	(66,640)
Expenses associated with secondary offering	(1,733)	—	—
Other income, net	1,158	1,283	1,012
Total other, net	(78,794)	(60,612)	(65,628)
Income before provision for income taxes, extraordinary items, and cumulative effect of a change in accounting principle	123,191	28,501	27,161
Provision for income taxes	47,799	11,312	10,535
Income before extraordinary items and cumulative effect of a change in accounting principle	75,392	17,189	16,626
Extraordinary items, (loss) gain on debt extinguishment, net of \$6,449, \$2,424 and (\$1,759) income taxes, respectively	(10,373)	(3,682)	2,933
Cumulative effect of a change in accounting principle, net of a \$1,360 income tax benefit	—	(2,065)	—
Net income	\$ 65,019	\$ 11,442	\$ 19,559

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

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF OPERATIONS – (Continued)
For the Years Ended December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands, except per share data)

	Fiscal Years Ended		
	2002	2001	2000
Net income (loss) per basic share from:			
Income before extraordinary items and cumulative effect of a change in accounting principle	\$ 2.15	\$ 0.60	\$ 0.59
Extraordinary items, (loss) gain on debt extinguishment	(0.29)	(0.13)	0.10
Cumulative effect of a change in accounting principle	—	(0.07)	—
	<u>\$ 1.86</u>	<u>\$ 0.40</u>	<u>\$ 0.69</u>
Net income (loss) per diluted share from:			
Income before extraordinary items and cumulative effect of a change in accounting principle	\$ 2.08	\$ 0.59	\$ 0.58
Extraordinary items, (loss) gain on debt extinguishments	(0.28)	(0.13)	0.10
Cumulative effect of a change in accounting principle	—	(0.07)	—
	<u>\$ 1.80</u>	<u>\$ 0.39</u>	<u>\$ 0.68</u>
Average common shares outstanding	35,049	28,637	28,296
Dilutive effect of stock options	1,139	521	315
	<u>36,188</u>	<u>29,158</u>	<u>28,611</u>
Pro forma effect of change in accounting principle:			
Income before extraordinary items and cumulative effect of a change in accounting principle	\$ 17,189	\$ 16,391	
Per basic share	\$ 0.60	\$ 0.58	
Per diluted share	\$ 0.59	\$ 0.57	
Net income	<u>\$ 13,507</u>	<u>\$ 19,324</u>	
Per basic share	\$ 0.47	\$ 0.68	
Per diluted share	\$ 0.46	\$ 0.68	

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

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
For the Years Ended December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands)

	Preferred Stock		Common Stock		Additional Paid-in Capital	Stockholder Subscription Receivable	Accumulated Comprehensive Loss	Accumulated Deficit	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance, January 1, 2000	—	\$ —	28,144	\$ 3	\$ 371,754	\$ (2,008)	\$ —	\$ (235,795)	\$ 133,954
Net income	—	—	—	—	—	—	—	19,559	19,559
Non-cash stock option compensation expense	—	—	—	—	729	—	—	—	729
Other	—	—	145	—	2,726	(356)	—	(341)	2,029
Balance, December 30, 2000	—	\$ —	28,289	\$ 3	\$ 375,209	\$ (2,364)	\$ —	\$ (216,577)	\$ 156,271
Net income	—	—	—	—	—	—	—	11,442	11,442
Discount acquisition	—	—	4,310	—	107,129	—	—	—	107,129
Non-cash stock option compensation expense	—	—	—	—	11,735	—	—	—	11,735
Other	—	—	93	—	2,465	(312)	—	(159)	1,994
Balance, December 29, 2001	—	\$ —	32,692	\$ 3	\$ 496,538	\$ (2,676)	\$ —	\$ (205,294)	\$ 288,571
Net income	—	—	—	—	—	—	—	65,019	65,019
Unrealized loss on hedge arrangement	—	—	—	—	—	—	(592)	—	(592)
Comprehensive income	—	—	—	—	—	—	—	—	64,427
Issuance of common stock, net of \$1,369 in related expenses	—	—	2,250	1	88,653	—	—	—	88,654
Issuance of shares upon the exercise of stock options	—	—	779	—	17,369	—	—	—	17,369
Tax benefit related to exercise of stock options	—	—	—	—	6,968	—	—	—	6,968
Stock issued under employee stock purchase plan	—	—	14	—	667	—	—	—	667
Payments received on repayments of management loans	—	—	—	—	—	1,700	—	—	1,700
Balance, December 28, 2002	—	\$ —	35,735	\$ 4	\$ 610,195	\$ (976)	\$ (592)	\$ (140,275)	\$ 468,356

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

ADVANCE UPTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
For the Years Ended December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands)

	Fiscal Years Ended		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 65,019	\$ 11,442	\$ 19,559
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	94,090	71,231	66,826
Stock option compensation expense	—	11,735	729
Amortization of deferred debt issuance costs	3,536	3,121	3,276
Amortization of bond discount	13,076	11,468	9,853
Amortization of interest on capital lease obligation	—	—	42
Compensation for stock issued under the employee stock purchase plan	667	—	—
(Gain) loss on disposal of property and equipment, net	(1,838)	2,027	885
Impairment of assets held for sale	—	12,300	856
Provision (benefit) for deferred income taxes	57,875	(3,023)	683
Tax benefit related to exercise of stock options	6,968	—	—
Extraordinary loss (gain) on extinguishment of debt, net of tax	10,373	3,682	(2,933)
Cumulative effect of a change in accounting principle, net of tax	—	2,065	—
Net (increase) decrease in:			
Receivables, net	(6,610)	3,073	19,676
Inventories, net	(69,481)	13,101	(39,467)
Other assets	(9,824)	172	14,921
Net increase (decrease) in:			
Accounts payable	41,699	(17,663)	46,664
Accrued expenses	34,110	(5,106)	(29,540)
Other liabilities	3,336	(16,089)	(8,079)
Net cash provided by operating activities	242,996	103,536	103,951
Cash flows from investing activities:			
Purchases of property and equipment	(98,186)	(63,695)	(70,566)
Acquisitions, net of cash acquired	(13,176)	(389,953)	—
Proceeds from sales of property and equipment	33,357	2,640	5,626
Net cash used in investing activities	(78,005)	(451,008)	(64,940)
Cash flows from financing activities:			
(Decrease) increase in bank overdrafts	(33,879)	5,679	1,884
Repayments (borrowings) under notes payable	—	(784)	784
Early extinguishment of debt	(464,991)	(270,299)	(24,990)
Borrowings under credit facilities	308,100	697,500	278,100
Payments on credit facilities	(66,400)	(254,701)	(306,100)
Repayment of industrial development revenue bonds	(10,000)	—	—
Proceeds from issuance of subordinated notes	—	185,604	—
Payment of debt related costs	(10,955)	(17,984)	—
Proceeds from (repurchases of) stock transactions under subscription plan	1,700	(550)	1,602
Proceeds from issuance of common stock, net of related expenses	88,658	—	—
Proceeds from exercise of stock options	17,369	2,381	—
Increase in borrowings secured by trade receivables	1,175	734	5,141
Net cash (used in) provided by financing activities	(169,223)	347,580	(43,579)
Net (decrease) increase in cash and cash equivalents	(4,232)	108	(4,568)
Cash and cash equivalents, beginning of period	18,117	18,009	22,577

Cash and cash equivalents, end of period	\$	13,885	\$	18,117	\$	18,009
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The accompanying notes to consolidated financial statements
are an integral part of these statements.

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS – (Continued)
For the Years Ended December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands)

	Fiscal Years Ended		
	2002	2001	2000
Supplemental cash flow information:			
Interest paid	\$ 60,081	\$ 41,480	\$ 51,831
Income tax refunds (payments), net	2,910	(15,452)	6,175
Non-cash transactions:			
Accrued purchases of property and equipment	15,818	10,725	9,299
Note receivable upon disposal of property and equipment	925	—	—
Unrealized loss on hedge arrangement	(592)	—	—
Issuance of common stock and stock options – Discount acquisition	—	107,129	—
Accrued debt issuance costs	—	2,156	—
Equity transactions under the stockholder subscription and employee stock option plans	—	411	1,281
Conversion of capital lease obligation	—	—	3,509

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

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands, except per share data)

1. Organization and Description of Business:

Advance Auto Parts, Inc. ("Advance") conducts all of its operations through its wholly owned subsidiary, Advance Stores Company, Incorporated and its subsidiaries ("Stores"). Advance and Stores (collectively, the "Company") maintain a Retail and Wholesale segment within the United States, Puerto Rico and the Virgin Islands. The Retail segment operates 2,435 stores, which includes 2,000 stores operating under the "Advance Auto Parts" trade name in 37 states in the Northeastern, Southeastern and Midwestern regions of the United States. In Florida, this segment operates 51 stores under the new "Advance Discount Auto Parts" trade name and 347 stores under the "Discount Auto Parts" trade name. These stores offer automotive replacement parts, accessories and maintenance items, with no significant concentration in any specific area. In addition, the Retail segment operates 37 stores under the "Western Auto" trade name, located primarily in Puerto Rico and the Virgin Islands, which offer certain home and garden merchandise in addition to automotive parts, accessories and service. The Wholesale segment consists of the wholesale operations, including distribution services to approximately 415 independent dealers located throughout the United States, primarily operating under the "Western Auto" trade name.

2. Summary of Significant Accounting Policies:

Accounting Period

The Company's fiscal year ends on the Saturday nearest the end of December.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Use of Estimates

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

Cash, Cash Equivalents and Bank Overdrafts

Cash and cash equivalents consist of cash in banks and money market funds. Bank overdrafts include net outstanding checks not yet presented to a bank for settlement.

Vendor Incentives and Change in Accounting Method

The Company receives incentives from vendors related to cooperative advertising allowances, volume rebates and other functional discounts. Many of the incentives are under long-term agreements (terms in excess of one year), while others are negotiated on an annual basis. Certain vendors require the Company to use cooperative advertising allowances exclusively for advertising. The Company defines these allowances as restricted cooperative advertising allowances and recognizes them as a reduction to selling, general and administrative expenses as advertising expenditures are incurred. The remaining cooperative advertising allowances not restricted by the Company's vendors, or unrestricted, rebates and other functional incentives are earned based on purchases and/or the sale of product. The Company records unrestricted cooperative advertising and volume rebates earned as a reduction of inventory and recognizes the incentives as a reduction to cost of sales as the inventory is sold.

The Company recognizes the functional incentives earned related to long-term agreements as a reduction of cost

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
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of sales over the life of the agreement based on the timing of purchases. These incentives are not recorded as reductions to inventory. The functional amounts earned under long-term arrangements are based on estimates of total purchases that will be made over the life of the contracts and the amount of incentives that will be earned. These incentives are generally recognized based on the cumulative purchases as a percentage of total estimated purchases over the life of the contract. The Company's margins could be impacted positively or negatively if actual purchases or results from any one year differ from its estimates but over the life of the contract would be the same. Short-term incentives are recognized as a reduction to cost of sales over the course of the annual agreement and are not recorded as reductions to inventory.

Amounts received or receivable from vendors that are not yet earned are reflected as deferred revenue in the accompanying consolidated balance sheets. Management's estimate of the portion of deferred revenue that will be realized within one year of the balance sheet date has been included in other current liabilities in the accompanying consolidated balance sheets. Total deferred revenue is \$20,592 and \$17,046 at December 28, 2002 and December 29, 2001. Earned amounts that are receivable from vendors are included in receivables, net on the accompanying consolidated balance sheets.

Effective December 31, 2000, the Company changed its method of accounting for unrestricted cooperative advertising funds received from certain vendors to recognize these payments as a reduction to the cost of inventory acquired from these vendors. Previously, these funds were accounted for as a reduction to selling, general and administrative expenses as advertising expense was incurred. The new method was adopted to better align the reporting of these payments with the Company's and the vendors' use of these payments as reductions to the price of inventory acquired from the vendors. The effect of the change in fiscal 2001 was to increase income from continuing operations by \$358, or \$0.01 per diluted share. The cumulative effect of retroactive application of the change on the year ended December 29, 2001, was to reduce income before extraordinary item by approximately \$2,065, net of \$1,360 income tax, or \$0.07 per share. The pro forma amounts shown on the statement of operations have been adjusted for the effect of retroactive application of the new method on net income and related income taxes for all periods presented.

Preopening Expenses

Preopening expenses, which consist primarily of payroll and occupancy costs, are expensed as incurred.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense incurred was approximately \$69,637, \$56,698, and \$53,658 in fiscal 2002, 2001 and 2000, respectively.

Merger and Integration Costs

As a result of the Western merger and the Discount acquisition, the Company incurred, and will continue to incur through fiscal 2003 in connection with the Discount acquisition, costs related to, among other things, overlapping administrative functions and store conversions, all of which have been expensed as incurred. These costs are presented as expenses associated with the merger and integration in the accompanying statements of operations.

Warranty Costs

The Company's vendors are primarily responsible for warranty claims. Warranty costs relating to merchandise and services sold under warranty, which are not covered by vendors' warranties, are estimated based on the Company's historical experience and are recorded in the period the product is sold.

Revenue Recognition and Trade Receivables

The Company recognizes merchandise revenue at the point of sale to customers in the retail segment and point

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of shipment to a wholesale segment customer. Service revenue is recognized upon performance of the service. The majority of sales are made for cash; however, the Company extends credit to certain commercial customers through a third-party provider of private label credit cards. Receivables under the private label credit card program are transferred to the third-party provider on a limited recourse basis. The Company provides an allowance for doubtful accounts on receivables sold with recourse based upon factors related to credit risk of specific customers, historical trends and other information. This arrangement is accounted for as a secured borrowing. Receivables and the related secured borrowings under the private label credit card were \$17,575 and \$16,400 at December 28, 2002 and December 29, 2001, respectively, and are included in accounts receivable and other current liabilities, respectively, in the accompanying consolidated balance sheets.

Change in Accounting Estimate

In July of fiscal 2000, the Company adopted a change in an accounting estimate to reduce the depreciable lives of certain property and equipment on a prospective basis. The effect on operations was to increase depreciation expense by \$2,458 for fiscal 2000. At December 29, 2001, the effected assets were fully depreciated.

Earnings Per Share of Common Stock

Basic earnings per share of common stock has been computed based on the weighted-average number of common shares outstanding during the period. Diluted earnings per share of common stock reflects the increase in the weighted-average number of common shares outstanding assuming the exercise of outstanding stock options, calculated on the treasury stock method. There were 116, 509 and 1,566 antidilutive options for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively.

Hedge Activities

On September 25, 2002, the Company entered into a hedge agreement in the form of a zero-cost collar, which protects the Company from interest rate fluctuations in the LIBOR rate on \$150,000 of the Company's variable rate debt under its senior credit facility. The collar consists of an interest rate ceiling at 4.5% and an interest rate floor of 1.56% for a term of twenty-four months. Under this hedge, the Company will continue to pay interest at prevailing rates plus any spread, as defined by the senior credit facility, but will be reimbursed for any amounts paid on the LIBOR rate, in excess of the ceiling. Conversely, the Company will be required to pay the financial institution that originated the collar if the LIBOR rate is less than the floor.

In March 2003 and in conjunction with the restatement and amending of the senior credit facility, the Company entered into two interest rate swap agreements on an aggregate of \$125,000 of its variable rate debt. The first swap allows the Company to fix its LIBOR rate at 2.269% thereby limiting its cash flow risk on \$75,000 of debt for a term of 36 months. The remaining swap allows the Company to fix its LIBOR rate at 1.79% limiting its cash flow risk on an additional \$50,000 of debt for a term of 24 months.

In accordance with Statement of Financial Accounting Standard, or SFAS, No. 133, "Accounting for Derivative Instruments and Hedging Activities," the fair value of the hedge arrangement is recorded as an asset or liability in the accompanying consolidated balance sheet at December 28, 2002. The Company has assumed no ineffectiveness in this hedge and plans to use the "matched terms" accounting method as provided by Derivative Implementation Group, or DIG, Issue No. G20, "Assessing and Measuring the Effectiveness of a Purchased Option Used in a Cash Flow Hedge". Under this method, the Company will include all adjustments to fair value in accumulated comprehensive income (loss) within stockholders' equity on the consolidated balance sheet. The fair value at December 28, 2002 was an unrecognized loss of \$592. Any amounts received or paid under this hedge will be recorded in the statement of operations as earned or incurred.

Recent Accounting Pronouncements

In June 2001, the Financial Accounting Standards Board, or FASB, issued SFAS No. 141, "Business Combinations" and No. 142, "Goodwill and Other Intangible Assets," SFAS No. 141 addresses accounting and

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reporting for all business combinations and requires the use of the purchase method for business combinations. SFAS No. 141 also requires recognition of intangible assets apart from goodwill if they meet certain criteria. SFAS No. 142 establishes accounting and reporting standards for acquired goodwill and other intangible assets. Under SFAS No. 142, goodwill and intangibles with indefinite useful lives are no longer amortized but are instead subject to at least an annual assessment for impairment by applying a fair-value based test. SFAS No. 141 applies to all business combinations initiated after June 30, 2001. SFAS No. 142 is effective for existing goodwill and intangible assets beginning as of December 30, 2001. SFAS No. 142 is effective immediately for goodwill and intangibles acquired after June 30, 2001. For fiscal year 2001, the Company had amortization expense of approximately \$444 related to existing goodwill of \$3,251 at December 29, 2001. Such amortization has been eliminated upon adoption of SFAS No. 142. The Company implemented SFAS No. 142 during the first quarter of 2002. The implementation had no material impact on the Company's financial position or the results of its operations.

In June 2001, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 143, "Accounting for Asset Retirement Obligations." SFAS No. 143 establishes accounting standards for recognition and measurement of an asset retirement obligation and an associated asset retirement cost. This statement applies to all entities that have legal obligations associated with the retirement of long-lived assets that result from the acquisition, construction, development or normal use of the assets and is effective for fiscal years beginning after June 15, 2002. The Company does not expect SFAS No. 143 to have a material impact on its financial position or results of operations.

In August 2001, the FASB also issued SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets." This statement replaces both SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of" and Accounting Principles Board (APB) Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions." SFAS 144 retains the basic provisions from both SFAS 121 and APB 30, but includes changes to improve financial reporting and comparability among entities. The provisions of SFAS 144 are effective for fiscal years beginning after December 15, 2001. The Company adopted SFAS No. 144 with no material effect on its financial position or the results of its operations.

In April 2002, the FASB issued SFAS No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13 and Technical Corrections." As a result of rescinding FASB Statement No. 4, "Reporting Gains Losses from Extinguishment of Debt," gains and losses from extinguishment of debt should be classified as extraordinary items only if they meet the criteria in APB No. 30. This statement also amends FASB Statement No. 13, "Accounting for Leases," to eliminate an inconsistency between the required accounting for sale-leaseback transactions and the required accounting for certain lease modifications that have economic effects that are similar to sale-leaseback transactions. Additional amendments include changes to other existing authoritative pronouncements to make various technical corrections, clarify meanings or describe their applicability under changed conditions. The Company will adopt the provisions of SFAS No. 145 during the first quarter of fiscal 2003. For the fiscal year ended 2002, the Company recorded extraordinary losses on the extinguishment of debt, net of tax, of \$10,373. Accordingly, reclassifications of these losses to income from continuing operations will be made throughout fiscal 2003 to maintain comparability for the reported periods.

In June 2002, the FASB issued SFAS No. 146, "Accounting for Costs Associated with Exit or Disposal Activities." This statement nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)." This statement requires that a liability for costs associated with an exit or disposal activity be recognized when the liability is incurred instead of at the date an entity commits to an exit plan. The statement is effective for exit and disposal activities entered into after December 31, 2002. The Company does not expect adopting this statement will have a material impact on its financial position or the results of its operations.

In September 2002 (as subsequently updated in November), the FASB released EITF Issue No. 02-16, "Accounting by a Reseller for Cash Consideration Received from a Vendor." This EITF addresses how a reseller should account for consideration received from a vendor since EITF Issue No. 01-9, "Accounting for Consideration

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Given by a Vendor to a Customer” only addresses the accounting treatment from the vendor’s perspective. The consensus is that cash received from a vendor is presumed to be a reduction of the vendor’s products or services and should, therefore, be characterized as a reduction in the cost of sales when recognized in the customer’s income statement, unless a reimbursement of costs is incurred by the customer to sell the vendor’s products, in which case the cash consideration should be characterized as a reduction of that cost when recognized in the customer’s income statement. Additionally, any rebate or refund should also be recognized as a reduction of the cost of sales based on a systematic and rational allocation. The release is effective for fiscal periods beginning after December 15, 2002. The Company believes its current accounting policy for vendor incentives meets the requirements of this EITF and therefore the Company does not expect adopting this release will have a material impact on its financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, “Accounting for Stock–Based Compensation – Transition and Disclosure an amendment of FASB Statement No. 123.” This statement amends SFAS 123, “Accounting for Stock–Based Compensation” to allow for alternative methods of transition for a voluntary change to the fair value based method of accounting for stock issued to team members. This statement also amends FASB No. 123 to require disclosure of the accounting method used for valuation in both annual and interim financial statements. This statement permits an entity to recognize compensation expense under the prospective method, modified prospective method or the retroactive restatement method. If an entity elects to adopt this statement, fiscal years beginning after December 15, 2003 must include this change in accounting for stock–based team member compensation. The Company is currently evaluating the effect of voluntarily adopting the fair value provisions of SFAS No. 123 and will elect a transition method if the fair value method is adopted.

In November 2002, the FASB issued Interpretation No. 45, “Guarantor’s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others.” This interpretation sets forth expanded disclosure requirements in the financial statements about a guarantor’s obligations under certain guarantees that it has issued. It also clarifies that, under certain circumstances, a guarantor is required to recognize a liability for the fair value of the obligation at the inception of the guarantee. Certain types of guarantees, such as product warranties, guarantees accounted for as derivatives, and guarantees related to parent–subsidiary relationships are excluded from the liability recognition provisions of Interpretation No. 45, however, they are subject to the disclosure requirements. The initial liability recognition provisions are applicable on a prospective basis to guarantees issued or modified after December 31, 2002. The disclosure requirements of Interpretation No. 45 are effective for financial statements for interim or annual periods ending after December 15, 2002. The Company has no guarantees of third party indebtedness and it does not believe the adoption of these new rules will have a material impact on its financial position or results of operations.

In January 2003, the FASB issued Interpretation No. 46, “Consolidation of Variable Interest Entities,” an interpretation of Accounting Research Bulletin No. 51, “Consolidated Financial Statements.” Interpretation No. 46 prescribes how to identify variable interest entities and how an enterprise assesses its interests in a variable interest entity to decide whether to consolidate that entity. This interpretation requires existing unconsolidated variable interest entities to be consolidated by their primary beneficiaries if the entities do not effectively disperse risks among parties involved. Interpretation No. 46 is effective immediately for variable interest entities created after January 31, 2003, and to variable interest entities in which an enterprise obtains an interest after that date. The interpretation applies in the first fiscal year or interim period beginning after June 15, 2003, to variable interest entities in which an enterprise holds a variable interest that it acquired before February 1, 2003. The Company does not have interests in variable interest entities and it does not believe the adoption of Interpretation No. 46 will have a material impact on its financial position or results of operations.

Reclassifications

Certain items in the fiscal 2001 financial statements have been reclassified to conform with the fiscal 2002 presentation.

3. Acquisitions:

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Discount Acquisition

On November 28, 2001, the Company acquired 100% of the outstanding common stock of Discount Auto Parts, Inc. (“Discount”). Discount’s shareholders received \$7.50 per share in cash plus 0.2577 shares of Advance common stock for each share of Discount common stock. The Company issued 4,310 shares of Advance common stock to the former Discount shareholders, which represented 13.2% of the Company’s total shares outstanding immediately following the acquisition.

Discount was the fifth largest specialty retailer of automotive parts, accessories and maintenance items in the United States with 671 stores in six states, including the leading market position in Florida, with 437 stores. The Discount acquisition further solidified the Company’s leading market position throughout the Southeast.

In connection with the Discount acquisition, the Company issued an additional \$200,000 face value of 10.25% senior subordinated notes and entered into a new senior credit facility that provides for (1) a \$180,000 tranche A term loan facility and a \$305,000 tranche B term loan facility and (2) a \$160,000 revolving credit facility (including a letter of credit sub-facility). Upon the closing of the Discount acquisition, the Company used \$485,000 of borrowings under the new senior credit facility and net proceeds of \$185,600 from the sale of the senior subordinated notes to, among other things, pay the cash portion of the acquisition consideration, repay all amounts outstanding under the Company’s then-existing credit facility, repay all outstanding indebtedness of Discount and purchase Discount’s Gallman distribution facility from the lessor. The Company has since amended and restated the senior credit facility as discussed in note 12.

In accordance with SFAS No. 141, the acquisition has been accounted for under the purchase method of accounting and was effective for accounting purposes on December 2, 2001. Accordingly, the results of operations of Discount for the period from December 2, 2001 are included in the accompanying consolidated financial statements. The purchase price has been allocated to the assets acquired and liabilities assumed based upon estimates of fair values. Negative goodwill of \$75,724, resulting from excess fair value over the purchase price, was allocated proportionately as a reduction to certain noncurrent assets, primarily property and equipment. During the fiscal year ended December 28, 2002, the Company reduced the excess fair value by \$16,961 due to purchase accounting adjustments primarily made to adjust the fair market value of certain inventory, equipment, the related deferred income tax effects and to reduce certain severance and relocation liabilities. The purchase price was \$481,688 (including acquisition costs incurred during the fiscal year ended December 28, 2002 of \$711), which primarily consisted of the issuance of 4,310 shares of Advance common stock and 575 options to purchase shares of Advance common stock, cash consideration for \$7.50 per share and the “in the money” stock options of \$128,479, repayment of Discount’s existing debt and prepayment penalties of \$204,711 and the purchase of Discount’s Gallman distribution facility from the lessor for \$34,062. The cost assigned to the 4,310 shares of common stock is \$106,025 and was determined based on the market price of Discount’s common stock on the approximate announcement date of the acquisition. The cost assigned to the 575 options to purchase common stock is \$1,104 and was determined using the Black-Scholes option-pricing model with the following assumptions: (i) risk-free interest rate of 3.92%; (ii) an expected life of two years; (iii) a volatility factor of .40; (iv) a fair value of common stock of \$24.60; and (v) expected dividend yield of zero. The following table summarizes the amounts assigned to assets acquired and liabilities assumed at the date of the acquisition, including additional purchase accounting adjustments through December 28, 2002.

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		December 2, 2001
Current Assets:		
Cash and cash equivalents	\$	6,030
Receivables, net		16,926
Inventories		178,671
Other current assets		35,143
Property and equipment		333,479
Assets held for sale		29,525
Other assets (a)		9,891
		609,665
Current liabilities:		
Bank overdrafts		(15,470)
Accounts payable		(58,852)
Current liabilities (b)		(52,450)
Other long-term liabilities (b)		(1,205)
		(127,977)
Total liabilities assumed		(127,977)
Net assets acquired	\$	481,688
		481,688

(a) Includes \$1,731 assigned to the Discount trade dress with a useful life of approximately 3 years.

(b) Includes restructuring liabilities established in purchase accounting of approximately \$8,251 for severance and relocation costs, facility and other exit costs.

Total acquisition costs related to the transaction were approximately \$9,515. For the fiscal years ended December 28, 2002 and December 29, 2001, the Company incurred \$35,532 and \$4,854, respectively, of merger and integration and merger-related restructuring expenses. These expenses represent non-recurring costs associated with integrating the Discount operations.

The following unaudited pro forma information presents the results of operations of the Company as if the acquisition had taken place at the beginning of the applicable period:

	Years Ended	
	2001	2000
Net sales	\$ 3,144,694	\$ 2,928,036
Income before extraordinary item	26,011	33,858
	\$ 0.80	\$ 1.04
Income before extraordinary item per basic share		
Income before extraordinary item per diluted share	\$ 0.78	\$ 1.03

The proforma amounts give effect to certain adjustments, including changes in interest expense, depreciation and amortization and related income tax effects. These amounts are based on certain assumptions and estimates and do not reflect any benefit from economies, which might be achieved from combined operations. Additionally, these results include the non-recurring items separately disclosed in the accompanying consolidated statements of operations. The proforma results of operations have been prepared for comparative purposes only and do not purport

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to be indicative of the results of operations which actually would have resulted had the Discount acquisition occurred on the date indicated, or which may result in the future.

Trak Acquisition

On July 23, 2002, the Company announced that it had received bankruptcy court approval to acquire certain assets of Trak Auto Corporation, or Trak, including the leases on 55 stores in Virginia, Washington, D.C. and Maryland. On September 20, 2002, the Company agreed to acquire two additional Trak stores. The acquisition has been accounted for under the purchase method of accounting and, accordingly, each store's results of operations has been included in the Company's financial records from the date each store was transferred to the Company. Negative goodwill of \$1,687, resulting from excess fair value over the purchase price, was allocated proportionately as a reduction to certain noncurrent assets. As of December 28, 2002, the Company had taken ownership and converted all 57 stores, assumed the respective lease obligations and had paid \$12,465 for inventory and fixtures.

Carport Acquisition

On April 23, 2001, the Company completed its acquisition of Carport Auto Parts, Inc., or Carport. The acquisition included a net 30 retail stores located in Alabama and Mississippi, and substantially all of the assets used in Carport's operations. The acquisition has been accounted for under the purchase method of accounting and, accordingly, Carport's results of operations have been included in the Company's consolidated statement of operations since the acquisition date.

The purchase price of \$21,533 has been allocated to the assets acquired and the liabilities assumed based on their fair values at the date of acquisition. This allocation resulted in the recognition of \$3,695 in goodwill, of which \$444 was amortized during fiscal 2001.

4. Restructuring and Closed Store Liabilities:

The Company's restructuring activities relate to the ongoing analysis of the profitability of store locations and the settlement of restructuring activities undertaken as a result of mergers and acquisitions, including the fiscal 1998 merger with Western Auto Supply Company, or Western, and the fiscal 2001 acquisitions of Carport and Discount. The Company recognizes a provision for future obligations at the time a decision is made to close a facility, primarily store locations. The provision for closed facilities includes the present value of the remaining lease obligations, reduced by the present value of estimated revenues from subleases, and management's estimate of future costs of insurance, property tax and common area maintenance. The Company uses discount rates ranging from 5.0% to 7.7%. Expenses associated with the ongoing restructuring program are included in selling, general and administrative expenses in the accompanying consolidated statements of operations. From time to time these estimates require revisions that affect the amount of the recorded liability. The effect of these changes in estimates is netted with new provisions and included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Closed Store Liabilities

During fiscal 2002, the Company closed or relocated 11 of the 12 stores identified in fiscal 2001 as not meeting profitability objectives and decided to close or relocate 57 additional stores that did not meet profitability objectives, 36 of which were closed at December 28, 2002. As part of the integration of Discount, the Company has closed all of the Advance Auto Parts stores that were identified in overlapping markets with certain Discount Auto Parts stores at December 29, 2001.

In connection with the Western merger and the Discount acquisition, the Company assumed the restructuring reserves related to the acquired operations. As of December 28, 2002, these restructuring reserves relate primarily to ongoing lease obligations for closed store locations.

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A reconciliation of activity with respect to these restructuring accruals is as follows:

	<u>Severance</u>	<u>Other Exit Costs</u>	<u>Total</u>
Balance, January 1, 2000	\$ 18	\$ 9,963	\$ 9,981
New provisions	—	1,768	1,768
Change in estimates	—	(95)	(95)
Reserves utilized	(18)	(4,848)	(4,866)
Balance, December 30, 2000	—	6,788	6,788
New provisions	475	8,285	8,760
Change in estimates	—	11	11
Reserves utilized	(475)	(5,441)	(5,916)
Balance, December 29, 2001	—	9,643	9,643
New provisions	—	3,808	3,808
Change in estimates	—	725	725
Reserves utilized	—	(5,284)	(5,284)
Balance, December 28, 2002	\$ —	\$ 8,892	\$ 8,892

As of December 28, 2002, these accruals represent the current value required for certain facility exit costs, which will be settled over the remaining terms of the underlying lease agreements. All of these reserves are utilized through the settlement of the corresponding liabilities with cash provided by operations and therefore do not affect the Company's consolidated statement of operations. This liability, along with those associated with mergers and acquisitions, is recorded in accrued expenses (current portion) and other long-term liabilities (long-term portion) in the accompanying consolidated balance sheets.

Restructuring Associated with Mergers and Acquisitions

As a result of the Western merger, the Company established restructuring reserves in connection with the decision to close certain retail stores, to relocate certain Western administrative functions, to exit certain facility leases and to terminate certain team members of Western. Additionally, the Carport acquisition resulted in restructuring reserves for closing certain acquired stores not expected to meet long-term profitability objectives and the termination of certain administrative team members. At December 28, 2002, the remaining liabilities associated with these activities primarily relate to the settlement of facility exit costs.

As of the date of the Discount acquisition, management formalized a plan to close certain Discount Auto Parts stores in overlapping markets or stores not meeting the Company's profitability objectives, to relocate certain Discount administrative functions to the Company's headquarters and to terminate certain management, administrative and support team members of Discount. During the fiscal year ended December 28, 2002, the Company reduced its purchase price liabilities for severance and relocation costs by \$3,348, primarily for voluntary terminations and certain Discount team members that accepted positions with the Company. The Company also reduced its purchase price liabilities for store and other exit costs by \$1,039 as a result of executing lease buyouts or subleases. At December 28, 2002, 109 Discount stores were closed, 107 of which were closed during fiscal 2002. The Company has completed the closure of Discount Auto Parts stores in overlapping markets. Additionally, the Company has finalized its plan for termination of Discount team members and expects to terminate the last team members in 2003.

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A reconciliation of activity with respect to these restructuring accruals is as follows:

	Severance	Relocation	Other Exit Costs	Total
Balance at January 1, 2000	\$ 3,510	\$ —	\$ 7,825	\$ 11,335
Purchase accounting adjustments	—	—	(1,261)	(1,261)
Reserves utilized	(3,510)	—	(2,767)	(6,277)
Balance at December 30, 2000	—	—	3,797	3,797
Purchase accounting adjustments	9,292	611	3,606	13,509
Reserves utilized	(837)	—	(2,500)	(3,337)
Balance at December 29, 2001	8,455	611	4,903	13,969
Purchase accounting adjustments	(3,129)	(219)	(1,039)	(4,387)
Reserves utilized	(3,674)	(367)	(1,238)	(5,279)
Balance at December 28, 2002	\$ 1,652	\$ 25	\$ 2,626	\$ 4,303

Other exit cost liabilities will be settled over the remaining terms of the underlying lease agreements. All of these reserves are utilized through the settlement of the corresponding liabilities with cash provided by operations and therefore do not affect the Company's consolidated statement of operations.

5. Receivables:

Receivables consist of the following:

	December 28, 2002	December 29, 2001
Trade:		
Wholesale	\$ 7,042	\$ 8,965
Retail	18,836	19,857
Vendor	67,057	55,179
Installment	15,409	15,430
Employees	749	683
Other	2,446	3,480
Total receivables	111,539	103,594
Less: Allowance for doubtful accounts	(8,965)	(9,890)
Receivables, net	\$ 102,574	\$ 93,704

6. Inventories, net

Inventories are stated at the lower of cost or market. Inventory quantities are tracked through a perpetual inventory system. The Company uses a cycle counting program in all distribution centers, Parts Delivered Quickly warehouses, or PDQs, and retail stores to ensure the accuracy of the perpetual inventory quantities and establishes reserves for estimated shrink based on historical accuracy and effectiveness of the cycle counting program. Cost was determined using the last-in, first-out ("LIFO") method for approximately 91% and 90% of inventories at December 28, 2002 and December 29, 2001, respectively, and the first-in, first-out ("FIFO") method for remaining inventories. The Company capitalizes certain purchasing and warehousing costs into inventory. Purchasing and warehousing

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costs included in inventory, at FIFO, at December 28, 2002 and December 29, 2001, were \$69,160 and \$69,398, respectively. The nature of the Company's inventory is such that the risk of obsolescence is minimal. In addition, the Company has historically been able to return excess items to the vendor for credit. The Company does provide reserves where less than full credit will be received for such returns and where the Company anticipates that items will be sold at retail for prices that are less than recorded cost. Inventories consist of the following:

	December 28, 2002	December 29, 2001
Inventories at FIFO, net	\$ 988,856	\$ 935,181
Adjustments to state inventories at LIFO	59,947	46,819
Inventories at LIFO, net	\$ 1,048,803	\$ 982,000

Replacement cost approximated FIFO cost at December 28, 2002 and December 29, 2001.

During the fourth quarter of fiscal 2001, the Company recorded a non-recurring expense of \$10,493 (\$9,099 in gross profit and \$1,394 in selling, general and administrative expenses) related to the Company's supply chain initiatives. These initiatives reduced the Company's overall inventory investment as a result of only offering selective products in specific store locations or regions. The gross profit charge relates primarily to restocking and handling fees associated with inventory identified for return to the Company's vendors. Additionally, the general and administrative expenses included costs associated with the relocation of certain equipment from a distribution facility closed as part of these initiatives. At December 28, 2002, inventories are stated net of the remaining allowance for the supply chain initiatives recorded through gross profit of \$1,745.

7. Property and Equipment:

Property and equipment are stated at cost, less accumulated depreciation and amortization. Expenditures for maintenance and repairs are charged directly to expense when incurred; major improvements are capitalized. When items are sold or retired, the related cost and accumulated depreciation are removed from the accounts, with any gain or loss reflected in the consolidated statements of operations.

Depreciation of land improvements, buildings, furniture, fixtures and equipment, and vehicles is provided over the estimated useful lives, which range from 2 to 40 years, of the respective assets using the straight-line method. Amortization of building and leasehold improvements is provided over the shorter of the original useful lives of the respective assets or the term of the lease using the straight-line method. Depreciation and amortization expense was \$94,090, \$70,745 and \$66,826 for the fiscal years ended 2002, 2001 and 2000, respectively.

Property and equipment consists of the following:

	Original Useful Lives	December 28, 2002	December 29, 2001
Land and land improvements	0 – 10 years	\$ 178,513	\$ 170,780
Buildings	40 years	209,457	199,304
Building and leasehold improvements	10 – 40 years	101,019	91,338
Furniture, fixtures and equipment	3 – 12 years	505,044	433,518
Vehicles	2 – 10 years	32,516	32,047
Other		15,724	23,499
		1,042,273	950,486
Less – Accumulated depreciation and amortization		(313,841)	(239,204)
Property and equipment, net		\$ 728,432	\$ 711,282

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The Company adopted the American Institute of Certified Public Accountant's Statement of Position 98-1, "Accounting for the Cost of Computer Software Developed or Obtained for Internal Use." This statement requires companies to capitalize certain expenditures related to development of or obtaining computer software for internal use. The Company capitalized approximately \$2,888, \$19,699 and \$9,400 in primarily third party costs incurred in the development of internal use computer software during fiscal 2002, fiscal 2001 and fiscal 2000, respectively.

8. Assets Held for Sale

The Company applies SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," which requires that long-lived assets and certain identifiable intangible assets to be disposed of be reported at the lower of the carrying amount or the fair market value less selling costs. At December 28, 2002 and December 29, 2001, the Company's assets held for sale were \$28,346 and \$60,512, respectively, primarily consisting of closed stores as a result of the Discount integration and a closed distribution center in the retail segment.

During fiscal 2001, the Company recorded an impairment charge of \$12,300, to reduce the carrying value of certain non-operating facilities to their estimated fair market value. \$4,700 of the charge represents the write-down of a closed distribution center acquired as part of the Western merger included in the Wholesale segment. \$4,600 represents the reduction in carrying value of the former Western Auto corporate office also acquired in the Western merger. Both of these facilities were disposed of in fiscal 2002. The remaining \$3,000 represents a reduction to the carrying value of a recently closed distribution center in Jeffersonville, Ohio, held in the Retail segment, that was identified for closure as part of the Company's supply chain initiatives. The carrying value for these properties included in assets held for sale was \$5,800 and \$13,800 at December 28, 2002 and December 29, 2001, respectively. The reduction in these book values represents the Company's best estimate of fair market value based on recent marketing efforts to attract buyers for these properties.

During fiscal 2000, the Company also recorded an impairment related to the Western Auto corporate office space. The impairment charge of \$856 reduced the carrying value to \$8,000.

9. Other Assets:

As of December 28, 2002 and December 29, 2001, other assets include deferred debt issuance costs of \$14,244 and \$25,790, respectively (net of accumulated amortization of \$5,837 and \$3,597, respectively), relating primarily to the financing in connection with the Discount acquisition and the fiscal 1998 recapitalization. Such costs are being amortized over the term of the related debt (5 years to 11 years). In March 2003, the Company amended and restated its senior credit facility to add incremental borrowings of \$350,000 and issued a call notice to repurchase and retire all of its currently outstanding senior subordinated notes and senior discount debentures. Accordingly, the Company will write-off \$9,278 in deferred debt issuance cost included in other assets. At December 29, 2001 other assets also include the non-current portion of deferred income tax assets.

10. Accrued Expenses:

Accrued expenses consist of the following:

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	<u>December 28, 2002</u>	<u>December 29, 2001</u>
Payroll and related benefits	\$ 75,767	\$ 58,656
Restructuring and closed store liabilities	5,992	15,879
Warranty	15,620	21,587
Other	110,797	80,096
	<u> </u>	<u> </u>
Total accrued expenses	<u>\$ 208,176</u>	<u>\$ 176,218</u>

11. Other Long-term Liabilities:

Other long-term liabilities consist of the following:

	<u>December 28, 2002</u>	<u>December 29, 2001</u>
Employee benefits	\$ 21,321	\$ 22,152
Restructuring and closed store liabilities	7,203	7,733
Other	20,937	6,388
	<u> </u>	<u> </u>
Total other long-term liabilities	<u>\$ 49,461</u>	<u>\$ 36,273</u>

12. Long-term Debt:

Long-term debt consists of the following:

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	December 28, 2002	December 29, 2001
Senior Debt:		
Tranche A, Senior Secured Term Loan at variable interest rates (3.69% at December 28, 2002), due November 2006	\$ 82,989	\$ 180,000
Tranche B, Senior Secured Term Loan at variable interest rates (7.00% at December 29, 2001), due November 2007	—	305,000
Tranche C, Senior Secured Term Loan at variable interest rates (3.69% at December 28, 2002), due November 2007	248,099	—
Revolving facility at variable interest rates (5.50% at December 28, 2002), due November 2006	1,700	10,000
McDuffie County Authority taxable industrial development revenue bonds, issued December 31, 1997, interest due monthly at an adjustable rate established by the Remarketing Agent (2.10% at December 29, 2001), repaid on November 1, 2002	—	10,000
Subordinated Debt:		
Senior subordinated notes payable, interest due semi-annually at 10.25%, due April 2008 (called March 2003)	151,450	169,450
Senior subordinated notes payable, interest due semi-annually at 10.25%, due April 2008, face amount of \$174,365 less unamortized discount of \$10,912 and \$14,087 at December 28, 2002 and December 29, 2001, respectively (called March 2003)	163,453	185,913
Senior discount debentures, interest at 12.875%, due April 2009, face amount of \$91,050 less unamortized discount of \$3,219 and \$16,626 at December 28, 2002 and December 29, 2001, respectively (called March 2003) (subordinate to Senior Debt)	87,831	95,374
	735,522	955,737
Less: Current portion of long-term debt	(10,690)	(23,715)
Long-term debt, excluding current portion	\$ 724,832	\$ 932,022

During 2002, the Company repaid a portion of its tranche A and tranche B term loan facilities and refinanced the remaining portion of its tranche B term loan facility under its existing senior credit facility by amending and restating the credit facility to add a new \$250,000 tranche C term loan facility. The borrowings under the tranche C term loan facility were used to refinance the tranche B term loan facility. The tranche B term loan facility was initially issued for \$305,000 in fiscal 2001 in connection with the Discount acquisition and had a balance of \$265,000 prior to the refinancing. In conjunction with the extinguishment of this debt, the Company wrote-off deferred financing costs in accordance with Emerging Issues Task Force Issue No. 96-19, "Debtor's Accounting for a Modification or Exchange of Debt Instruments". The write-off of these costs are classified as an extraordinary loss of \$5,228, net of \$3,314 income taxes, in the accompanying consolidated statements of operations. At December 28, 2002, the credit facility provided for (1) \$331,088 in term loans, consisting of a \$82,989 tranche A term loan facility and a \$248,099 tranche C term loan facility and (2) \$160,000 under a revolving credit facility (which provides for the issuance of letters of credit with a sublimit of \$35,000). As of December 28, 2002, the Company had borrowed \$1,700 under the revolving credit facility and had \$17,148 in letters of credit outstanding, which reduced availability under the credit facility to \$141,152.

The amended tranche A term loan facility amortization schedule currently reflects required repayments of \$1,428 on May 31, 2003, \$7,195 on November 30, 2003, \$11,449 in May and November 2004 and \$12,867 each May and November during 2005 and 2006 through maturity on November 30, 2006. Under the amended credit

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facility, the tranche C term loan facility requires scheduled repayments of \$2,067 semi-annually beginning November 30, 2003 through May 31, 2007, and the Company will be required to pay the remaining balance at maturity on November 30, 2007.

In March 2003, the Company amended and restated its senior credit facility to add incremental facilities of \$350,000 in the form of a tranche A-1 term loan facility of \$75,000 and a tranche C-1 term loan facility of \$275,000. The tranche A-1 term loan facility matures on November 30, 2006 and provides for amortization of \$1,290 on May 31, 2003, \$6,502 on November 30, 2003, \$10,348 in May and November 2004 and \$11,628 each May and November in 2005 and 2006 through maturity on November 30, 2006. The tranche C-1 term loan facility matures on November 30, 2007 and amortizes in semi-annual installments of \$2,292 for the four years commencing on November 30, 2003, with a final payment of \$256,664 due in November 2007. The amendment also modifies certain financial covenants and the existing pricing grid. The incremental facilities will be used to repurchase and retire the Company's currently outstanding senior subordinated notes and senior discount debentures.

The interest rates on the tranche A and A-1 term loan facilities, the revolving credit facility and the tranche C and C-1 term loan facilities are based, at the Company's option, on either an adjusted LIBOR rate, plus a margin, or an alternate base rate, plus a margin. Under the Company's senior credit facility as amended in March 2003, until its delivery of its financial statements for the third fiscal quarter ending on October 4, 2003, the initial margins for the tranche A and A-1 term loan facilities, the tranche C and C-1 term loan facilities and the revolving facility are 2.75% and 1.75% per annum for the adjusted LIBOR rate and alternate base rate borrowings, respectively. The margins subsequent to such date will be determined by a pricing grid based on the Company's leverage ratio at that time. If the Company's leverage ratio reduces to greater than or equal to 1.50 to 1.00 and less than 2.00 to 1.00 the margin applicable to each of the facilities will step down to a LIBOR spread of 2.50% per annum and down to 2.25% per annum if the Company achieves a leverage ratio of less than 1.50 to 1.00.

A commitment fee of 0.500% per annum is charged on the unused portion of the revolving credit facility, payable quarterly in arrears. The commitment fee applicable to the revolving credit facility will be reduced to 0.375% per annum at such time after delivering the Company's third quarter financial statements to the banks' administrative agent if its leverage ratio reduces to less than 2.00 to 1.00.

Borrowings under the senior credit facility are required to be prepaid, subject to certain exceptions, with (1) 50% of the Excess Cash Flow (as defined in the senior credit facility) unless the Company's Senior Leverage Ratio at the end of any fiscal year is less than or equal to 1.00 to 1.00, in which case 25% of Excess Cash Flow for such fiscal year will be required to be repaid, (2) 100% of the net cash proceeds of all asset sales or other dispositions of property by the Company and its subsidiaries, subject to certain exceptions (including exceptions for reinvestment of certain asset sale proceeds within 270 days of such sale and certain sale-leaseback transactions), and (3) 100% of the net proceeds of certain issuances of debt or equity by the Company and its subsidiaries.

Voluntary prepayments and voluntary reductions of the unutilized portion of the revolving credit facility are permitted in whole or in part, at the Company's option, in minimum principal amounts specified in the senior credit facility, without premium or penalty, subject to reimbursement of the lenders' redeployment costs in the case of a prepayment of adjusted LIBOR borrowings other than on the last day of the relevant interest period. Voluntary prepayments under the tranche A and A1 term loan facilities and the tranche C and C1 term loan facilities will (1) generally be allocated among those facilities on a pro rata basis (based on the then outstanding principal amount of the loans under each facility) and (2) within each such facility, be applied to the installments under the amortization schedule within the following 12 months under such facility and all remaining amounts will be applied pro rata to the remaining amortization payments under such facility.

The senior credit facility is guaranteed by the stores and by each of its existing domestic subsidiaries and will be guaranteed by all future domestic subsidiaries. The senior credit facility is secured by a first priority lien on substantially all, subject to certain exceptions, of the stores' properties and assets and the properties and assets of its existing domestic subsidiaries (including Discount and its subsidiaries) and will be secured by the properties and

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assets of its future domestic subsidiaries. The senior credit facility contains covenants restricting the ability of the Company and its subsidiaries to, among other things, (1) declare dividends or redeem or repurchase capital stock, (2) prepay, redeem or purchase debt, (3) incur liens or engage in sale-leaseback transactions, (4) make loans and investments, (5) incur additional debt (including hedging arrangements), (6) engage in certain mergers, acquisitions and asset sales, (7) engage in transactions with affiliates, (8) change the nature of the Company's business and the business conducted by its subsidiaries and (9) change the holding company status of Advance. The Company is required to comply with financial covenants with respect to a maximum leverage ratio, a minimum interest coverage ratio, a minimum current assets to funded senior debt ratio, a maximum senior leverage ratio and maximum limits on capital expenditures.

In November 2002, the Company repurchased the entire \$10,000 of indebtedness under the industrial development revenue bonds, from which the proceeds were used to construct one of the Company's distribution centers.

Subordinated Debt:

The 1998 Senior Subordinated Notes, or the Notes, and the 2001 Senior Subordinated Notes, or the New Notes, are both unsecured and are subordinate in right of payment to all existing and future Senior Debt. In March 2003, the Company executed a call notice for the currently outstanding Notes and New Notes. The New Notes accrete at an effective yield of 11.875% less cash interest of 10.250% through maturity in April 2008. As of December 28, 2002 and December 29, 2001, the New Notes have been accreted by \$1,788 and \$309, respectively, with corresponding interest expense of \$1,479 and \$309 for the fiscal years ended December 28, 2002 and December 29, 2001, respectively. The Notes and New Notes are redeemable at the option of the Company, in whole or in part, at any time on or after April 15, 2003.

Upon the occurrence of a change of control, each holder of the Notes and the New Notes will have the right to require the Company to repurchase all or any part of such holder's Notes and New Notes at an offering price in cash equal to 101 percent of the aggregate principal amount thereof plus accrued and unpaid interest and liquidated damages, if any, thereon to the date of purchase in the case of any such purchase prior to April 15, 2003.

The Notes and the New Notes contain various non-financial restrictive covenants that limit, among other things, the ability of the Company and its subsidiaries to issue preferred stock, repurchase stock and incur certain indebtedness, engage in transactions with affiliates, pay dividends or certain other distributions, make certain investments and sell stock of subsidiaries.

During fiscal 2002, the Company repurchased and retired a portion of the Notes and New Notes at prices ranging from 106 to 107 percent on the total face value purchased of \$43,635. The premiums paid and the write-off of the related deferred financing costs are classified as an extraordinary loss of \$3,619, net of \$2,295 income taxes, in the accompanying consolidated statements of operations.

During fiscal 2000, the Company repurchased on the open market \$30,550 face value of Notes at a price ranging from 81.5 to 82.5 percent of their face value. Accordingly, the Company recorded a gain related to the extinguishment of this debt of \$2,933, net of \$1,759 provided for income taxes and \$868 for the write off of the associated deferred debt issuance costs.

The Discount Debentures, or the Debentures, are subordinated to substantially all of the Company's other liabilities. In March 2003, the Company executed a call notice for the outstanding Debentures. The Debentures accrete at a rate of 12.875%, compounded semi-annually, to an aggregate principal amount of \$91,050 by April 15, 2003. Cash interest will not accrue on the Debentures prior to April 15, 2003. Commencing April 15, 2003, cash interest on the Debentures will accrue and be payable, at a rate of 12.875% per annum, semi-annually in arrears on each April 15 and October 15. As of December 28, 2002, the Debentures have been accreted by \$46,954 with corresponding interest expense of \$11,597, \$11,159 and \$9,853 recognized for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000. The Debentures are redeemable at the option of the Company, in whole or in part, at any time on or after April 15, 2003.

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Upon the occurrence of a change of control, each holder of the Debentures will have the right to require the Company to purchase the Debentures at a price in cash equal to 101% of the accreted value thereof plus liquidated damages, if any, thereon in the case of any such purchase prior to April 15, 2003, or 101% of the aggregate principal amount thereof, plus accrued and unpaid interest and liquidated damages, if any, thereon to the date of purchase in the case of any such purchase on or after April 15, 2003. As Advance may not have any significant assets other than capital stock of Stores (which is pledged to secure Advance's obligations under the senior credit facility), the Company's ability to purchase all or any part of the Debentures upon the occurrence of a change in control will be dependent upon the receipt of dividends or other distributions from Stores or its subsidiaries. The senior credit facility, the Notes and the New Notes have certain restrictions for Stores with respect to paying dividends and making any other distributions.

The Debentures contain certain non-financial restrictive covenants that are similar to the covenants contained in the Notes and the New Notes.

During fiscal 2002, the Company also repurchased and retired a portion of the Debentures at prices ranging from 100 to 105 percent of the total face value purchased of \$20,950. The premiums paid and the write-off of the related deferred financing costs are classified as an extraordinary loss of \$1,526, net of \$840 income taxes, in the accompanying consolidated statements of operations.

As of December 28, 2002, the Company was in compliance with the covenants of the senior credit facility, the Notes, the New Notes and Debentures. Substantially all of the net assets of the Company's subsidiaries are restricted at December 28, 2002.

At December 28, 2002, the aggregate future annual maturities of long-term debt, net of the unamortized discount related to the Notes, New Notes and the Debentures, are as follows:

2003	\$ 10,690
2004	27,033
2005	29,869
2006	31,569
2007	233,627
Thereafter	402,734
	<hr/>
	\$ 735,522

13. Stockholder Subscription Receivables:

The Company established a stock subscription plan in fiscal 1998, which allows certain directors, officers and key team members of the Company to purchase shares of common stock. The plan required that the purchase price of the stock equal the fair market value at the time of the purchase and allowed fifty percent of the purchase price to be executed through the delivery of a full recourse promissory note. The notes provide for annual interest payments, at the prime rate (4.25% at December 28, 2002), with the entire principal amount due in five years. As of December 28, 2002 and December 29, 2001, outstanding stockholder subscription receivables were \$976 and \$2,676, respectively, and are included as a reduction to stockholders' equity in the accompanying consolidated balance sheets.

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14. Income Taxes:

Provision (benefit) for income taxes for fiscal 2002, fiscal 2001 and fiscal 2000 consists of the following:

	<u>Current</u>	<u>Deferred</u>	<u>Total</u>
2002–			
Federal	\$ (10,412)	\$ 50,326	\$ 39,914
State	336	7,549	7,885
	<u>\$ (10,076)</u>	<u>\$ 57,875</u>	<u>\$ 47,799</u>
2001–			
Federal	\$ 13,822	\$ (964)	\$ 12,858
State	513	(2,059)	(1,546)
	<u>\$ 14,335</u>	<u>\$ (3,023)</u>	<u>\$ 11,312</u>
2000–			
Federal	\$ 8,005	\$ 976	\$ 8,981
State	1,847	(293)	1,554
	<u>\$ 9,852</u>	<u>\$ 683</u>	<u>\$ 10,535</u>

The provision (benefit) for income taxes differed from the amount computed by applying the federal statutory income tax rate due to:

	<u>2002</u>	<u>2001</u>	<u>2000</u>
Income (loss) before extraordinary items and cumulative effect of a change in accounting principle at statutory U.S. federal income tax rate	\$ 43,117	\$ 9,976	\$ 9,507
State income taxes, net of federal income tax benefit	5,125	(1,005)	896
Non-deductible interest & other expenses	914	1,067	1,010
Valuation allowance	241	44	914
Other, net	(1,598)	1,230	(1,792)
	<u>\$ 47,799</u>	<u>\$ 11,312</u>	<u>\$ 10,535</u>

Deferred income taxes are recognized for the tax consequences in future years of differences between the tax bases of assets and liabilities and their financial reporting amounts at each period-end, based on enacted tax laws and statutory income tax rates applicable to the periods in which the differences are expected to affect taxable income. Deferred income taxes reflect the net income tax effect of temporary differences between the bases of assets and liabilities for financial reporting purposes and for income tax reporting purposes. Net deferred income tax balances are comprised of the following:

	<u>December 28, 2002</u>	<u>December 29, 2001</u>
Deferred income tax assets	\$ 82,555	\$ 70,116
Deferred income tax liabilities	(92,158)	(38,020)
Net deferred income tax (liabilities) assets	<u>\$ (9,603)</u>	<u>\$ 32,096</u>

The Company incurred financial reporting and tax losses in 1999 primarily due to integration and interest costs incurred as a result of the fiscal 1998 Western merger and the 1998 recapitalization. At December 28, 2002 and

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December 29, 2001, the Company has cumulative net deferred income tax liabilities of \$9,603 and assets of \$32,096, respectively. The gross deferred income tax assets also include federal and state net operating loss carryforwards, or NOLs, of approximately \$24,332. These NOLs may be used to reduce future taxable income and expire periodically through fiscal year 2022. The Company believes it will realize these tax benefits through a combination of the reversal of temporary differences, projected future taxable income during the NOL carryforward periods and available tax planning strategies. Due to uncertainties related to the realization of certain deferred tax assets for NOLs in various jurisdictions, the Company recorded a valuation allowance of \$1,795 as of December 28, 2002 and \$1,554 as of December 29, 2001. The amount of deferred income tax assets realizable, however, could change in the near future if estimates of future taxable income are changed.

Temporary differences which give rise to significant deferred income tax assets (liabilities) are as follows:

	December 28, 2002	December 29, 2001
Current deferred income taxes–		
Inventory valuation differences	\$ (53,372)	\$ (18,783)
Accrued medical and workers compensation	8,355	7,233
Accrued expenses not currently deductible for tax	21,490	26,753
Net operating loss carryforwards	16,426	3,916
Minimum tax credit carryforward (no expiration)	7,611	5,599
	<u>510</u>	<u>24,718</u>
Total current deferred income taxes		
Long–term deferred income taxes–		
Property and equipment	(36,991)	(19,237)
Postretirement benefit obligation	7,393	8,013
Amortization of bond discount	12,980	12,076
Net operating loss carryforwards	7,906	2,680
Valuation allowance	(1,795)	(1,554)
Other, net	394	5,400
	<u>(10,113)</u>	<u>7,378</u>
Total long–term deferred income taxes		

These amounts are recorded in other current assets, other current liabilities and other assets in the accompanying consolidated balance sheets, as appropriate.

The Company currently has four years that are open to audit by the Internal Revenue Service. In addition, various state and foreign income tax returns for several years are open to audit. In management's opinion, any amounts assessed will not have a material effect on the Company's financial position or results of operations.

Additionally, the Company has certain periods open to examination by taxing authorities in various states and foreign jurisdictions for sales, use and excise taxes. In management's opinion, any amounts assessed will not have a material effect on the Company's financial position or results of operations.

15. Lease Commitments:

The Company leases store locations, distribution centers, office space, equipment and vehicles under lease arrangements that extend through 2024, some of which are with related parties.

At December 28, 2002, future minimum lease payments due under non-cancelable operating leases are as follows:

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	Other (a)	Related Parties (a)	Total
2003	\$ 148,794	\$ 3,447	\$ 152,241
2004	136,149	2,537	138,686
2005	116,379	2,240	118,619
2006	98,220	1,764	99,984
2007	85,574	140	85,714
Thereafter	348,889	307	349,196
	<u>\$ 934,005</u>	<u>\$ 10,435</u>	<u>\$ 944,440</u>

(a) The Other and Related Parties columns include stores closed as a result of the Company's restructuring plans.

At December 28, 2002 and December 29, 2001, future minimum sub-lease income to be received under non-cancelable operating leases is \$9,937 and \$8,935, respectively.

Net rent expense for fiscal 2002, fiscal 2001 and fiscal 2000 was as follows:

	2002	2001	2000
Minimum facility rentals	\$ 140,929	\$ 122,512	\$ 112,768
Contingent facility rentals	1,059	811	1,391
Equipment rentals	6,112	2,341	1,875
Vehicle rentals	6,419	6,339	6,709
	<u>154,519</u>	<u>132,003</u>	<u>122,743</u>
Less: Sub-lease income	(3,250)	(2,558)	(1,747)
	<u>\$ 151,269</u>	<u>\$ 129,445</u>	<u>\$ 120,996</u>

Contingent facility rentals are determined on the basis of a percentage of sales in excess of stipulated minimums for certain store facilities as defined in the individual lease agreements. Most of the leases provide that the Company pay taxes, maintenance, insurance and certain other expenses applicable to the leased premises and include options to renew. Certain leases contain rent escalation clauses, which are recorded on a straight-line basis. Management expects that, in the normal course of business, leases that expire will be renewed or replaced by other leases.

Rental payments to related parties of approximately \$3,752 in fiscal 2002, \$3,824 in fiscal 2001 and \$3,921 in fiscal 2000 are included in net rent expense for open stores. Rent expense associated with closed locations is included in other selling, general and administrative expenses.

16. Installment Sales Program:

A subsidiary of the Company maintains an in-house finance program, which offers financing to retail customers. Finance charges of \$3,901, \$3,343 and \$3,063 on the installment sales program are included in net sales in the accompanying consolidated statements of operations for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively. The cost of administering the installment sales program is included in selling, general and administrative expenses.

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17. Contingencies:

In the case of all known contingencies, the Company accrues for an obligation, including estimated legal costs, when it is probable and the amount is reasonably estimable. As facts concerning contingencies become known to the Company, the Company reassesses its position with respect to accrued liabilities and other potential exposures. Estimates that are particularly sensitive to future change include tax and legal matters, which are subject to change as events evolve and as additional information becomes available during the administrative and litigation process.

In February 2000, the Coalition for a Level Playing Field and over 100 independent automotive parts and accessories aftermarket warehouse distributors and jobbers filed a lawsuit styled Coalition for a Level Playing Field, et al. v. AutoZone, Inc. et al., Case No. 00-0953 in the United States District Court for the Eastern District of New York against various automotive parts and accessories retailers. In March 2000, the Company was notified that it had been named defendants in the lawsuit. The plaintiffs claimed that the defendants knowingly induced and received volume discounts, rebates, slotting and other allowances, fees, free inventory, sham advertising and promotional payments, a share in the manufacturers' profits, and excessive payments for services purportedly performed for the manufacturers in violation of the Robinson-Patman Act. In January 2003, a trial was held and the jury found that the Company did not violate the Robinson-Patman Act.

The Company's 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. The Company, Discount and Parts America 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. The number of cases in which the Company or one of its subsidiaries has been named as a defendant has increased in the past year. Many of the cases pending against the Company or its subsidiaries were filed recently and 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 that are named as defendants in these lawsuits have declared bankruptcy, which will limit plaintiffs' ability to recover monetary damages from those defendants. The Company believes that it has valid defenses against these claims. The Company also believes that most of these claims are at least partially covered by insurance. Based on discovery to date, the Company does not believe the cases currently pending will have a material adverse effect on it. However, if the Company was 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 its operating results, financial position and liquidity. If the number of claims filed against the Company or any of its 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 its operating results, financial position and liquidity in future periods.

Sears, Roebuck and Co., or Sears, has agreed to indemnify the Company for certain other litigation and environmental matters of Western that existed as of the Western merger date. The Company recorded a receivable from Sears of approximately \$2,685 relating to certain environmental matters that had been accrued by Western as of the Western merger date. During the first quarter of 2001, the Company received notification from Sears that certain of these matters have been settled. Accordingly, the Company reversed \$2,500 of the previously recorded \$2,685 receivable due from Sears and reduced the corresponding environmental liability. Additionally, as of the Western merger date, Sears has agreed to indemnify partially the Company for up to 5 years for certain additional environmental matters that may arise relating to the period prior to the Western merger. The Company's maximum exposure during the indemnification period for certain matters covered in the Western merger agreement is \$3,750.

In October 2000, a vendor repudiated a long-term purchase agreement entered into with the Company in January 2000. The Company filed suit against the vendor in November of fiscal 2000 to recover monetary damages. Based on consultation with the Company's legal counsel, management believed the purchase agreement was entered into in good faith and it was highly probable that the Company would prevail in its suit. Therefore, the Company recorded a

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gain of \$3,300, which represented actual damages incurred through December 30, 2000, as a reduction of cost of sales in the accompanying consolidated statement of operations for the year ended December 30, 2000. Related income taxes and legal fees of \$1,300 were also recorded in the accompanying consolidated statement of operations for the year ended December 30, 2000. During the first quarter of fiscal 2001, the Company reached a settlement with this vendor and recorded a net gain of \$8,300 as a reduction to cost of sales in the accompanying consolidated statement of operations for the year ended December 29, 2001.

The Company is also involved in various other claims and lawsuits arising in the normal course of business. The damages claimed against the Company in some of these proceedings are substantial. Although the final outcome of these legal matters cannot be determined, based on the facts presently known, it is management's opinion that the final outcome of such claims and lawsuits will not have a material adverse effect on the Company's financial position or results of operations.

The Company is self-insured with respect to workers' compensation and health care claims for eligible active team members. In addition, the Company is self-insured for general and automobile liability claims. The Company maintains certain levels of stop-loss insurance coverage for these claims through an independent insurance provider. The cost of self-insurance claims is accrued based on actual claims reported plus an estimate for claims incurred but not reported. These estimates are based on historical information along with certain assumptions about future events, and are subject to change as additional information becomes available.

The Company has entered into employment agreements with certain team members that provide severance pay benefits under certain circumstances after a change in control of the Company or upon termination of the team member by the Company. The maximum contingent liability under these employment agreements is approximately \$7,309 and \$10,231 at December 28, 2002 and December 29, 2001, respectively.

18. Other Related-party Transactions:

The Company and Sears have entered into agreements that provide for the Western stores to continue to purchase, at normal retail prices, and carry certain Sears branded products during periods defined in the agreements. The Company purchased directly from the manufacturers of Sears branded products of approximately \$6,100, \$4,600 and \$9,200 for the fiscal years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively. The Company is also a first-call supplier of certain automotive products to certain Sears Automotive Group stores. Additionally, Sears arranged to buy from the Company certain products in bulk for its automotive centers through January 1999. These transactions are completed at the Company's normal retail prices. These amounts are included in net sales to Sears in the following table and have been negotiated based on the fair values of the underlying transactions.

The following table presents the related party transactions with Sears for fiscal 2002, 2001 and 2000:

	Years Ended		
	December 28, 2002	December 29, 2001	December 30, 2000
Net sales to Sears	\$ 7,047	\$ 7,535	\$ 7,487
Credit card fees expense	246	339	405

In December 2002, Sears sold its complete equity interest in the Company and as of that date was no longer considered a related party.

In September 2001, the Company loaned a member of the Board of Directors \$1,300. This loan was evidenced by a full recourse promissory note bearing interest at prime rate, payable annually, and due in full in five years from its inception. Payment of the promissory note was secured by a stock pledge agreement that granted the Company a security interest in all shares of common stock owned by the board member under the Company's stock subscription plan. In June 2002, the loan was repaid in full.

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19. Benefit Plans:

401(k) Plan

The Company maintains a defined contribution team member benefit plan, which covers substantially all team members after one year of service. The plan allows for team member salary deferrals, which are matched at the Company's discretion. Company contributions were \$6,930, \$5,238 and \$5,245 in fiscal 2002, fiscal 2001, and fiscal 2000. All team members covered under the Discount plan were included in the Company's plan effective May 31, 2002.

The Company also maintains a profit sharing plan covering Western team members that was frozen prior to the Western Merger on November 2, 1998. This plan covered all full-time team members who had completed one year of service and had attained the age of 21 on the first day of each month. All team members covered under this plan were included in the Company's plan on December 28, 2002.

Deferred Compensation

The Company maintained an unfunded deferred compensation plan established for certain key team members of Discount prior to the acquisition on November 28, 2001, which the Company terminated on May 31, 2002. The Company assumed the plan liability of \$1,382 through the Discount acquisition. The Company has reflected this liability in accrued expenses in the accompanying consolidated balance sheets.

The Company maintains an unfunded deferred compensation plan established for certain key team members of Western prior to the fiscal 1998 Western merger. The Company assumed the plan liability of \$15,253 through the Western merger. The plan was frozen at the date of the Western merger. As of December 28, 2002 and December 29, 2001, \$2,998 and \$4,291, respectively, was accrued with the current portion included in accrued expenses and the long-term portion in other long-term liabilities in the accompanying consolidated balance sheets.

Postretirement Plan

The Company provides certain health care and life insurance benefits for eligible retired team members. Team members retiring from the Company with 20 consecutive years of service after age 40 are eligible for these benefits, subject to deductibles, co-payment provisions and other limitations. Effective December 2002, the Company amended its postretirement plan to only include benefits for team members who are eligible at January 1, 2005. This negative plan amendment also resulted in a curtailment gain of \$2,939, which will be amortized over 12 years consistent with the provisions of SFAS 106, "Employers Accounting for Postretirement Benefits Other Than Pensions."

The estimated cost of retiree health and life insurance benefits is recognized over the years that the team members render service as required by SFAS No. 106, "Employers Accounting for Postretirement Benefits Other Than Pensions." The initial accumulated liability, measured as of January 1, 1995, the date the Company adopted SFAS No. 106, is being recognized over a 20-year amortization period.

Other financial information related to the plans was determined by the Company's independent actuaries as of December 28, 2002, December 29, 2001 and December 30, 2000. The following provides a reconciliation of the accrued benefit obligation included in other long-term liabilities in the accompanying consolidated balance sheets and the funded status of the plan:

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	2002	2001
Change in benefit obligation:		
Benefit obligation at beginning of the year	\$ 17,360	\$ 22,082
Service cost	473	326
Interest cost	1,239	1,584
Benefits paid	(2,471)	(2,842)
Curtailement gain	(2,939)	—
Actuarial loss (gain)	9,340	(3,790)
Benefit obligation at end of the year	23,002	17,360
Change in plan assets:		
Fair value of plan assets at beginning of the year	—	—
Employer contributions	2,471	2,842
Benefits paid	(2,471)	(2,842)
Fair value of plan assets at end of year	—	—
Reconciliation of funded status:		
Funded status	(23,002)	(17,360)
Unrecognized transition obligation	10	752
Unrecognized actuarial (gain) loss	3,915	(3,260)
Accrued postretirement benefit cost	\$ (19,077)	\$ (19,868)

Net periodic postretirement benefit cost is as follows:

	2002	2001	2000
Service cost	\$ 473	\$ 326	\$ 451
Interest cost	1,239	1,584	1,532
Amortization of the transition obligation	58	58	58
Amortization of recognized net gains	(89)	—	—
	\$ 1,681	\$ 1,968	\$ 2,041

The postretirement benefit obligation was computed using an assumed discount rate of 6.75% in 2002 and 7.5% in 2001. The health care cost trend rate was assumed to be 12.5% for 2002, 11.5% for 2003, 10.5% for 2004, 9.5% for 2005, 8.5% for 2006, 7.5% for 2007, and 5.0% to 7.0% for 2008 and thereafter.

If the health care cost were increased 1% for all future years the accumulated postretirement benefit obligation would have increased by \$1,532 as of December 28, 2002. The effect of this change on the combined service and interest cost would have been an increase of \$93 for 2002.

If the health care cost were decreased 1% for all future years the accumulated postretirement benefit obligation would have decreased by \$1,284 as of December 28, 2002. The effect of this change on the combined service and interest cost would have been a decrease of \$78 for 2002.

The Company reserves the right to change or terminate the benefits or contributions at any time. The Company also continues to evaluate ways in which it can better manage these benefits and control costs. Any changes in the plan or revisions to assumptions that affect the amount of expected future benefits may have a significant impact on the amount of the reported obligation and annual expense.

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20. Stock Options:

The Company maintains a senior executive stock option plan and an executive stock option plan, or the Option Plans, for key team members of the Company. The Option Plans provide for the granting of non-qualified stock options. All options terminate on the seventh anniversary of the grant date. Shares authorized for grant under the senior executive and the executive stock option plans are 1,710 and 3,600, respectively, at December 28, 2002. Subsequent to December 28, 2002, the Company granted 553 fixed price options at an exercise price of \$40.38 and 7.5 options at an exercise price of \$39.67.

The Company has historically maintained three types of option plans; Fixed Price Service Options, or Fixed Options, Performance Options, or Performance Options, and Variable Option plans, or Variable Options. The Fixed Options vest over a three-year period in three equal installments beginning on the first anniversary of the grant date. During the fourth quarter of fiscal 2001, the board of directors approved an amendment to the Performance Options and the Variable Options. The amendment accelerated the vesting of the Performance Options by removing the variable provisions under the plan and established a fixed exercise price of \$18.00 per share for the Variable Options. As a result of the increase in the Company's stock price and the above amendment, the Company recorded a one-time expense of \$8,611 in fiscal 2001 to recognize the associated compensation expense. Accordingly, all options under the above mentioned plans are considered fixed for accounting treatment under APB No. 25 as described below.

Additionally, as a result of the Discount acquisition, the Company converted all outstanding stock options of Discount with an exercise price greater than \$15.00 per share to options to purchase the Company's common stock. The Company converted 575 options from the executive stock option plan at a weighted-average exercise price of \$38.89 per share. These options will terminate on the tenth anniversary of the original option agreement between Discount and the team member. The fair value of the 575 converted options to purchase the Company's common stock was included in the purchase price of Discount.

As a result of the recapitalization in fiscal 1998, an existing stockholder received stock options to purchase up to 500 shares of common stock. The stock options are fully vested, nonforfeitable and provide for a \$10.00 per share exercise price, increasing \$2.00 per share annually, through the expiration date of April 2005. The fair value of these options, as determined at the grant date were included in the recapitalization in fiscal 1998 as consideration paid to the existing stockholder.

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Total option activity was as follows:

Plan	2002		2001		2000	
	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price	Number of Shares	Weighted-Average Exercise Price
<u>Fixed Price Service Options</u>						
Outstanding at beginning of year	2,438	\$ 24.52	1,610	\$ 18.95	297	\$ 14.79
Granted	552	42.26	343	21.00	1,336	19.80
Converted options in connection with Discount acquisition	—	—	575	38.89	—	—
Exercised	(388)	30.80	(62)	35.07	—	—
Forfeited	(32)	42.31	(28)	17.29	(23)	14.55
Outstanding at end of year	2,570	\$ 27.18	2,438	\$ 24.52	1,610	\$ 18.95
<u>Variable Price Service Options</u>						
Outstanding at beginning of year	295	\$ 18.00	297	\$ 15.00	329	\$ 15.00
Granted	—	—	—	—	—	—
Exercised	(191)	18.00	—	—	—	—
Forfeited	(1)	18.00	(2)	15.00	(32)	15.00
Outstanding at end of year	103	\$ 18.00	295	\$ 18.00	297	\$ 15.00
<u>Performance Options</u>						
Outstanding at beginning of year	295	\$ 10.00	297	\$ 10.00	329	\$ 10.00
Granted	—	—	—	—	—	—
Exercised	(199)	10.00	—	—	—	—
Forfeited	(1)	10.00	(2)	10.00	(32)	10.00
Outstanding at end of year	95	\$ 10.00	295	\$ 10.00	297	\$ 10.00
<u>Other Options</u>						
Outstanding at beginning of year	500	\$ 16.00	500	\$ 14.00	500	\$ 12.00
Granted	—	—	—	—	—	—
Exercised	—	—	—	—	—	—
Forfeited	—	—	—	—	—	—
Outstanding at end of year	500	\$ 18.00	500	\$ 16.00	500	\$ 14.00

All of the Variable, Performance and Other options were exercisable as of December 28, 2002 and had remaining contractual lives of 2.3 years. Additional information related to the Fixed options by range of exercise prices is as follows:

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	Number of Shares Outstanding	Weighted- Average Exercise Price of Outstanding Shares	Weighted- Average Remaining Contractual Life of Outstanding Shares (in years)	Number of Shares Exercisable	Weighted Price of Exercise Price of Exercisable Shares
\$10.00–\$19.99	724	\$ 16.54	4.1	521	\$ 16.43
\$20.00–\$29.99	1,032	22.02	4.6	574	22.22
\$30.00–\$39.99	94	35.80	5.2	93	35.80
\$40.00–\$49.99	607	42.44	5.8	66	45.26
\$50.00–\$59.99	113	53.39	4.8	106	53.32
	2,570	\$ 27.18	4.8	1,360	\$ 24.47

During fiscal 2000, the Company granted options at an exercise price of \$16.82, which equaled the fair market value determined by the board of directors, and \$20.00 and \$25.00, which exceeded the then determined fair market value. The weighted-average fair value of options granted at \$16.82 was \$1.44. The options granted at \$20.00 and \$25.00 had no fair value on the grant date. During fiscal 2001, the Company granted 343 options at an exercise price of \$21.00, the fair value at the date of the grant as determined by the board of directors. The fair value of the options granted at \$21.00 was \$13.53. During fiscal 2002, the Company granted 537 options at an exercise price of \$42.00, 7.5 options at an exercise price of \$48.55 and 7.5 options at an exercise price of \$55.44 which was the market price of the Company's stock on the date of each grant. The fair value of the options granted during fiscal 2002 was \$9.14, \$6.55 and \$7.34, respectively.

As permitted under SFAS No. 123, "Accounting for Stock-Based Compensation," the Company accounts for its stock options using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", or APB No. 25. Under APB No. 25, compensation cost for stock options is measured as the excess, if any, of the market price of the Company's common stock at the measurement date over the exercise price. Accordingly, the Company has not recognized compensation expense on the issuance of its Fixed Options because the exercise price equaled the fair market value of the underlying stock on the grant date. The excess of the fair market value per share over the exercise price per share for the Performance Options and Variable Options, up to the above mentioned amendment in December 2001, was recorded as outstanding stock options in additional paid-in capital. The Company recorded compensation expense related to the Performance Options and Variable Options of \$11,735 (including the one-time charge discussed above), and \$729 in non-cash stock option compensation expense in the accompanying consolidated statements of operations for the fiscal years ended December 29, 2001, and December 30, 2000, respectively. No compensation expense was required for the fiscal year ended December 28, 2002.

The following information is presented as if the Company elected to account for compensation cost related to the stock options using the fair value method as prescribed by SFAS No. 123:

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	2002	2001	2000
Net income:			
As reported	\$ 65,019	\$ 11,442	\$ 19,559
Pro-forma	\$ 63,125	\$ 8,747	\$ 19,674
Net income per basic share:			
As reported	\$ 1.86	\$ 0.40	\$ 0.69
Pro-forma	\$ 1.80	\$ 0.31	\$ 0.70
Net income per diluted share:			
As reported	\$ 1.80	\$ 0.39	\$ 0.68
Pro-forma	\$ 1.74	\$ 0.30	\$ 0.69

For the above information, the fair value of each option granted in the fiscal 2002 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions: (i) weighted average risk-free interest rate of 4.45% and 3.12%; (ii) weighted-average expected life of options of four years; (iii) expected dividend yield of zero and (iv) weighted-average volatility of 17% and 8%.

For the above information, the fair value of each option granted in fiscal 2001 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions: (i) weighted average risk-free interest rate of 2.89%; (ii) weighted-average expected life of options of three years; (iii) expected dividend yield of zero and (iv) volatility of 60%.

For the above information, the fair value of each option granted in fiscal 2000 was estimated on the grant date using the Black-Scholes option-pricing model with the following assumptions: (i) risk-free interest rate of 4.47% and 4.57%; (ii) weighted-average expected life of options of two and three years and (iii) expected dividend yield of zero. As permitted by SFAS No. 123 for companies with non-public equity securities, the Company used the assumption of zero volatility in valuing these options.

During fiscal 2002, the Company established an employee stock purchase plan under which all eligible team members may purchase common stock at 85% of fair market value (determined quarterly) through payroll deductions. There are annual limitations on team member purchases of either \$25,000 per team member or ten percent of compensation, whichever is less. Under the plan, team members purchased 15 shares in fiscal 2002. In May 2002, the Company registered 700 shares with the Securities and Exchange Commission to be issued under the plan.

21. Fair Value of Financial Instruments:

The carrying amount of cash and cash equivalents, receivables, bank overdrafts, accounts payable, borrowings secured by receivables and current portion of long-term debt approximates fair value because of the short maturity of those instruments. The carrying amount for variable rate long-term debt approximates fair value for similar issues available to the Company. The fair value of all fixed rate long-term debt was determined based on current market prices, which approximated \$435,240 (carrying value of \$402,733) and \$457,804 (carrying value of \$450,737) at December 28, 2002 and December 29, 2001, respectively.

22. Segment and Related Information:

The Company has the following operating segments: Advance, Retail and Wholesale. Advance has no operations but holds certain assets and liabilities. Retail consists of the retail operations of the Company, operating under the trade name "Advance Auto Parts," "Advance Discount Auto Parts" and "Discount Auto Parts" in the

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
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United States and “Western Auto” primarily in Puerto Rico and the Virgin Islands. Wholesale consists of the wholesale operations, including distribution services to independent dealers and franchisees primarily operating under the “Western Auto” trade name.

The financial information for fiscal 2000 has not been restated to reflect the change in accounting policy related to cooperative advertising funds. Had the new policy been applied in fiscal 2000, gross profit and income before provision for income taxes and extraordinary item in the Retail segment would have been \$829,475 and \$39,393. The application of the new accounting policy to the Wholesale segment would not be material.

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands, except per share data)

2002(a)	Advance	Retail	Wholesale (b)	Eliminations	Totals
Net sales (c)	\$ —	\$ 3,204,141	\$ 83,742	\$ —	\$ 3,287,883
Gross profit	—	1,434,407	13,587	—	1,447,994
Operating (loss) income	(155)	195,985	6,155	—	201,985
Net interest expense	(11,719)	(64,292)	(1,200)	—	(77,211)
(Loss) income before (benefit) provision for income taxes, extraordinary item and change in accounting method (d)	(11,873)	129,960	5,104	—	123,191
Extraordinary item, loss on debt extinguishment, net of \$6,449 income taxes	(1,526)	(8,847)	—	—	(10,373)
Segment assets (d)	15,016	1,959,265	18,405	(27,461)	1,965,225
Depreciation and amortization	—	93,095	995	—	94,090
Capital expenditures	—	97,948	238	—	98,186
2001 (a)					
Net sales (c)	\$ —	\$ 2,419,746	\$ 97,893	\$ —	\$ 2,517,639
Gross profit	—	1,052,881	14,046	—	1,066,927
Operating income (loss)	—	97,475	(8,362)	—	89,113
Net interest expense	(11,245)	(47,686)	(1,882)	—	(60,813)
(Loss) income before (benefit) provision for income taxes, extraordinary item and change in accounting method (d)	(11,245)	50,323	(10,577)	—	28,501
Extraordinary item, loss on debt extinguishment, net of \$2,424 income taxes	—	(3,682)	—	—	(3,682)
Change in accounting method, net of \$1,360 income taxes	—	(2,065)	—	—	(2,065)
Segment assets (d)	14,247	1,911,026	26,877	(1,535)	1,950,615
Depreciation and amortization	—	69,927	1,304	—	71,231
Capital expenditures	—	63,327	368	—	63,695
2000(a)					
Net sales (c)	\$ —	\$ 2,167,308	\$ 120,714	\$ —	\$ 2,288,022
Gross profit	—	881,012	14,883	—	895,895
Operating income	—	91,590	1,199	—	92,789
Net interest expense	(9,871)	(51,684)	(4,141)	—	(65,696)
(Loss) income before (benefit) provision for income taxes and extraordinary item (d)	(9,871)	39,626	(2,594)	—	27,161
Extraordinary item, gain on debt extinguishment, net of \$1,759 income taxes	—	2,933	—	—	2,933
Segment assets (d)	10,556	1,307,839	49,421	(11,456)	1,356,360
Depreciation and amortization	—	65,625	1,201	—	66,826
Capital expenditures	—	70,493	73	—	70,566

- (a) Amounts include non-recurring expenses separately disclosed in the accompanying statement of operations.
- (b) During fiscal 2000, the Company transferred certain assets to the Retail segment related to the Western Auto retail operations in Puerto Rico and the Virgin Islands.
- (c) For fiscal years 2002, 2001, and 2000, total net sales include approximately \$482,000, \$403,000 and \$356,000, respectively, related to revenues derived from commercial sales.
- (d) Excludes investment in and equity in net earnings or losses of subsidiaries.

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
December 28, 2002 and December 29, 2001, and December 30, 2000
(in thousands, except per share data)

23. Quarterly Financial Data (unaudited):

The following table summarizes quarterly financial data for fiscal years 2002 and 2001:

2002	First	Second	Third	Fourth
Net sales	\$ 1,004,087	\$ 792,717	\$ 788,662	\$ 702,417
Gross profit	436,508	349,014	349,662	312,810
Income before extraordinary item	12,871	23,565	28,658	10,298
Net income	12,096	15,941	28,363	8,619
Basic income per share:				
Before extraordinary item	\$ 0.38	\$ 0.67	\$ 0.80	\$ 0.29
Net income	0.36	0.45	0.80	0.24
Diluted income per share:				
Before extraordinary item	\$ 0.36	\$ 0.64	\$ 0.77	\$ 0.28
Net income	0.34	0.44	0.77	0.23

The above fiscal 2002 quarterly information includes non-recurring gains and losses by quarter as follows:

2002	First	Second	Third	Fourth
Expenses associated with merger and integration	10,223	7,520	8,174	9,018
Expenses associated with merger-related restructuring	342	109	74	72

2001	First	Second	Third	Fourth
Net sales	\$ 729,359	\$ 607,478	\$ 598,793	\$ 582,009
Gross profit	311,450	257,228	256,734	241,515
Income (loss) before extraordinary item and cumulative effect of change in accounting principle	3,873	14,124	15,232	(16,040)
Net income (loss)	3,873	14,124	15,232	(21,787)
Basic income (loss) per share:				
Before extraordinary item and cumulative effect of change in accounting principle	\$ 0.14	\$ 0.50	\$ 0.54	\$ (0.54)
Net income (loss)	0.14	0.50	0.54	(0.73)
Diluted income (loss) per share:				
Before extraordinary item and cumulative effect of change in accounting principle	\$ 0.14	\$ 0.49	\$ 0.53	\$ (0.54)
Net income (loss)	0.14	0.49	0.53	(0.73)

ADVANCE AUTO PARTS, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS – (Continued)
December 28, 2002 and December 29, 2001, and December 30, 2000
(in thousands, except per share data)

The above fiscal 2001 quarterly information includes non-recurring gains and losses by quarter as follows:

2001	First	Second	Third	Fourth
Expenses associated with supply chain initiatives – gross profit	\$ —	\$ —	\$ —	\$ 9,099
Expenses associated with supply chain initiatives – selling, general and administrative expense	—	—	—	1,394
Impairment of assets held for sale	1,600	—	—	10,700
Expenses associated with merger and integration	—	—	—	1,135
Expenses associated with merger-related restructuring	—	—	—	3,719
Non-cash stock option compensation expense	1,109	233	1,520	8,873
Non-recurring gain from the settlement of a vendor settlement	(8,300)	—	—	—

ADVANCE AUTO PARTS, INC.
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
December 28, 2002 and December 29, 2001
Condensed Parent Company Balance Sheets
(in thousands, except per share data)

	December 28, 2002	December 29, 2001
Assets		
Cash and cash equivalents	\$ 541	\$ 375
Merchandise and other receivables	45	172
Intercompany receivable	776	1,102
Investment in subsidiary	540,529	368,683
Prepaid expenses	107	—
Deferred income taxes	13,102	11,960
Other assets	1,220	1,740
Total assets	\$ 556,320	\$ 384,032
Liabilities and stockholders' equity		
Accrued expenses	\$ 134	\$ 87
Long-term debt	87,830	95,374
Total liabilities	87,964	95,461
Stockholders' equity		
Preferred stock, nonvoting, \$0.0001 par value; 10,000 shares authorized; no shares issued or outstanding	—	—
Common stock, voting \$0.0001 par value; 100,000 shares authorized; 35,735 and 32,692 issued and outstanding	4	3
Additional paid-in capital	610,195	496,538
Stockholder subscription receivables	(976)	(2,676)
Accumulated comprehensive income (loss)	(592)	—
Accumulated deficit	(140,275)	(205,294)
Total stockholders' equity	468,356	288,571
Total liabilities and stockholders' equity	\$ 556,320	\$ 384,032

The accompanying notes to condensed parent company financial statements
are an integral part of these balance sheets.

ADVANCE AUTO PARTS, INC.
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
Condensed Parent Company Statement of Operations
For the Years Ended December 28, 2002, December 29, 2001, and December 30, 2000
(in thousands, except per share data)

	For the Years Ended		
	2002	2001	2000
Selling, general and administrative expenses	\$ 155	\$ —	\$ —
Interest expense	(11,816)	(11,424)	(10,121)
Interest income	97	179	250
Equity in earnings of subsidiaries	75,446	18,860	26,104
Extraordinary item, loss on debt extinguishment, net of \$840 income taxes	(1,525)	—	—
Income tax benefit	(2,972)	(3,827)	(3,326)
Net income	\$ 65,019	\$ 11,442	\$ 19,559
Net income per basic share	\$ 1.86	\$ 0.40	\$ 0.69
Net income per diluted share	1.80	0.39	0.68
Average common shares outstanding	35,049	28,637	28,296
Dilutive effect of stock options	1,139	521	315
Average common shares outstanding – assuming dilution	36,188	29,158	28,611

The accompanying notes to condensed parent company financial statements
are an integral part of these balance sheets.

ADVANCE AUTO PARTS, INC.
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
Condensed Parent Company Statement of Cash Flows
(in thousands)

	For the Years Ended		
	2002	2001	2000
Cash flows from operating activities:			
Net income	\$ 65,019	\$ 11,442	\$ 19,559
Adjustments to reconcile net income to net cash provided by operations:			
Amortization of deferred debt issuance costs	219	239	224
Amortization of bond discount	11,597	11,158	9,853
Benefit for deferred income taxes	(410)	(3,775)	(3,326)
Equity in earnings of subsidiary	(75,446)	(18,860)	(26,104)
Extraordinary loss on extinguishment of debt, net of tax	1,526	—	—
Net decrease in:			
Receivables, net	127	—	—
Other assets	—	42	5,225
Other liabilities	47	76	40
Net cash provided by operating activities	2,679	322	5,471
Cash flows from investing activities:			
Change in net intercompany with subsidiaries	(2,513)	(1,956)	(5,309)
Purchase of Advance Stores Class A Common Stock	—	—	(2,053)
Net cash used in investing activities	(2,513)	(1,956)	(7,362)
Cash flows from financing activities:			
(Repurchases of) proceeds from stock transactions under subscription plan	—	(550)	1,602
Proceeds from exercise of stock options	—	2,381	—
Net cash provided by financing activities	—	1,831	1,602
Net increase (decrease) in cash and cash equivalents	166	197	(289)
Cash and cash equivalents, beginning of year	375	178	467
Cash and cash equivalents, end of year	\$ 541	\$ 375	\$ 178
Supplemental cash flow information:			
Interest paid	\$ —	\$ —	\$ —
Income taxes paid, net of refunds received	—	—	—
Noncash transactions:			
Issuance of common stock related to secondary offering	\$ 90,022		
Early extinguishment of debt paid funded by Stores	(19,140)	—	—
Payment of debt related costs funded by Stores	(2,066)	—	—
Proceeds received by Advance Stores from stock transactions under the Parent's stock subscription plan and Stores stock option plan	19,069	—	—
Issuances of common stock and stock plans – Discount acquisition	—	107,129	—
Equity transactions under the stockholder subscription and employee stock option plans	—	411	1,281
Equity method impact of outstanding stock options	—	11,735	729

The accompanying notes to condensed parent company financial statements are an integral part of these statements

ADVANCE AUTO PARTS, INC.
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
Notes to Condensed Parent Company Statement
December 28, 2002 and December 29, 2001
(in thousands, except per share data)

1. Presentation

These condensed financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and note disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to those rules and regulations, although management believes that the disclosures made are adequate to make the information presented not misleading.

2. Organization

On November 28, 2001, Advance Holding Corporation (“Holding”) was merged with and into Advance Auto Parts, Inc. (the “Company”), with Advance Auto Parts, Inc. continuing as the surviving entity. Shareholders of Holding received one share of Company common stock in exchange for each outstanding share of Holding common stock. In addition, separate classes of common stock were eliminated, the par value of each share of common and preferred stock was set at \$0.0001 and \$0.0001 per share, respectively, and 100,000 and 10,000 shares of common and preferred stock were authorized, respectively. Accordingly, the accompanying financial statements have been changed to reflect the transaction as if it occurred on January 2, 1999. The Company was created in August 2001 and has no separate operations. Accordingly, the change resulted only in reclassifications between common stock and additional paid-in capital.

The Company is a holding company which was the 100% shareholder of Advance Stores Company, Incorporated (“Stores”) and certain other subsidiaries during the periods presented. The parent/subsidiary relationship between the Company and its subsidiaries includes certain related party transactions. These transactions consist primarily of interest on intercompany advances, dividends, capital contributions and allocations of certain costs. Deferred income taxes have not been provided for financial reporting and tax basis differences on the undistributed earnings of the subsidiaries.

3. Long-term Debt

Long-term debt at December 28, 2002 consists of senior discount debentures (the “Debentures”) issued during fiscal 1998. In March 2003, the Company executed a call notice for the outstanding Debentures. The Debentures were issued at a discount and accrete at a rate of 12.875%, compounded semi-annually, to an aggregate principal amount of \$91,050 by April 15, 2003. Cash interest will not accrue on the Debentures prior to April 15, 2003. Commencing April 15, 2003, cash interest on the Debentures will accrue and be payable, at a rate of 12.875% per annum, semi-annually in arrears on each April 15 and October 15. As of December 28, 2002, the Debentures have been accreted by \$46,954 with corresponding interest expense of \$11,597, \$11,159 and \$9,853 recognized for the years ended December 28, 2002, December 29, 2001 and December 30, 2000, respectively. The Debentures are redeemable at the option of the Company, in whole or in part, at any time on or after April 15, 2003 and mature on April 15, 2009.

Upon the occurrence of a change of control (as defined), each holder of the Debentures will have the right to require the Company to purchase the Debentures at a price in cash equal to 101% of the accreted value thereof plus liquidated damages, if any, thereon in the case of any such purchase prior to April 15, 2003, or 101% of the aggregate principal amount thereof, plus accrued and unpaid interest and liquidated damages, if any, thereon to the date of purchase in the case of any such purchase on or after April 15, 2003. The Company may not have any significant assets other than capital stock of Stores (which is pledged to secure the Company’s obligations under Stores’ senior credit facility). As a result, the Company’s ability to purchase all or any part of the Debentures will be dependent upon the receipt of dividends or other distributions from Stores or its subsidiaries. Stores’ senior credit facility and Stores’ senior subordinated notes have certain restrictions for Stores with respect to paying dividends and making any other distributions.

See Notes to Consolidated Financial Statements for Additional Disclosures

ADVANCE AUTO PARTS, INC.
SCHEDULE I – CONDENSED FINANCIAL INFORMATION OF THE REGISTRANT
Notes to Condensed Parent Company Statement
December 28, 2002 and December 29, 2001
(in thousands, except per share data)

The Debentures are subordinated to all of the Company's other liabilities. The Debentures contain certain non-financial restrictive covenants that are similar to the covenants contained in the notes. Substantially all of the net assets of the Company's subsidiaries are restricted at December 28, 2002.

During fiscal 2002, the Company repurchased and retired a portion of the Debentures at prices approximating 100 to 105 percent of the total face value purchased of \$20,950. The premiums paid and the write-off of the related deferred financing costs are classified as an extraordinary loss of \$1,526, net of \$840 income taxes, in the accompanying consolidated statements of operations.

See Notes to Consolidated Financial Statements for Additional Disclosures

ADVANCE AUTO PARTS, INC.
SCHEDULE II – VALUATION AND QUALIFYING ACCOUNTS
(in thousands)

	Balance at Beginning of Period	Charges to Expenses	Deductions	Other	Balance at End of Period
Allowance for doubtful accounts receivable:					
December 30, 2000	\$ 6,927	\$ 2,152	\$ (4,058) ⁽¹⁾	\$ —	\$ 5,021
December 29, 2001	5,021	2,106	(1,070) ⁽¹⁾	3,833 ⁽²⁾	9,890
December 28, 2002	9,890	2,201	(3,126) ⁽¹⁾	—	8,965

- (1) Accounts written off during the period. These amounts did not impact our statement of operations for any year presented.
(2) Restructuring for doubtful accounts receivable assumed and established in the Discount acquisition.

Restructuring reserves:					
December 30, 2000	\$ 21,316	\$ 1,673	\$ (11,143) ⁽¹⁾	\$ (1,261) ⁽²⁾	\$ 10,585
December 29, 2001	10,585	8,771	(9,253) ⁽¹⁾	13,509 ⁽³⁾	23,612
December 28, 2002	23,612	4,533	(10,563) ⁽¹⁾	(4,387) ⁽⁴⁾	13,195

- (1) Represents amounts paid for restructuring charges. These amounts did not impact our statement of operations for any year presented.
(2) Reductions to reserves assumed and established in the Western merger that exceeded the ultimate cost expended by the Company.
(3) Restructuring reserves assumed and established in the Discount acquisition.
(4) Reductions to restructuring reserves assumed and established in the Discount acquisition as adjusted through purchase accounting.

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<u>Signature</u>	<u>Title</u>	<u>Date</u>
<hr/> <p>/s/ PETER J. FONTAINE</p> <hr/> <p>Peter J. Fontaine</p>	Director	March 27, 2003
<hr/> <p>/s/ STEPHEN M. PECK</p> <hr/> <p>Stephen M. Peck</p>	Director	March 27, 2003
<hr/> <p>/s/ GILBERT T. RAY</p> <hr/> <p>Gilbert T. Ray</p>	Director	March 27, 2003
<hr/> <p>/s/ JOHN M. ROTH</p> <hr/> <p>John M. Roth</p>	Lead Director	March 27, 2003
<hr/> <p>/s/ WILLIAM L. SALTER</p> <hr/> <p>William L. Salter</p>	Director	March 27, 2003
<hr/> <p>/s/ FRANCESCA SPINELLI, Ph.D.</p> <hr/> <p>Francesca Spinelli, Ph.D.</p>	Director	March 27, 2003
<hr/> <p>/s/ RONALD P. SPOGLI</p> <hr/> <p>Ronald P. Spogli</p>	Director	March 27, 2003

CERTIFICATIONS

I, Lawrence P. Castellani, certify that:

1. I have reviewed this annual report on Form 10-K of Advance Auto Parts, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ LAWRENCE P. CASTELLANI

Lawrence P. Castellani
Chairman of the Board of Directors and
Chief Executive Officer

CERTIFICATIONS

I, Jimmie L. Wade, certify that:

1. I have reviewed this annual report on Form 10-K of Advance Auto Parts, Inc.;
2. Based on my knowledge, this annual report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this annual report;
3. Based on my knowledge, the financial statements, and other financial information included in this annual report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this annual report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
 - (a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this annual report is being prepared;
 - (b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this annual report (the "Evaluation Date"); and
 - (c) presented in this annual report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):
 - (a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
 - (b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this annual report whether or not there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

Date: March 27, 2003

/s/ JIMMIE L. WADE

Jimmie L. Wade
President and Chief Financial Officer

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AMENDED AND RESTATED

CREDIT AGREEMENT

dated as of March 6, 2003

among

ADVANCE AUTO PARTS, INC.,

ADVANCE STORES COMPANY, INCORPORATED, as Borrower,

The Lenders Party Hereto

and

JPMORGAN CHASE BANK,
as Administrative Agent

J.P. MORGAN SECURITIES INC., as Sole Lead
Arranger and Sole Bookrunner

and

SUNTRUST BANK and WACHOVIA BANK, NATIONAL ASSOCIATION,
as Documentation Agents

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AMENDED AND RESTATED CREDIT AGREEMENT dated as of March 6, 2003, among ADVANCE AUTO PARTS, INC., ADVANCE STORES COMPANY, INCORPORATED, the LENDERS party hereto, JPMORGAN CHASE BANK, as Administrative Agent, and SUNTRUST BANK and WACHOVIA BANK, NATIONAL ASSOCIATION, as Documentation Agents.

WHEREAS, Holdings, the Borrower, the lenders party thereto and JPMorgan Chase Bank, as administrative agent, are parties to an Amended and Restated Credit Agreement dated as of June 28, 2002 (the "Existing Credit Agreement"), as in effect immediately prior to the Restatement Effective Date (as defined herein), which Existing Credit Agreement amended and restated the Original Credit Agreement (as defined herein));

WHEREAS, Holdings, the Borrower, the Required Restatement Lenders (as defined therein) and JPMorgan Chase Bank, as administrative agent, are parties to an Amendment and Restatement Agreement dated as of March 6, 2003 (the "Amendment and Restatement Agreement");

WHEREAS, subject to the satisfaction of the conditions set forth in the Amendment and Restatement Agreement, the Original Credit Agreement shall be amended and restated as provided herein.

NOW, THEREFORE, the parties hereto agree as follows:

ARTICLE I

Definitions

SECTION 1.01. Defined Terms. As used in this Agreement, the following terms have the meanings specified below:

"ABR", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Alternate Base Rate.

"Additional Senior Subordinated Notes" means the senior subordinated notes to be issued by the Borrower on or prior to the Effective Date with gross proceeds not exceeding \$186,000,000.

"Additional Subordinated Debt" means the Additional Senior Subordinated Notes, any Guarantees thereof and the Indebtedness represented thereby.

"Additional Subordinated Debt Documents" means the indenture under which the Additional Subordinated Debt is issued and all other instruments, agreements and other documents evidencing or governing the Additional Subordinated Debt or providing for any Guarantee or other right in respect thereof.

"Adjusted Consolidated Net Income" means, for any period, net income or loss of Holdings and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP, provided that, without duplication, (a) there shall be excluded (i) the income of any Person in which any other Person (other than the Borrower or any of the Subsidiaries or any director holding qualifying shares in compliance with applicable law) has a joint interest, except such income shall be included to the extent of the amount of dividends or other distributions actually paid to the Borrower or any of the Subsidiaries by such Person during such period, (ii) the income (or loss) of any Person accrued prior to the date it becomes a Subsidiary or is merged into or consolidated with the Borrower or any of the Subsidiaries or the date that Person's assets are acquired by the Borrower or any of the Subsidiaries and (iii) gains and losses from, or incurred in connection with, the sale, liquidation or other disposition of assets outside the ordinary course of business; (b) there shall be excluded Reorganization Expenses incurred prior to December 31, 2005 in an aggregate amount not to exceed (i) \$20,000,000 during the fiscal year ending on January 3, 2004, (ii) \$10,000,000 during any such fiscal year ending after January 3, 2004 and (iii) \$60,000,000 for all five fiscal years ending on or prior to December 31, 2005, combined; (c) there shall be excluded Debt Retirement Costs; and (d) except for purposes of calculating the Consolidated Interest Expense Coverage Ratio, Adjusted Consolidated Net Income shall be determined on a pro forma basis to give effect to any Permitted Acquisitions and any divestitures by the Borrower or any Subsidiary of all or substantially all the assets of, or all the Equity Interests in, a Person or division or line of business of a Person occurring during such period as if such transactions had occurred on the first day of such period.

"Adjusted LIBO Rate" means an interest rate per annum (rounded upwards, if necessary, to the next 1/16 of 1%) equal to, with respect to any Eurodollar Tranche A Borrowing, Eurodollar Tranche A-1 Borrowing, Eurodollar Tranche C Borrowing, Eurodollar Tranche C-1 Borrowing or

Eurodollar Revolving Borrowing for any Interest Period, (i) the LIBO Rate for such Interest Period multiplied by (ii) the Statutory Reserve Rate.

"Administrative Agent" means JPMorgan Chase Bank, in its capacity as administrative agent for the Lenders hereunder.

"Administrative Questionnaire" means an Administrative Questionnaire in a form supplied by the Administrative Agent.

"Affiliate" means, with respect to a specified Person, another Person that directly, or indirectly through one or more intermediaries, Controls or is Controlled by or is under common Control with the Person specified.

"Agents" means, collectively, the Administrative Agent, the Collateral Agent and the Documentation Agents.

"AHC Holdings" means Advance Holding Corporation, a Virginia corporation.

"AHC Merger" means the merger of AHC Holdings with and into Holdings, in accordance with the Merger Agreement, with Holdings being the surviving corporation.

"Alternate Base Rate" means, for any day, a rate per annum equal to the greatest of (a) the Prime Rate in effect on such day, (b) the Base CD Rate in effect on such day plus 1% and (c) the Federal Funds Effective Rate in effect on such day plus 1/2 of 1%. Any change in the Alternate Base Rate due to a change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate shall be effective from and including the effective date of such change in the Prime Rate, the Base CD Rate or the Federal Funds Effective Rate, respectively.

"Amendment and Restatement Agreement" has the meaning given such term in the recitals hereto.

"Applicable Percentage" means, with respect to any Revolving Lender, the percentage of the total Revolving Commitments represented by such Lender's Revolving Commitment. If the Revolving Commitments have terminated or expired, the Applicable Percentages shall be determined based upon the Revolving Commitments most recently in effect, giving effect to any assignments.

"Applicable Rate" means, for any day:

(a) with respect to any ABR Loan or Eurodollar Loan that is a Tranche C Term Loan or Tranche C-1 Term Loan, the applicable rate per annum set forth below under the caption "ABR Spread" or "Eurodollar Spread", as the case may be, based upon the Leverage Ratio as of the most recent determination date; provided that until the delivery of the financial statements pursuant to Section 5.01 for the fiscal quarter ending October 4, 2003, the "Applicable Rate" for purposes of this clause (a) shall be the applicable rate per annum set forth in Category 3:

Leverage Ratio:	ABR --- Spread -----	Eurodollar ----- Spread -----

Category 1 -----		
Leverage Ratio is less than 1.50 to 1.00	1.25%	2.25%

Category 2 -----		
Leverage Ratio is greater than or equal to 1.50 to 1.00 and less than 2.00 to 1.00	1.50%	2.50%

Category 3 -----		
Leverage Ratio is greater than or equal to 2.00 to 1.00 and less than 2.50 to 1.00	1.75%	2.75%

Category 4 -----		
Leverage Ratio is greater than or equal to 2.50 to 1.00 and less than 3.00 to 1.00	2.00%	3.00%

Category 5 -----		
Leverage Ratio is greater than or equal to 3.00 to 1.00 and less than 3.50 to 1.00	2.25%	3.25%

Category 6 -----		
Leverage Ratio is greater than or equal to 3.50 to 1.00	2.50%	3.50%

(b) with respect to any ABR Loan or Eurodollar Loan that is a Revolving Loan, Tranche A Term Loan, Tranche A-1 Term Loan or with respect to commitment fees in respect of Revolving Commitments payable under Section 2.12(a), as the case may be, the applicable rate per annum set forth below under the caption "ABR Spread", "Eurodollar Spread" or "Commitment Fee Rate", as the case may be, based upon the Leverage Ratio as of the most recent determination date; provided that until the delivery of the financial statements pursuant to Section 5.01 for the fiscal quarter ending October 4, 2003, the "Applicable Rate" for purposes

of this clause (b) shall be the applicable rate per annum set forth below in Category 3:

	ABR ----- Spread -----	Eurodollar ----- Spread -----	Commitment Fee ----- Rate -----

Category 1 -----			
Leverage Ratio is less than 1.50 to 1.00	1.25%	2.25%	0.375%

Category 2 -----			
Leverage Ratio is greater than or equal to 1.50 to 1.00 and less than 2.00 to 1.00	1.50%	2.50%	0.375%

Category 3 -----			
Leverage Ratio is greater than or equal to 2.00 to 1.00 and less than 2.50 to 1.00	1.75%	2.75%	0.500%

Category 4 -----			
Leverage Ratio is greater than or equal to 2.50 to 1.00 and less than 3.00 to 1.00	2.00%	3.00%	0.500%

Category 5 -----			
Leverage Ratio is greater than or equal to 3.00 to 1.00 and less than 3.50 to 1.00	2.25%	3.25%	0.500%

Category 6 -----			
Leverage Ratio is greater than or equal to 3.50 to 1.00	2.50%	3.50%	0.500%

For purposes of the foregoing clauses (a) and (b), (i) the Leverage Ratio shall be determined as of the end of each fiscal quarter of the Borrower's fiscal year based upon the Borrower's consolidated financial statements delivered pursuant to Section 5.01(a) or (b) and (ii) each change in the Applicable Rate resulting from a change in the Leverage Ratio shall be effective during the period commencing on and including the date of delivery to the Administrative Agent of such consolidated financial statements indicating such change and ending on the date immediately preceding the effective date of the next such change; provided that the Leverage Ratio shall be deemed to be in Category 6, for purposes of the foregoing clauses (a) and (b), (A) at any time that an Event of Default has occurred and is continuing or (B) if the Borrower fails to deliver the consolidated financial statements required to be delivered by it pursuant

to Section 5.01(a) or (b), during the period from the expiration of the time for delivery thereof until such consolidated financial statements are delivered.

"Approved Fund" has the meaning assigned to such term in Section 9.04(b).

"Assessment Rate" means, for any day, the annual assessment rate in effect on such day that is payable by a member of the Bank Insurance Fund classified as "well-capitalized" and within supervisory subgroup "B" (or a comparable successor risk classification) within the meaning of 12 C.F.R. Part 327 (or any successor provision) to the Federal Deposit Insurance Corporation for insurance by such Corporation of time deposits made in dollars at the offices of such member in the United States; provided that if, as a result of any change in any law, rule or regulation, it is no longer possible to determine the Assessment Rate as aforesaid, then the Assessment Rate shall be such annual rate as shall be determined by the Administrative Agent to be representative of the cost of such insurance to the Lenders.

"Assignment and Assumption" means an assignment and assumption entered into by a Lender and an assignee (with the consent of any party whose consent is required by Section 9.04), and accepted by the Administrative Agent, in the form of Exhibit A or any other form approved by the Administrative Agent.

"Available Excess Cash Flow" means, as of any date, an amount equal to (a) the sum of Excess Cash Flow for each preceding fiscal year for which a mandatory prepayment was required by Section 2.11(c) less (b) the sum of the prepayments made by the Borrower pursuant to Section 2.11(c).

"Base CD Rate" means the sum of (a) the Three-Month Secondary CD Rate multiplied by the Statutory Reserve Rate plus (b) the Assessment Rate.

"Board" means the Board of Governors of the Federal Reserve System of the United States of America.

"Borrower" means Advance Stores Company, Incorporated, a Virginia corporation.

"Borrowing" means (a) Loans of the same Class and Type, made, converted or continued on the same date and, in the case of Eurodollar Loans, as to which a single Interest Period is in effect, or (b) a Swingline Loan.

"Borrowing Request" means a request by the Borrower for a Borrowing in accordance with Section 2.03.

"Business Day" means any day that is not a Saturday, Sunday or other day on which commercial banks in New York City are authorized or required by law to remain closed; provided that, when used in connection with a Eurodollar Loan, the term "Business Day" shall also exclude any day on which banks are not open for dealings in dollar deposits in the London interbank market.

"Capex Adjustment" means, in respect of any fiscal year for which Excess Cash Flow is required to be calculated hereunder, an amount equal to any liabilities in respect of payment for Capital Expenditures for such fiscal year that are included in the Borrower's consolidated current liabilities as of the end of such fiscal year for purposes of determining the increase or decrease in Net Working Capital for such fiscal year, but only to the extent that such liabilities are paid in cash prior to the last day of the first fiscal quarter of the immediately succeeding fiscal year; provided that the Borrower may elect, in its discretion, to exclude any such amount in calculating the Excess Cash Flow for such fiscal year, in which case the "Capex Adjustment" shall be such lesser amount (not less than zero) as the Borrower shall elect in calculating Excess Cash Flow for such fiscal year.

"Capital Expenditures" means, for any period, (a) the additions to property, plant and equipment and other capital expenditures of the Borrower and its consolidated Subsidiaries that are (or would be) set forth in a consolidated statement of cash flows of the Borrower for such period prepared in accordance with GAAP and (b) without duplication, Capital Lease Obligations incurred by the Borrower and its consolidated Subsidiaries during such period. "Capital Expenditures" shall not include the purchase of the property subject to the DAP Synthetic Lease Agreement.

"Capital Lease Obligations" of any Person means the obligations of such Person to pay rent or other amounts under any lease of (or other arrangement conveying the right to use) real or personal property, or a combination thereof, which obligations are required to be classified and accounted for as capital leases on a balance sheet of such Person under GAAP, and the amount of such obligations shall be the capitalized amount thereof determined in accordance with GAAP.

"Cash Concentration Account" means the "Cash Concentration Account", as defined in the Security Agreement.

"Change in Control" means at any time, (a) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person other than Holdings of any shares of capital stock of the Borrower; (b) the acquisition of ownership, directly or indirectly, beneficially or of record, by any Person or group (within the meaning of Rule 13d-5 under the United States Securities and Exchange Act of 1934 in effect on the date hereof), other than FS&C Investors and their Affiliates, of shares representing more than 25% of the aggregate ordinary voting power represented by the issued and outstanding capital stock of Holdings; (c) occupation of a majority of the seats (other than vacant seats) on the board of directors of Holdings by Persons who were not Continuing Directors; or (d) while any of the Existing Subordinated Debt, Additional Subordinated Debt, Holdings Senior Discount Debentures or Replacement Subordinated Debt is outstanding, a "Change of Control" (as defined in the Existing Subordinated Debt Documents, Additional Subordinated Debt Documents, Holdings Senior Discount Debenture Documents or Replacement Subordinated Debt Documents, as applicable) shall have occurred.

"Change in Law" means (a) the adoption of any law, rule or regulation after the Effective Date, (b) any change in any law, rule or regulation or in the interpretation or application thereof by any Governmental Authority after the Effective Date or (c) compliance by any Lender or the Issuing Bank (or, for purposes of Section 2.15(b), by any lending office of such Lender or by such Lender's or the Issuing Bank's holding company, if any) with any request, guideline or directive (whether or not having the force of law) of any Governmental Authority made or issued after the Effective Date.

"Class", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are Revolving Loans, Tranche A Term Loans, Tranche A-1 Term Loans, Tranche C Term Loans, Tranche C-1 Term Loans or Swingline Loans and, when used in reference to any Commitment, refers to whether such Commitment is a Revolving Commitment, Tranche A Commitment, Tranche A-1 Commitment, Tranche C Commitment or Tranche C-1 Commitment.

"Code" means the Internal Revenue Code of 1986, as amended from time to time.

"Collateral" means any and all "Collateral", as defined in any applicable Security Document.

"Collateral Agent" means the "Collateral Agent", as defined in any applicable Security Document.

"Collection Deposit Account" means the "Collection Deposit Account", as defined in the Security Agreement.

"Collection Deposit Letter Agreement" means the "Collection Deposit Letter Agreement", as defined in the Security Agreement.

"Commitment" means a Revolving Commitment, Tranche A Commitment, Tranche A-1 Commitment, Tranche C Commitment, Tranche C-1 Commitment or any combination thereof (as the context requires).

"Consolidated EBITDA" means, for any period, Adjusted Consolidated Net Income for such period, plus, without duplication and to the extent deducted from revenues in determining Adjusted Consolidated Net Income, the sum of (a) consolidated interest expense for such period, (b) the aggregate amount of letter of credit fees accrued during such period, (c) the aggregate amount of income tax expense for such period, (d) all depreciation and amortization expense for such period and (e) other non-cash charges for such period (excluding any non-cash charges that constitute an accrual of or reserve for future cash payments), and minus, without duplication and to the extent added to revenues in determining Adjusted Consolidated Net Income for such period, all non-cash gains during such period, all as determined on a consolidated basis with respect to Holdings and the Subsidiaries in accordance with GAAP.

"Consolidated Interest Expense" means, for any period, the interest expense of Holdings and its Subsidiaries for such period, determined on a consolidated basis in accordance with GAAP; provided that, in the case of Holdings, interest expense in respect of the Holdings Senior Discount Debentures shall be included only to the extent paid in cash. For purposes of calculating Consolidated Interest Expense for each of the four-fiscal-quarter periods ending on December 29, 2001, April 20, 2002, July 13, 2002 and October 5, 2002, Consolidated Interest Expense shall be deemed to equal the product of (a) the quotient obtained by dividing (i) Consolidated Interest Expense for the period commencing on and including the Effective Date and ending on and including the last day of the period for which such calculation is required to be made, by (ii) the number of

days during the period described in clause (i) above, multiplied by (b) 364.

"Consolidated Interest Expense Coverage Ratio" means, on any date, the ratio of (a) Consolidated EBITDA to (b) Consolidated Interest Expense (net of interest income) for the period of four consecutive fiscal quarters of the Borrower ended as of such date, all determined on a consolidated basis in accordance with GAAP.

"Consolidated Net Income" means, for any period, net income or loss of Holdings and its Subsidiaries for such period determined on a consolidated basis in accordance with GAAP.

"Continuing Directors" means the directors of Holdings on the Effective Date, after giving effect to the Reorganization, and each other director, if, in each case, such other director's nomination for election to the board of directors of Holdings is approved by a majority of the then Continuing Directors or such other director receives the vote of FS&C in his or her election by the stockholders of Holdings.

"Control" means the possession, directly or indirectly, of the power to direct or cause the direction of the management or policies of a Person, whether through the ability to exercise voting power, by contract or otherwise. "Controlling" and "Controlled" have meanings correlative thereto.

"Current Assets" means, as of any date of determination, the amount of all inventory and accounts receivable (excluding all accounts receivable sold or transferred pursuant to any Receivables Program) owned by the Borrower and the Subsidiary Loan Parties as of such date, determined on a consolidated basis in accordance with GAAP.

"DAP" means Discount Auto Parts, Inc., a Florida corporation.

"DAP Equity Transfer" means the contribution by Holdings of the Equity Interests of DAP to the Borrower as a capital contribution after consummation of the DAP Merger.

"DAP Master Lease Agreement" means, collectively, (a) the Master Lease dated as of February 27, 2001, between DAPPER Properties I, LLC and DAP, (b) the Master Lease dated as of February 27, 2001, between DAPPER Properties II, LLC and DAP, (c) the Master Lease dated as of February 27, 2001,

between DAPPER Properties III, LLC and DAP and (d) the Sale, Leaseback Agreement dated as of February 27, 2001, among DAPPER Properties I, LLC, DAPPER Properties II, LLC, DAPPER Properties III, LLC and DAP, each as amended from time to time.

"DAP Merger" means the merger of Newco Sub with and into DAP, in accordance with the Merger Agreement, pursuant to which (a) DAP will be the surviving corporation and will become a wholly owned subsidiary of Holdings and (b) the Persons that, immediately prior to such merger, are stockholders of DAP (or holders of "in the money" options to acquire common stock or other equity equivalents of DAP) will become entitled to receive the DAP Merger Consideration as consideration for the conversion or cancelation of their interests in DAP.

"DAP Merger Consideration" means the consideration payable to the Persons that, immediately prior to the DAP Merger, were shareholders of DAP (or holders of "in the money" options to acquire common stock or other equity equivalents of DAP), in accordance with the Merger Agreement, consisting of (a) cash in an aggregate amount of \$128,400,000 and (b) approximately 4,305,000 shares of Holdings common stock.

"DAP Synthetic Lease Agreement" means, collectively, (a) the Master Agreement dated as of May 30, 2000, among DAP, Discount Auto Parts Distribution Center, Inc., certain other subsidiaries of DAP, Atlantic Financial Group, Ltd. and SunTrust Bank and (b) the Master Lease Agreement dated as of May 30, 2000, among Atlantic Financial Group, Ltd., Discount Auto Parts Distribution Center, Inc. and certain other subsidiaries of DAP.

"Default" means any event or condition which constitutes an Event of Default or which upon notice, lapse of time or both would, unless cured or waived, become an Event of Default.

"Debt Retirement Costs" means any call premiums, write-offs of unamortized discounts or deferred financing costs and fees and any expenses relating to or incurred in connection with the redemption, repurchase, prepayment or other early retirement of any Existing Senior Subordinated Notes, Additional Senior Subordinated Notes and Holdings Senior Discount Debentures as well as any write-offs relating to the Amendment and Restatement Agreement.

"Deferred Compensation Obligations" means a non-qualified deferred compensation plan that allows executives

of the Borrower and the Subsidiaries to defer receipt of specified portions of base and bonus earnings each calendar year. Deferrals are maintained as a liability, along with assets owned by the Borrower, in a trust owned by the Borrower.

"Disclosed Matters" means the actions, suits and proceedings and the environmental matters disclosed in Schedule 3.06.

"Documentation Agents" means SunTrust Bank and Wachovia Bank, National Association.

"dollars" or "\$" refers to lawful money of the United States of America.

"Effective Date" means November 28, 2001, the date on which the conditions specified in Section 4.01 of the Original Credit Agreement were satisfied.

"Environmental Laws" means all laws, rules, regulations, codes, ordinances, orders, decrees, judgments, injunctions, notices or binding agreements issued, promulgated or entered into by or with any Governmental Authority, relating in any way to the environment, preservation or reclamation of natural resources, the management, release or threatened release of any Hazardous Material or to health and safety matters.

"Environmental Liability" means any liability, contingent or otherwise (including any liability for damages, costs of environmental remediation, fines, penalties or indemnities), of Holdings, the Borrower or any Subsidiary directly or indirectly resulting from or based upon (a) violation of any Environmental Law, (b) the generation, use, handling, transportation, storage, treatment or disposal of any Hazardous Materials, (c) exposure to any Hazardous Materials, (d) the release or threatened release of any Hazardous Materials into the environment or (e) any contract, agreement or other consensual arrangement pursuant to which liability is assumed or imposed with respect to any of the foregoing.

"Equity Interests" means shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity ownership interests in a Person or any warrants, options or other rights to acquire such interests.

"ERISA" means the Employee Retirement Income Security Act of 1974, as amended from time to time.

"ERISA Affiliate" means any trade or business (whether or not incorporated) that, together with the Borrower, is treated as a single employer under Section 414(b) or (c) of the Code or, solely for purposes of Section 302 of ERISA and Section 412 of the Code, is treated as a single employer under Section 414 of the Code.

"ERISA Event" means (a) any "reportable event", as defined in Section 4043 of ERISA or the regulations issued thereunder with respect to a Plan (other than an event for which the 30-day notice period is waived); (b) the existence with respect to any Plan of an "accumulated funding deficiency" (as defined in Section 412 of the Code or Section 302 of ERISA), whether or not waived; (c) the filing pursuant to Section 412(d) of the Code or Section 303(d) of ERISA of an application for a waiver of the minimum funding standard with respect to any Plan; (d) the incurrence by the Borrower or any of its ERISA Affiliates of any liability under Title IV of ERISA with respect to the termination of any Plan; (e) the receipt by the Borrower or any ERISA Affiliate from the PBGC or a plan administrator of any notice relating to an intention to terminate any Plan or Plans or to appoint a trustee to administer any Plan; (f) the incurrence by the Borrower or any of its ERISA Affiliates of any liability with respect to the withdrawal or partial withdrawal from any Plan or Multiemployer Plan; or (g) the receipt by the Borrower or any ERISA Affiliate of any notice, or the receipt by any Multiemployer Plan from the Borrower or any ERISA Affiliate of any notice, concerning the imposition of Withdrawal Liability or a determination that a Multiemployer Plan is, or is expected to be, insolvent or in reorganization, within the meaning of Title IV of ERISA.

"Eurodollar", when used in reference to any Loan or Borrowing, refers to whether such Loan, or the Loans comprising such Borrowing, are bearing interest at a rate determined by reference to the Adjusted LIBO Rate.

"Event of Default" has the meaning assigned to such term in Article VII.

"Excess Cash Flow" means, for any fiscal year, the sum (without duplication) of:

- (a) the consolidated net income (or loss) of the Borrower and its consolidated Subsidiaries for such fiscal year, adjusted to exclude (i) any gains or losses attributable to Prepayment Events and (ii) to the extent not otherwise excluded, any Restricted

Payments made to Holdings during such fiscal year by the Borrower and its Subsidiaries; plus

(b) depreciation, amortization and other non-cash charges or losses deducted in determining such consolidated net income (or loss) for such fiscal year; plus

(c) the sum of (i) the amount, if any, by which Net Working Capital decreased during such fiscal year plus (ii) the amount, if any, by which the consolidated deferred revenues of the Borrower and its consolidated Subsidiaries increased during such fiscal year plus (iii) the aggregate amount of Capital Lease Obligations and principal of other Indebtedness incurred during such fiscal year to finance Capital Expenditures, to the extent that mandatory principal payments in respect of such Indebtedness would not be excluded from clause (f) below when made plus (iv) if any Capex Adjustment was deducted for the immediately preceding fiscal year pursuant to clause (d) below, the amount of such Capex Adjustment; minus

(d) the sum of (i) any non-cash gains included in determining such consolidated net income (or loss) for such fiscal year plus (ii) the amount, if any, by which Net Working Capital increased during such fiscal year plus (iii) the amount, if any, by which the consolidated deferred revenues of the Borrower and its consolidated Subsidiaries decreased during such fiscal year plus (iv) any Capex Adjustment for such fiscal year; minus

(e) Capital Expenditures for such fiscal year; minus

(f) the aggregate principal amount of Indebtedness repaid or prepaid by the Borrower and its consolidated Subsidiaries during such fiscal year, excluding (i) Indebtedness in respect of Revolving Loans and Letters of Credit, (ii) Term Loans prepaid pursuant to Section 2.11(b) or (c), (iii) repayments or prepayments of Indebtedness financed (A) by incurring other Indebtedness, to the extent that mandatory principal payments in respect of such other Indebtedness would not be excluded from this clause (f) when made, or (B) with the proceeds of any IPO or Public Offering and (iv) Indebtedness referred to in clauses (viii) and (ix) of Section 6.01(a); minus

(g) the aggregate amount of cash dividends paid or loans made by the Borrower to Holdings during such fiscal year pursuant to Section 6.07(a)(viii), but only to the extent that any such cash dividends or loans (i) are used to purchase Holdings Senior Discount Debentures as permitted by Section 6.07(b)(vii) and (ii) are not financed with the proceeds of any Replacement Senior Subordinated Notes, IPO, Public Offering or the proceeds of the loans made hereunder; and minus

(h) the aggregate amount of cash dividends paid or loans made by the Borrower to Holdings during such fiscal year pursuant to Section 6.07(a)(vi), but only to the extent that any such cash dividends or loans are used by Holdings to make Restricted Payments pursuant to Section 6.07(a)(ix).

"Excluded Taxes" means, with respect to the Administrative Agent, any Lender, the Issuing Bank or any other recipient of any payment to be made by or on account of any obligation of the Borrower hereunder, (a) income or franchise taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits taxes imposed by the United States of America or any similar tax imposed by any other jurisdiction in which the Borrower is located and (c) in the case of a Foreign Lender (other than an assignee pursuant to a request by the Borrower under Section 2.19(b)), any withholding tax that is imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender's failure to comply with Section 2.17(e), except to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from the Borrower with respect to such withholding tax pursuant to Section 2.17(a).

"Existing Credit Agreement" has the meaning given to such term in the recitals hereto.

"Existing DAP Credit Agreement" means the Revolving Credit Agreement dated as of July 29, 1999, as amended and in effect immediately prior to the Effective Date, among DAP, SunTrust Bank, Central Florida, National Association, individually and as Administrative Agent, SunTrust Equitable Securities Corporation, as Arranger and

Book Manager, Bank of America, N.A., individually and as Syndication Agent, First National Bank of Chicago, individually and as Documentation Agent, SouthTrust Bank, National Association, Amsouth Bank, First Union National Bank, Banque Nationale de Paris, Regions Bank and Hibernia National Bank.

"Existing DAP Indebtedness" means all principal, interest and other amounts in respect of the Indebtedness of DAP and its subsidiaries outstanding at the time of (and immediately prior to giving effect to) the DAP Merger.

"Existing DAP Issuing Bank" means SunTrust Bank.

"Existing Issuing Bank" means First Union National Bank.

"Existing Letters of Credit" means all letters of credit outstanding as of the Effective Date that were deemed to have been issued under the Original Credit Agreement as of the Effective Date as provided therein.

"Existing Senior Subordinated Notes" means the Senior Subordinated Notes issued by the Borrower prior to the Effective Date and due April 2008 in the aggregate principal amount of \$169,500,000.

"Existing Subordinated Debt" means the Existing Senior Subordinated Notes, any Guarantees thereof and the Indebtedness represented thereby.

"Existing Subordinated Debt Documents" means the indenture under which the Existing Subordinated Debt is outstanding and all other instruments, agreements and other documents evidencing or governing the Existing Subordinated Debt or providing for any Guarantee or other right in respect thereof.

"Federal Funds Effective Rate" means, for any day, the weighted average (rounded upwards, if necessary, to the next 1/100 of 1%) of the rates on overnight Federal funds transactions with members of the Federal Reserve System arranged by Federal funds brokers, as published on the next succeeding Business Day by the Federal Reserve Bank of New York, or, if such rate is not so published for any day that is a Business Day, the average (rounded upwards, if necessary, to the next 1/100 of 1%) of the quotations for such day for such transactions received by the Administrative Agent from three Federal funds brokers of recognized standing selected by it.

"Financial Officer" means the chief financial officer, vice president of finance, principal accounting officer, treasurer or controller of Holdings or the Borrower, as applicable.

"Financing Transactions" means (a) the execution, delivery and performance by each Loan Party of the Original Credit Agreement and the documents related thereto to which it was a party, the borrowing of Loans thereunder, the use of the proceeds thereof and the issuance of Letters of Credit under the Original Credit Agreement and (b) the execution, delivery and performance by each Loan Party of the Additional Subordinated Debt Documents to which it is a party, the issuance of the Additional Subordinated Debt and the use of the proceeds thereof.

"Foreign Lender" means any Lender that is organized under the laws of a jurisdiction other than that in which the Borrower is located. For purposes of this definition, the United States of America, each State thereof and the District of Columbia shall be deemed to constitute a single jurisdiction.

"Foreign Subsidiary" means any Subsidiary that is organized under the laws of a jurisdiction other than the United States of America or any State thereof or the District of Columbia.

"FS&C" means Freeman Spogli & Co. LLC.

"FS&C Investors" means FS&C and certain other investors arranged by FS&C that are equity investors in AHC Holdings immediately prior to (and become equity investors in Holdings as a result of) the AHC Merger.

"Funded Senior Debt" means, as of any date, Total Debt as of such date, excluding (to the extent included therein) Indebtedness in respect of the Existing Senior Subordinated Notes, the Additional Senior Subordinated Notes and any Replacement Senior Subordinated Notes.

"GAAP" means generally accepted accounting principles in the United States of America.

"Governmental Authority" means the government of the United States of America, any other nation or any political subdivision thereof, whether state or local, and any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative powers or functions of or pertaining to government.

"Guarantee" of or by any Person (the "guarantor") means any obligation, contingent or otherwise, of the guarantor guaranteeing or having the economic effect of guaranteeing any Indebtedness or other obligation of any other Person (the "primary obligor") in any manner, whether directly or indirectly, and including any obligation of the guarantor, direct or indirect, (a) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness or other obligation or to purchase (or to advance or supply funds for the purchase of) any security for the payment thereof, (b) to purchase or lease property, securities or services for the purpose of assuring the owner of such Indebtedness or other obligation of the payment thereof, (c) to maintain working capital, equity capital or any other financial statement condition or liquidity of the primary obligor so as to enable the primary obligor to pay such Indebtedness or other obligation or (d) as an account party in respect of any letter of credit or letter of guaranty issued to support such Indebtedness or obligation; provided, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business.

"Guarantee Agreement" means the Guarantee Agreement, substantially in the form of Exhibit C, made by Holdings and the Subsidiary Loan Parties in favor of the Administrative Agent for the benefit of the Secured Parties.

"Hazardous Materials" means all explosive or radioactive substances or wastes and all hazardous or toxic substances, wastes or other pollutants, including petroleum or petroleum distillates, asbestos or asbestos containing materials, polychlorinated biphenyls, radon gas, infectious or medical wastes and all other substances or wastes of any nature regulated pursuant to any Environmental Law.

"Hedging Agreement" means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

"Holdings" means Advance Auto Parts, Inc., a Delaware corporation.

"Holdings Senior Discount Debenture Documents" means the indenture under which the Holdings Senior Discount Debentures are outstanding and all other instruments, agreements and other documents evidencing or governing the Holdings Senior Discount Debentures or providing for any Guarantee or other right in respect thereof.

"Holdings Senior Discount Debentures" means the Senior Discount Debentures due 2009 issued by AHC Holdings on April 15, 1998, that will become Indebtedness of Holdings as a result of the AHC Merger.

"Indebtedness" of any Person means, without duplication, (a) all obligations of such Person for borrowed money or with respect to deposits or advances of any kind, (b) all obligations of such Person evidenced by bonds, debentures, notes or similar instruments, (c) all obligations of such Person under conditional sale or other title retention agreements relating to property acquired by such Person, (d) all obligations of such Person in respect of the deferred purchase price of property or services (excluding (i) accounts payable incurred in the ordinary course of business that are not overdue by more than 90 days and (ii) Deferred Compensation Obligations), (e) all Indebtedness of others secured by (or for which the holder of such Indebtedness has an existing right, contingent or otherwise, to be secured by) any Lien on property owned or acquired by such Person, whether or not the Indebtedness secured thereby has been assumed, (f) all Guarantees by such Person of Indebtedness of others, (g) all Capital Lease Obligations of such Person, (h) all obligations, contingent or otherwise, of such Person as an account party in respect of letters of credit and letters of guaranty and (i) all obligations, contingent or otherwise, of such Person in respect of bankers' acceptances. The Indebtedness of any Person shall include the Indebtedness of any other entity (including any partnership in which such Person is a general partner) to the extent such Person is liable therefor as a result of such Person's ownership interest in or other relationship with such entity, except to the extent the terms of such Indebtedness provide that such Person is not liable therefor. The amount of any Indebtedness described in clause (f) above shall be limited to the maximum amount payable under the applicable Guarantee of such Person if such Guarantee contains limitations on the amount payable thereunder.

"Indemnified Taxes" means Taxes other than Excluded Taxes.

"Indemnity, Subrogation and Contribution Agreement" means the Indemnity, Subrogation and Contribution Agreement, substantially in the form of Exhibit B, among Holdings, the Borrower, the Subsidiary Loan Parties and the Administrative Agent.

"Initial Revolving Borrowing" means the Revolving Borrowing on the Restatement Effective Date not in excess of \$50,000,000.

"Interest Election Request" means a request by the Borrower to convert or continue a Borrowing in accordance with Section 2.07.

"Interest Payment Date" means (a) with respect to any ABR Loan (other than a Swingline Loan), the last day of each March, June, September and December, (b) with respect to any Eurodollar Loan, the last day of the Interest Period applicable to the Borrowing of which such Loan is a part and, in the case of a Eurodollar Borrowing with an Interest Period of more than three months' duration, each day prior to the last day of such Interest Period that occurs at intervals of three months' duration after the first day of such Interest Period, and (c) with respect to any Swingline Loan, the day that such Loan is required to be repaid.

"Interest Period" means with respect to any Eurodollar Borrowing, the period commencing on the date of such Borrowing and ending on the numerically corresponding day in the calendar month that is one, two, three or six months thereafter, as the Borrower may elect; provided, that (i) if any Interest Period would end on a day other than a Business Day, such Interest Period shall be extended to the next succeeding Business Day unless such next succeeding Business Day would fall in the next calendar month, in which case such Interest Period shall end on the next preceding Business Day and (ii) any Interest Period that commences on the last Business Day of a calendar month (or on a day for which there is no numerically corresponding day in the last calendar month of such Interest Period) shall end on the last Business Day of the last calendar month of such Interest Period. For purposes hereof, the date of a Borrowing initially shall be the date on which such Borrowing is made and thereafter shall be the effective date of the most recent conversion or continuation of such Borrowing.

"Inventory" means, as of any date of determination, (a) "inventory", as defined in the Uniform Commercial Code as in effect in the State of New York and (b) all finished goods, wares and merchandise, finished or unfinished parts, components, assemblies held for sale to third party customers based on perpetual inventory reports, including reconciling items to the perpetual reports, defined and classified by the Borrower and its Subsidiaries on a basis consistent with current and historical accounting practice in accordance with GAAP.

"IPO" means the issuance by Holdings of shares of its common stock to the public pursuant to a bona fide underwritten public offering after the Effective Date, resulting in the receipt by Holdings of at least \$80,000,000 of gross cash proceeds.

"Issuing Bank" means (a) JPMorgan Chase Bank, in its capacity as the issuer of Letters of Credit hereunder, and its successors in such capacity as provided in Section 2.05(i), (b) solely with respect to the Existing Letters of Credit issued under the Existing DAP Credit Agreement, the Existing DAP Issuing Bank, (c) solely with respect to the Existing Letters of Credit issued by it under the Existing Credit Agreement, the Existing Issuing Bank or (d) any other Lender approved by the Administrative Agent and the Borrower. An Issuing Bank may, in its discretion, arrange for one or more Letters of Credit to be issued by Affiliates of such Issuing Bank, in which case the term "Issuing Bank" shall include any such Affiliate with respect to Letters of Credit issued by such Affiliate.

"LC Disbursement" means a payment made by the Issuing Bank pursuant to a Letter of Credit.

"LC Exposure" means, at any time, the sum of (a) the aggregate undrawn amount of all outstanding Letters of Credit at such time plus (b) the aggregate amount of all LC Disbursements that have not yet been reimbursed by or on behalf of the Borrower at such time. The LC Exposure of any Revolving Lender at any time shall be its Applicable Percentage of the total LC Exposure at such time.

"Lenders" means the Persons listed on Schedule 2.01, the Persons that are Tranche A Lenders and Tranche C Lenders as of the Restatement Effective Date and any other Person that shall have become a party hereto pursuant to an Assignment and Acceptance, other than any such Person that ceases to be a party hereto pursuant to an Assignment and Acceptance. Unless the context otherwise requires, the term "Lenders" includes the Swingline Lender.

"Letter of Credit" means any letter of credit issued pursuant to this Agreement. Each Existing Letter of Credit will be deemed to constitute a Letter of Credit for all purposes under the Loan Documents as though each Existing Letter Credit had been issued hereunder on the Effective Date.

"Leverage Ratio" means, on any date, the ratio of (a) Total Debt as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters of

Holdings most recently ended as of such date (or, if such date is not the last day of a fiscal quarter, then most recently ended prior to such date), all determined on a consolidated basis in accordance with GAAP.

"LIBO Rate" means, with respect to any Eurodollar Borrowing for any Interest Period, the rate appearing on Page 3750 of the Dow Jones Markets Service (or on any successor or substitute page of such Service, or any successor to or substitute for such Service, providing rate quotations comparable to those currently provided on such page of such Service, as determined by the Administrative Agent from time to time for purposes of providing quotations of interest rates applicable to dollar deposits in the London interbank market) at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period, as the rate for dollar deposits with a maturity comparable to such Interest Period. In the event that such rate is not available at such time for any reason, then the LIBO Rate with respect to such Eurodollar Borrowing for such Interest Period shall be the rate at which dollar deposits of \$5,000,000 and for a maturity comparable to such Interest Period are offered by the principal London office of the Administrative Agent in immediately available funds in the London interbank market at approximately 11:00 a.m., London time, two Business Days prior to the commencement of such Interest Period.

"Lien" means, with respect to any asset, (a) any mortgage, deed of trust, lien, pledge, hypothecation, encumbrance, charge or security interest in, on or of such asset, (b) the interest of a vendor or a lessor under any conditional sale agreement, capital lease or title retention agreement (or any financing lease having substantially the same economic effect as any of the foregoing) relating to such asset and (c) in the case of securities, any purchase option, call or similar right of a third party with respect to such securities.

"Loan Documents" means this Agreement, the promissory notes, if any, executed and delivered pursuant to Section 2.09(e), the Amendment and Restatement Agreement, the Reaffirmation Agreement, the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement and the Security Documents.

"Loan Parties" means Holdings, the Borrower and the Subsidiary Loan Parties.

"Loans" means the loans made by the Lenders to the Borrower pursuant to, or that are outstanding under, this Agreement.

"Low Turnover Inventory" means slow-moving inventory of the Borrower or its Subsidiaries identified on a certificate of a Financial Officer of the Borrower (which certificate shall be delivered to the Administrative Agent no later than 90 days after the Effective Date) that is expected to be returned to the respective suppliers of such inventory for cash at a discount to cost within 18 months after the Effective Date; provided that the aggregate cost of such inventory shall not exceed \$70,000,000.

"Material Adverse Effect" means a material adverse effect on (a) the business, assets, operations, prospects or condition, financial or otherwise, of Holdings, the Borrower and the Subsidiaries taken as a whole, (b) the ability of any Loan Party to perform any of its obligations under any Loan Document or (c) the rights of or benefits available to the Lenders under any Loan Document.

"Material Indebtedness" means Indebtedness (other than the Loans and Letters of Credit), or obligations in respect of one or more Hedging Agreements, of any one or more of Holdings, the Borrower and their Subsidiaries in an aggregate principal amount exceeding \$5,000,000. For purposes of determining Material Indebtedness, the "principal amount" of the obligations of Holdings, the Borrower or any Subsidiary in respect of any Hedging Agreement at any time shall be the maximum aggregate amount (giving effect to any netting agreements) that Holdings, the Borrower or such Subsidiary would be required to pay if such Hedging Agreement were terminated at such time.

"Merger Agreement" means the Agreement and Plan of Merger dated as of August 7, 2001, by and among Holdings, AHC Holdings, the Borrower, Newco Sub and DAP.

"Moody's" means Moody's Investors Service, Inc.

"Mortgage" means a mortgage, deed of trust, assignment of leases and rents, leasehold mortgage or other security document granting a Lien on any Mortgaged Property to secure the Obligations. Each Mortgage shall be satisfactory in form and substance to the Collateral Agent.

"Mortgaged Property" means, initially, each parcel of real property and the improvements thereto owned or leased by a Loan Party and identified on Schedule 1.01(b), and includes each other parcel of real property and

improvements thereto with respect to which a Mortgage is granted pursuant to Section 5.12 or 5.13.

"Multiemployer Plan" means a multiemployer plan as defined in Section 4001(a)(3) of ERISA.

"Net Cash Proceeds" means, with respect to any event (a) the cash proceeds received in respect of such event including (i) any cash received in respect of any non-cash proceeds, but only as and when received, (ii) in the case of a casualty, insurance proceeds, and (iii) in the case of a condemnation or similar event, condemnation awards and similar cash payments, net of (b) the sum of (i) all commissions, fees and out-of-pocket expenses paid by Holdings, the Borrower and the Subsidiaries to third parties (other than Affiliates) in connection with such event, (ii) in the case of a sale, transfer or other disposition of an asset (including pursuant to a sale and leaseback transaction or a casualty or other damage or condemnation or similar proceeding), the amount of all payments required to be made by Holdings, the Borrower and the Subsidiaries as a result of such event to repay Indebtedness (other than Loans) secured by such asset or otherwise subject to mandatory prepayment as a result of such event, and (iii) the amount of all taxes paid (or reasonably estimated to be payable) by Holdings, the Borrower and the Subsidiaries, and the amount of any reserves established by Holdings, the Borrower and the Subsidiaries to fund (A) retained liabilities relating to the assets sold or (B) contingent liabilities reasonably estimated to be payable, in each case during the year that such event occurred or the next two succeeding years and that are directly attributable to such event (as determined reasonably and in good faith by the chief financial officer of the Borrower).

"Net Working Capital" means, at any date, (a) the consolidated current assets of the Borrower and its consolidated Subsidiaries as of such date (excluding cash and Permitted Investments) minus (b) the consolidated current liabilities of the Borrower and its consolidated Subsidiaries as of such date (excluding current liabilities in respect of Indebtedness). Net Working Capital at any date may be a positive or negative number. Net Working Capital increases when it becomes more positive or less negative and decreases when it becomes less positive or more negative.

"Newco Sub" means AAP Acquisition Corporation, a Florida corporation and a wholly owned subsidiary of Holdings.

"Obligations" has the meaning assigned to such term in the Security Agreement.

"Original Credit Agreement" means the Credit Agreement dated as of November 28, 2001, among Holdings, the Borrower, the lenders party thereto and JPMorgan Chase Bank, as administrative agent.

"Other Taxes" means any and all current or future stamp or documentary taxes or any other excise or property taxes, charges or similar levies arising from any payment made under any Loan Document or from the execution, delivery or enforcement of, or otherwise with respect to, any Loan Document.

"PBGC" means the Pension Benefit Guaranty Corporation referred to and defined in ERISA and any successor entity performing similar functions.

"Perfection Certificate" means a certificate in the form of Annex 1 to the Security Agreement or any other form approved by the Collateral Agent.

"Permitted Acquisition" means any acquisition (other than the acquisition of DAP as a result of the Reorganization) by the Borrower or a Subsidiary of the Borrower of all or substantially all the assets of, or all the Equity Interests in, a Person or division or line of business of a Person if, immediately after giving effect thereto, (a) no Default has occurred and is continuing or would result therefrom, (b) all transactions related thereto are consummated in accordance with applicable laws, (c) all the Equity Interests of each Subsidiary formed for the purpose of or resulting from such acquisition shall be owned directly by the Borrower or a Subsidiary of the Borrower and all actions required to be taken with respect to such acquired or newly formed Subsidiary under Sections 5.12 and 5.13 have been taken, (d) the Borrower and its Subsidiaries are in compliance, on a pro forma basis after giving effect to such acquisition, with the covenants contained in Sections 6.13, 6.14, 6.15 and 6.17 recomputed as of the last day of the most recently ended fiscal quarter of the Borrower for which financial statements are available, as if such acquisition (and any related incurrence or repayment of Indebtedness, with any new Indebtedness being deemed to be amortized over the applicable testing period in accordance with its terms, and assuming that any Revolving Loans borrowed in connection with such acquisition are repaid with excess cash balances when available) had occurred on the first day of each relevant period for testing such compliance and (e) the Borrower has delivered to the

Administrative Agent an officers' certificate to the effect set forth in clauses (a), (b), (c) and (d) above, together with all relevant financial information for the Person or assets to be acquired.

"Permitted Asset Swap" means any transfer of properties or assets by the Borrower or any of its Subsidiaries in which at least 80% of the consideration received by the transferor consists of properties or assets (other than cash) that will be used in the business of such transferor, provided that (a) the aggregate fair market value (as determined in good faith by the board of directors of the Borrower) of the property or assets (including cash) being transferred by the Borrower or such Subsidiary, as the case may be, is not greater than the aggregate fair market value (as determined in good faith by the board of directors of the Borrower) of the property or assets (including cash) received by the Borrower or such Subsidiary, as the case may be, in such exchange and (b) the aggregate fair market value (as determined in good faith by the board of directors of the Borrower) of all property or assets (other than up to 35 Stores that are transferred by the Borrower or any of its Subsidiaries within 90 days after the Effective Date to any of DAPPER Properties I, LLC, DAPPER Properties II, LLC or DAPPER Properties III, LLC (and leased back under the DAP Master Lease Agreement) in exchange for Stores transferred by DAPPER Properties I, LLC, DAPPER Properties II, LLC or DAPPER Properties III, LLC to the Borrower or a Subsidiary Loan Property and released from the DAP Master Lease Agreement) transferred by the Borrower and any of its Subsidiaries in connection with exchanges in any period of twelve consecutive months shall not exceed \$40,000,000.

"Permitted Encumbrances" means:

(a) Liens imposed by law for taxes or government assessments that are not yet due or are being contested in compliance with Section 5.05;

(b) carriers', warehousemen's, mechanics', materialmen's, repairmen's and other like Liens imposed by law, arising in the ordinary course of business and securing obligations that are not overdue by more than 60 days or are being contested in compliance with Section 5.05;

(c) pledges and deposits made in the ordinary course of business in compliance with workers' compensation, unemployment insurance and other social security laws or regulations;

(d) deposits (and, to the extent securing a trade contract or indemnity bond, Liens on assets to which such contract or bond relates) to secure the performance of bids, trade contracts, leases, statutory obligations, surety, indemnity and appeal bonds, performance bonds and other obligations of a like nature, in each case in the ordinary course of business;

(e) judgment liens in respect of judgments that do not constitute an Event of Default under clause (k) of Article VII;

(f) easements, zoning restrictions, rights-of-way and similar encumbrances on real property imposed by law or arising in the ordinary course of business that do not secure any monetary obligations and do not interfere with the ordinary conduct of business of Holdings or any Subsidiary;

(g) any interest or title of a lessor under any lease that is limited to the property subject to such lease; and

(h) unperfected Liens of any vendor on inventory sold by such vendor securing the unpaid purchase price of such inventory, to the extent such Liens are stated to be reserved in such vendor's sale documents (and not granted by separate agreement of the Borrower or any Subsidiary);

provided that the term "Permitted Encumbrances" shall not include any Lien securing Indebtedness.

"Permitted Investments" means:

(a) direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America (or by any agency thereof to the extent such obligations are backed by the full faith and credit of the United States of America), in each case maturing within one year from the date of acquisition thereof;

(b) investments in commercial paper maturing within 270 days from the date of acquisition thereof and having, at such date of acquisition, the highest credit rating obtainable from S&P or from Moody's;

(c) investments in certificates of deposit, banker's acceptances and time deposits maturing within

180 days from the date of acquisition thereof issued or guaranteed by or placed with, and money market deposit accounts issued or offered by, any domestic office of any commercial bank organized under the laws of the United States of America or any State thereof which has a combined capital and surplus and undivided profits of not less than \$500,000,000;

(d) fully collateralized repurchase agreements with a term of not more than 30 days for securities described in clause (a) above and entered into with a financial institution satisfying the criteria described in clause (c) above; and

(e) investments in money market or mutual funds substantially all the assets of which are comprised of securities of the types described in any of clauses (a) through (d) above.

"Person" means any natural person, corporation, limited liability company, trust, joint venture, association, company, partnership, Governmental Authority or other entity.

"Plan" means any employee pension benefit plan (other than a Multiemployer Plan) subject to the provisions of Title IV of ERISA or Section 412 of the Code or Section 302 of ERISA, and in respect of which the Borrower or any ERISA Affiliate is (or, if such plan were terminated, would under Section 4069 of ERISA be deemed to be) an "employer" as defined in Section 3(5) of ERISA.

"Pledge Agreement" means the Pledge Agreement, substantially in the form of Exhibit D, among the Borrower, Holdings, the Subsidiaries party thereto and the Collateral Agent for the benefit of the Secured Parties.

"Prepayment Event" means:

(a) any sale, transfer or other disposition (including pursuant to a sale and leaseback transaction) of any property or asset of the Borrower or any Subsidiary, other than (i) dispositions described in clauses (a), (b) and (d) of Section 6.05, (ii) dispositions pursuant to sale and leaseback transactions described in clause (a) of Section 6.11 and (iii) other dispositions resulting in aggregate Net Cash Proceeds not exceeding \$2,000,000 during any fiscal year of the Borrower; provided that proceeds of up to \$15,000,000 received after the Restatement Effective Date in respect of any sale, transfer or

other disposition of Low Turnover Inventory shall not be treated as proceeds of a Prepayment Event; or

(b) any casualty or other insured damage to, or any taking under power of eminent domain or by condemnation or similar proceeding of, any property or asset of the Borrower or any Subsidiary, but only to the extent that the Net Cash Proceeds therefrom have not been applied to repair, restore or replace such property or asset within 360 days (or, in the case of a distribution center, two years, provided that repair, restoration or replacement commenced within 270 days of such event) after such event; or

(c) the issuance by Holdings, the Borrower or any Subsidiary of any Equity Interests, or the receipt by Holdings, the Borrower or any Subsidiary of any capital contribution, other than (i) any such issuance of Equity Interests to, or receipt of any such capital contribution from, Holdings, the Borrower or a Subsidiary, (ii) the issuance by Holdings of shares of its common stock for cash to the extent that (A) Holdings or the Borrower notifies the Administrative Agent at or prior to the time of such issuance that the Net Cash Proceeds thereof are to be applied to finance a Permitted Acquisition and (B) such Net Cash Proceeds are so applied within 30 days after such Net Cash Proceeds are received, (iii) the issuance by Holdings of shares of its common stock (A) to management of Holdings, the Borrower or any Subsidiary and (B) pursuant to stock options outstanding on the Restatement Effective Date to the extent that the Net Cash Proceeds received therefrom during any fiscal year of Holdings do not exceed \$20,000,000, provided that any such Net Cash Proceeds in excess of \$20,000,000 shall not be required to be applied in accordance with Section 2.11(b) until the earlier of (x) each such time as the sum of such Net Cash Proceeds equals \$5,000,000 and (y) the end of each fiscal year of the Borrower or (iv) a Public Offering to the extent that the Net Cash Proceeds received therefrom are applied as promptly as practicable, and in any event not later than 90 days after receipt thereof, to purchase or repay all or a portion of one or more of the Additional Senior Subordinated Notes, the Existing Senior Subordinated Notes, the Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes; or

(d) the incurrence by Holdings, the Borrower or any Subsidiary of any Indebtedness, other than Indebtedness permitted under Section 6.01;

provided that with respect to any event (other than a Specified Lease Financing) described in clause (a), if the Borrower shall deliver a certificate of a Financial Officer to the Administrative Agent at the time of such event setting forth the Borrower's or a Subsidiary's intent to use the Net Cash Proceeds of such event to acquire other assets to be used in the same line of business within 270 days of receipt of such Net Cash Proceeds and certifying that no Default has occurred and is continuing, such event shall not constitute a Prepayment Event except to the extent the Net Cash Proceeds therefrom are not so used at the end of such 270-day period, at which time such event shall be deemed a Prepayment Event with Net Cash Proceeds equal to the Net Cash Proceeds so remaining unused.

"Prime Rate" means the rate of interest per annum publicly announced from time to time by JPMorgan Chase Bank as its prime rate in effect at its principal office in New York City; each change in the Prime Rate shall be effective from and including the date such change is publicly announced as being effective.

"Public Offering" means any issuance by Holdings of shares of its common stock pursuant to a bona fide underwritten public offering following the Restatement Effective Date, provided that (i) at the time thereof and immediately after giving effect thereto, no Default has occurred and is continuing or would result therefrom and (ii) the Net Cash Proceeds in respect of all such offerings do not exceed \$150,000,000 in the aggregate.

"Reaffirmation Agreement" means the Reaffirmation Agreement, entered into in connection with the Amendment and Restatement Agreement, attached thereto as Exhibit C, among Holdings, the Borrower and the other Reaffirming Parties (as defined therein).

"Receivables Indebtedness" means Indebtedness of the Borrower and/or its Subsidiaries arising from Receivables Programs in an aggregate principal amount not exceeding, at any time, (a) the sum of (i) 3.5% of the total aggregate amount of all accounts receivables sold or transferred during the preceding 12-month period by the Borrower and its Subsidiaries to any Person other than the Borrower and its Subsidiaries pursuant to a Receivables Program or for which value has been received from any Person other than the Borrower and its Subsidiaries pursuant to a Receivables Program and (ii) \$3,000,000 or (b) the amounts permitted pursuant to clause (ix) of Section 6.01(a).

"Receivables Program" means an arrangement or arrangements under which the Borrower and its Subsidiaries sell, transfer or otherwise receive value with respect to accounts receivable pursuant to documentation reasonably satisfactory to the Administrative Agent.

"Redemption" means the redemption by the Borrower or Holdings, as applicable, of a minimum of \$325,000,000 aggregate principal amount of outstanding Holdings Senior Discount Debentures, Existing Senior Subordinated Notes and Additional Senior Subordinated Notes.

"Redemption Date" means the date on which the Redemption is to occur, which shall be a Business Day within 45 days after the Restatement Effective Date.

"Register" has the meaning set forth in Section 9.04.

"Related Parties" means, with respect to any specified Person, such Person's Affiliates and the respective directors, officers, employees, agents and advisors of such Person and such Person's Affiliates.

"Reorganization" means, collectively, (a) the AHC Merger, (b) the DAP Merger and (c) the DAP Equity Transfer.

"Reorganization Expenses" means transition, conversion and integration expenses of the Borrower and its Subsidiaries relating to the Reorganization and bonuses paid for management and other employees of the Borrower and its Subsidiaries (including the Subsidiaries acquired in the Reorganization) in connection with the Reorganization.

"Replacement Senior Subordinated Notes" means senior subordinated notes of the Borrower (a) that are issued on one or more occasions following the Restatement Effective Date, (b) the Net Cash Proceeds of which are applied solely to repay all or a portion of one or more of the Additional Senior Subordinated Notes, the Existing Senior Subordinated Notes and the Holdings Senior Discount Debentures, (c) that mature no earlier than the Indebtedness refinanced thereby and (d) that have terms and conditions which are no less favorable to the Lenders than the terms and conditions of the Additional Senior Subordinated Notes and the Existing Senior Subordinated Notes (including with respect to interest rates, subordination, payment provisions, covenants, events of default and remedies). The term "Replacement Senior Subordinated Notes" shall also include any senior subordinated notes of the Borrower issued to refinance Replacement Senior Subordinated Notes

previously issued, provided that (i) the Net Cash Proceeds thereof are applied solely to repay all or a portion of outstanding Replacement Senior Subordinated Notes, (ii) such notes mature no earlier than the Replacement Senior Subordinated Notes refinanced thereby and (iii) such notes have terms and conditions which are no less favorable to the Lenders than the terms and conditions of the Replacement Senior Subordinated Notes refinanced thereby (including with respect to interest rates, subordination, payment provisions, covenants, events of default and remedies).

"Replacement Subordinated Debt" means the Replacement Senior Subordinated Notes, any Guarantees thereof and the Indebtedness represented thereby.

"Replacement Subordinated Debt Documents" means any indenture under which Replacement Senior Subordinated Notes are issued and all other instruments, agreements and other documents evidencing or governing the Replacement Subordinated Debt or providing for any Guarantee or other right in respect thereof.

"Required Lenders" means, at any time, Lenders having Revolving Exposures, Term Loans, and unused Commitments representing more than 50% of the sum of the total Revolving Exposures, outstanding Term Loans, and unused Commitments at such time.

"Restatement Effective Date" has the meaning given such term in the Amendment and Restatement Agreement.

"Restatement Transactions" means the execution and delivery of the Amendment and Restatement Agreement by each Person party thereto, the satisfaction of the conditions to the effectiveness thereof, and the consummation of the transactions contemplated thereby, including the borrowing of Tranche A-1 Term Loans and Tranche C-1 Term Loans on the Redemption Date and the use of the proceeds thereof to make the Redemption.

"Restricted Indebtedness" means Indebtedness of Holdings, the Borrower or any Subsidiary, the payment, prepayment, redemption, repurchase or defeasance of which is restricted under Section 6.07(b).

"Restricted Payment" means (a) any dividend or other distribution (whether in cash, securities or other property) with respect to any Equity Interests of Holdings, the Borrower or any Subsidiary, (b) any payment (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase,

redemption, retirement, acquisition, cancellation or termination of any such Equity Interests of Holdings, the Borrower or any Subsidiary or any option, warrant or other right to acquire any such Equity Interests of Holdings, the Borrower or any Subsidiary, or (c) any loans or advances made by the Borrower or any Subsidiary to Holdings.

"Revolving Availability Period" means the period from and including the Effective Date to but excluding the earlier of the Revolving Maturity Date and the date of termination of the Revolving Commitments.

"Revolving Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make Revolving Loans and to acquire participations in Letters of Credit and Swingline Loans hereunder, expressed as an amount representing the maximum aggregate amount of such Lender's Revolving Exposure hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Revolving Commitment is set forth on Schedule 2.01 or in the Assignment and Acceptance pursuant to which such Lender shall have assumed its Revolving Commitment, as applicable. The initial aggregate amount of the Lenders' Revolving Commitments is \$160,000,000.

"Revolving Exposure" means, with respect to any Lender at any time, the sum of the outstanding principal amount of such Lender's Revolving Loans and its LC Exposure and Swingline Exposure at such time.

"Revolving Lender" means a Lender with a Revolving Commitment or, if the Revolving Commitments have terminated or expired, a Lender with Revolving Exposure.

"Revolving Loan" means a Loan made pursuant to Section 2.01(a).

"Revolving Maturity Date" means November 30, 2006.

"S&P" means Standard & Poor's Ratings Group, Inc.

"Secured Parties" shall have the meaning assigned to such term in the Security Agreement.

"Security Agreement" means the Security Agreement, substantially in the form of Exhibit E, among Holdings, the Borrower, the Subsidiary Loan Parties and the Collateral Agent for the benefit of the Secured Parties.

"Security Documents" means the Security Agreement, the Pledge Agreement, the Mortgages and each other security agreement or other instrument or document executed and delivered pursuant to Section 5.12 or 5.13 to secure any of the Obligations.

"Senior Leverage Ratio" means, on any date, the ratio of (a) Funded Senior Debt as of such date to (b) Consolidated EBITDA for the period of four consecutive fiscal quarters of Holdings most recently ended as of such date (or, if such date is not the last day of a fiscal quarter, then most recently ended prior to such date), all determined on a consolidated basis in accordance with GAAP.

"Slide Presentation" means the confidential Lender Presentation dated February 13, 2003, relating to Holdings, the Borrower and the Restatement Transactions and related projections.

"Specified Lease Financing" means any sale or transfer by the Borrower or any Subsidiary of any Specified Property that is subsequently rented or leased by the Borrower or such Subsidiary; provided that (a) the consideration for such sale or transfer consists solely of cash and (b) the fair market value of all Specified Properties that are sold or disposed of on or after the Effective Date pursuant to such transactions shall not exceed \$50,000,000 in the aggregate.

"Specified Property" means any property, real or personal, owned by the Borrower or any Subsidiary.

"Statutory Reserve Rate" means a fraction (expressed as a decimal), the numerator of which is the number one and the denominator of which is the number one minus the aggregate of the maximum reserve percentages (including any marginal, special, emergency or supplemental reserves) expressed as a decimal established by the Board to which the Administrative Agent is subject (a) with respect to the Base CD Rate, for new negotiable nonpersonal time deposits in dollars of over \$100,000 with maturities approximately equal to three months and (b) with respect to the Adjusted LIBO Rate, for eurocurrency funding (currently referred to as "Eurocurrency Liabilities" in Regulation D of the Board). Such reserve percentages shall include those imposed pursuant to such Regulation D. Eurodollar Loans shall be deemed to constitute eurocurrency funding and to be subject to such reserve requirements without benefit of or credit for proration, exemptions or offsets that may be available from time to time to any Lender under such Regulation D or any comparable regulation. The Statutory

Reserve Rate shall be adjusted automatically on and as of the effective date of any change in any reserve percentage.

"Stores" means all owned and leasehold properties where Inventory owned by the Borrower or any of the Subsidiaries is sold to the public.

"subsidiary" means, with respect to any Person (the "parent") at any date, any corporation, limited liability company, partnership, association or other entity the accounts of which would be consolidated with those of the parent in the parent's consolidated financial statements if such financial statements were prepared in accordance with GAAP as of such date, as well as any other corporation, limited liability company, partnership, association or other entity (a) of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power or, in the case of a partnership, more than 50% of the general partnership interests are, as of such date, owned, controlled or held, or (b) that is, as of such date, otherwise Controlled, by the parent or one or more subsidiaries of the parent or by the parent and one or more subsidiaries of the parent.

"Subsidiary" means any subsidiary of Holdings or the Borrower, as the context requires. For purposes of the representations and warranties made hereunder and compliance with the terms and conditions hereof, the "Subsidiaries" shall be determined after giving effect to the Reorganization unless the context expressly requires otherwise.

"Subsidiary Loan Party" means any Subsidiary of the Borrower other than any Foreign Subsidiary that, if it were to Guarantee the Obligations, would result in adverse tax consequences to Holdings or the Borrower.

"Swingline Exposure" means, at any time, the aggregate principal amount of all Swingline Loans outstanding at such time. The Swingline Exposure of any Lender at any time shall be its Applicable Percentage of the total Swingline Exposure at such time.

"Swingline Lender" means JPMorgan Chase Bank, in its capacity as lender of Swingline Loans hereunder or any successor in such capacity pursuant to Section 2.04(d).

"Swingline Loan" means a Loan made pursuant to Section 2.04.

"Synthetic Purchase Agreement" means any swap, derivative or other agreement or combination of agreements pursuant to which Holdings, the Borrower or a Subsidiary is or may become obligated to make (a) any payment in connection with a purchase by a third party from a Person other than Holdings, the Borrower or a Subsidiary of any Equity Interest or Restricted Indebtedness or (b) any payment (other than on account of a permitted purchase by it of any Equity Interest or any Restricted Indebtedness) the amount of which is determined by reference to the price or value at any time of any Equity Interest or Restricted Indebtedness; provided that no phantom stock or similar plan providing for payments only to current or former directors, officers, consultants, advisors or employees of Holdings, the Borrower or the Subsidiaries (or to their heirs or estates) shall be deemed to be a Synthetic Purchase Agreement.

"Taxes" means any and all present or future taxes, levies, imposts, duties, deductions, charges or withholdings imposed by any Governmental Authority.

"Term Loans" means Tranche A Term Loans, Tranche A-1 Term Loans, Tranche C Term Loans and Tranche C-1 Term Loans.

"Three-Month Secondary CD Rate" means, for any day, the secondary market rate for three-month certificates of deposit reported as being in effect on such day (or, if such day is not a Business Day, the next preceding Business Day) by the Board through the public information telephone line of the Federal Reserve Bank of New York (which rate will, under the current practices of the Board, be published in Federal Reserve Statistical Release H.15(519) during the week following such day) or, if such rate is not so reported on such day or such next preceding Business Day, the average of the secondary market quotations for three-month certificates of deposit of major money center banks in New York City received at approximately 10:00 a.m., New York City time, on such day (or, if such day is not a Business Day, on the next preceding Business Day) by the Administrative Agent from three negotiable certificate of deposit dealers of recognized standing selected by it.

"Total Debt" means, as of the date of determination, an amount equal to (a) all Indebtedness of the Borrower and its Subsidiaries outstanding on such date, excluding Indebtedness described in clauses (e), (f) and (h) of the definition of "Indebtedness", minus (b) the aggregate amount that would appear as "Cash and cash equivalents" on a consolidated balance sheet of the Borrower prepared as of

such date in accordance with GAAP; provided that any letters of credit and letters of guaranty referred to in clause (h) of the definition "Indebtedness" shall not be excluded from Total Debt to the extent issued to support any other obligations constituting Indebtedness.

"Tranche A Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche A Term Loan pursuant to clause (a) of Section 2.01 of the Original Credit Agreement. The initial aggregate amount of the Lenders' Tranche A Commitments was \$180,000,000.

"Tranche A Lender" means a Lender with an outstanding Tranche A Term Loan.

"Tranche A Maturity Date" means November 30, 2006.

"Tranche A Term Loan" means a Loan made pursuant to clause (a) of Section 2.01 of the Original Credit Agreement. The aggregate principal amount of the Tranche A Term Loans outstanding on the Restatement Effective Date is \$82,988,979.12.

"Tranche A-1 Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche A-1 Term Loan pursuant to Section 2.01(b) on the Redemption Date, expressed as an amount representing the maximum principal amount of the Tranche A-1 Term Loan to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Tranche A-1 Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Tranche A-1 Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche A-1 Commitments is \$75,000,000.

"Tranche A-1 Lender" means a Lender with an outstanding Tranche A-1 Term Loan.

"Tranche A-1 Term Loan" means a Loan made pursuant to Section 2.01(b).

"Tranche B Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche B Term Loan pursuant to clause (b) of Section 2.01 of the Original Credit Agreement.

"Tranche B Term Loan" means a loan made pursuant to clause (b) of Section 2.01 of the Original Credit Agreement.

"Tranche C Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche C Term Loan pursuant to the Amendment and Restatement Agreement dated June 28, 2002. The initial aggregate amount of the Lenders' Tranche C Commitments was \$250,000,000.

"Tranche C Lender" means a Lender with an outstanding Tranche C Term Loan.

"Tranche C Maturity Date" means November 30, 2007.

"Tranche C Term Loan" means a Loan made pursuant to the Amendment and Restatement Agreement dated June 28, 2002. The aggregate principal amount of the Tranche C Term Loans outstanding on the Restatement Effective Date is \$248,099,650.08.

"Tranche C-1 Commitment" means, with respect to each Lender, the commitment, if any, of such Lender to make a Tranche C-1 Term Loan pursuant to Section 2.01(c) on the Redemption Date, expressed as an amount representing the maximum principal amount of the Tranche C-1 Term Loan to be made by such Lender hereunder, as such commitment may be (a) reduced from time to time pursuant to Section 2.08 and (b) reduced or increased from time to time pursuant to assignments by or to such Lender pursuant to Section 9.04. The initial amount of each Lender's Tranche C-1 Commitment is set forth on Schedule 2.01, or in the Assignment and Assumption pursuant to which such Lender shall have assumed its Tranche C-1 Commitment, as applicable. The initial aggregate amount of the Lenders' Tranche C-1 Commitments is \$275,000,000.

"Tranche C-1 Lender" means a Lender with a Tranche C-1 Commitment or an outstanding Tranche C-1 Term Loan.

"Tranche C-1 Term Loan" means a Loan made pursuant to Section 2.01(c).

"Transactions" means the Reorganization, the Financing Transactions and the Restatement Transactions.

"Type", when used in reference to any Loan or Borrowing, refers to whether the rate of interest on such Loan, or on the Loans comprising such Borrowing, is

determined by reference to the Adjusted LIBO Rate or the Alternate Base Rate.

"Vehicle" means any van, truck, tractor or trailer (other than a commercial delivery vehicle) that is covered by a certificate of title issued under the laws of any jurisdiction in the United States of America and used in the distribution and delivery of inventory.

"Vehicle Subsidiary" means Advance Trucking Corporation, a Virginia corporation, and wholly owned Subsidiary of the Borrower.

"Withdrawal Liability" means liability to a Multiemployer Plan as a result of a complete or partial withdrawal from such Multiemployer Plan, as such terms are defined in Part I of Subtitle E of Title IV of ERISA.

SECTION 1.02. Classification of Loans and Borrowings. For purposes of this Agreement, Loans may be classified and referred to by Class (e.g., a "Revolving Loan") or by Type (e.g., a "Eurodollar Loan") or by Class and Type (e.g., a "Eurodollar Revolving Loan"). Borrowings also may be classified and referred to by Class (e.g., a "Revolving Borrowing") or by Type (e.g., a "Eurodollar Borrowing") or by Class and Type (e.g., a "Eurodollar Revolving Borrowing").

SECTION 1.03. Terms Generally. The definitions of terms herein shall apply equally to the singular and plural forms of the terms defined. Whenever the context may require, any pronoun shall include the corresponding masculine, feminine and neuter forms. The words "include", "includes" and "including" shall be deemed to be followed by the phrase "without limitation". The word "will" shall be construed to have the same meaning and effect as the word "shall". Unless the context requires otherwise (a) any definition of or reference to any agreement, instrument or other document herein shall be construed as referring to such agreement, instrument or other document as from time to time amended, supplemented or otherwise modified (subject to any restrictions on such amendments, supplements or modifications set forth herein), (b) any reference herein to any Person shall be construed to include such Person's successors and assigns, (c) the words "herein", "hereof" and "hereunder", and words of similar import, shall be construed to refer to this Agreement in its entirety and not to any particular provision hereof, (d) all references herein to Articles, Sections, Exhibits and Schedules shall be construed to refer to Articles and Sections of, and Exhibits and Schedules to, this Agreement and (e) the words "asset"

and "property" shall be construed to have the same meaning and effect and to refer to any and all tangible and intangible assets and properties, including cash, securities, accounts and contract rights.

SECTION 1.04. Accounting Terms; GAAP; Fiscal Month. Except as otherwise expressly provided herein, all terms of an accounting or financial nature shall be construed in accordance with GAAP, as in effect from time to time; provided that, if the Borrower notifies the Administrative Agent that the Borrower requests an amendment to any provision hereof to eliminate the effect of any change occurring after the date hereof in GAAP or in the application thereof on the operation of such provision (or if the Administrative Agent notifies the Borrower that the Required Lenders request an amendment to any provision hereof for such purpose), regardless of whether any such notice is given before or after such change in GAAP or in the application thereof, then such provision shall be interpreted on the basis of GAAP as in effect and applied immediately before such change shall have become effective until such notice shall have been withdrawn or such provision amended in accordance herewith. Except as otherwise provided herein, all references to a fiscal month shall mean any period of four or five calendar weeks used by the Borrower for recording or reporting its interim financial information.

ARTICLE II

The Credits

SECTION 2.01. Commitments. (a) Subject to the terms and conditions set forth herein, each Lender agrees to make Revolving Loans to the Borrower from time to time during the Revolving Availability Period in an aggregate principal amount that will not result in such Lender's Revolving Exposure exceeding such Lender's Revolving Commitment. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Revolving Loans.

(b) Subject to the terms and conditions set forth herein, each Tranche A-1 Lender agrees to make a Tranche A-1 Term Loan to the Borrower on the Redemption Date in a principal amount equal to such Lender's Tranche A-1 Commitment.

(c) Subject to the terms and conditions set forth herein, each Tranche C-1 Lender agrees to make a Tranche C-1

Term Loan to the Borrower on the Redemption Date in a principal amount equal to such Lender's Tranche C-1 Commitment.

(d) Amounts repaid in respect of Term Loans may not be reborrowed. All Tranche A Term Loans, Tranche C Term Loans, Revolving Loans and Letters of Credit outstanding under the Original Credit Agreement on the Restatement Effective Date shall remain outstanding hereunder on the terms set forth herein.

SECTION 2.02. Loans and Borrowings. (a) Each Loan (other than a Swingline Loan) shall be made as part of a Borrowing consisting of Loans of the same Class and Type made by the Lenders ratably in accordance with their respective Commitments of the applicable Class. The failure of any Lender to make any Loan required to be made by it shall not relieve any other Lender of its obligations hereunder; provided that the Commitments of the Lenders are several and no Lender shall be responsible for any other Lender's failure to make Loans as required.

(b) Subject to Section 2.14, each Revolving Borrowing and Term Borrowing shall be comprised entirely of ABR Loans or Eurodollar Loans as the Borrower may request in accordance herewith. Notwithstanding anything to the contrary contained herein, all Borrowings made on the Effective Date shall be ABR Borrowings. Each Swingline Loan shall be an ABR Loan. Each Lender at its option may make any Eurodollar Loan by causing any domestic or foreign branch or Affiliate of such Lender to make such Loan; provided that any exercise of such option shall not affect the obligation of the Borrower to repay such Loan in accordance with the terms of this Agreement.

(c) At the commencement of each Interest Period for any Eurodollar Borrowing, such Borrowing shall be in an aggregate amount that is an integral multiple of \$1,000,000 and not less than \$3,000,000. At the time that each ABR Revolving Borrowing is made, such Borrowing shall be in an aggregate amount that is an integral multiple of \$100,000 and not less than \$1,000,000; provided that (i) an ABR Revolving Borrowing may be in an aggregate amount that is equal to the entire unused balance of the total Revolving Commitments and (ii) an ABR Revolving Borrowing may be in an aggregate amount that is equal to the amount that is required to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e). Each Swingline Loan shall be in an amount that is an integral multiple of \$100,000 and not less than \$200,000. Borrowings of more than one Type and Class may be outstanding at the same time;

provided that there shall not at any time be more than a total of 8 Eurodollar Borrowings outstanding.

(d) Notwithstanding any other provision of this Agreement, the Borrower shall not be entitled to request, or to elect to convert or continue, any Borrowing if the Interest Period requested with respect thereto would end after the Revolving Maturity Date, Tranche A Maturity Date or Tranche C Maturity Date, as applicable.

SECTION 2.03. Requests for Borrowings. To request a Revolving Borrowing, Tranche A-1 Term Borrowing or Tranche C-1 Term Borrowing, the Borrower shall notify the Administrative Agent of such request by telephone (a) in the case of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of the proposed Borrowing or (b) in the case of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of the proposed Borrowing; provided that any such notice of an ABR Revolving Borrowing to finance the reimbursement of an LC Disbursement as contemplated by Section 2.05(e) may be given not later than 10:00 a.m., New York City time, on the date of the proposed Borrowing. Each such telephonic Borrowing Request shall be irrevocable and shall be confirmed promptly by hand delivery or teletype to the Administrative Agent of a written Borrowing Request in a form approved by the Administrative Agent and signed by the Borrower. Each such telephonic and written Borrowing Request shall specify the following information in compliance with Section 2.02:

- (i) the aggregate amount of such Borrowing;
- (ii) the date of such Borrowing, which shall be a Business Day (and, in the case of Tranche A-1 Term Borrowings and Tranche C-1 Term Borrowings, shall be the Redemption Date);
- (iii) whether such Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing;
- (iv) in the case of a Eurodollar Borrowing, the initial Interest Period to be applicable thereto, which shall be a period contemplated by the definition of the term "Interest Period"; and
- (v) the location and number of the Borrower's account to which funds are to be disbursed, which shall comply with the requirements of Section 2.06.

If no election as to the Type of Borrowing is specified, then the requested Borrowing shall be an ABR Borrowing. If no Interest Period is specified with respect to any requested Eurodollar Borrowing, then the Borrower shall be deemed to have selected an Interest Period of one month's duration. Promptly following receipt of a Borrowing Request in accordance with this Section, the Administrative Agent shall advise each Lender of the details thereof and of the amount of such Lender's Loan to be made as part of the requested Borrowing.

SECTION 2.04. Swingline Loans. (a) Subject to the terms and conditions set forth herein, the Swingline Lender agrees to make Swingline Loans to the Borrower from time to time during the Revolving Availability Period, in an aggregate principal amount at any time outstanding that will not result in (i) the aggregate principal amount of outstanding Swingline Loans exceeding \$30,000,000 or (ii) the sum of the total Revolving Exposures exceeding the total Revolving Commitments; provided that the Swingline Lender shall not be required to make a Swingline Loan to refinance an outstanding Swingline Loan. Within the foregoing limits and subject to the terms and conditions set forth herein, the Borrower may borrow, prepay and reborrow Swingline Loans.

(b) To request a Swingline Loan, the Borrower shall notify the Administrative Agent of such request by telephone (confirmed by telecopy), not later than 12:00 noon, New York City time, on the day of a proposed Swingline Loan. Each such notice shall be irrevocable and shall specify the requested date (which shall be a Business Day) and amount of the requested Swingline Loan. The Administrative Agent will promptly advise the Swingline Lender of any such notice received from the Borrower. The Swingline Lender shall make each Swingline Loan available to the Borrower by means of a credit to the general deposit account of the Borrower with the Swingline Lender (or, in the case of a Swingline Loan made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e), by remittance to the Issuing Bank) by 3:00 p.m., New York City time, on the requested date of such Swingline Loan.

(c) The Swingline Lender may by written notice given to the Administrative Agent not later than 10:00 a.m., New York City time, on any Business Day require the Revolving Lenders to acquire participations on such Business Day in all or a portion of the Swingline Loans outstanding. Such notice shall specify the aggregate amount of Swingline Loans in which Revolving Lenders will participate. Promptly

upon receipt of such notice, the Administrative Agent will give notice thereof to each Revolving Lender, specifying in such notice such Lender's Applicable Percentage of such Swingline Loan or Loans. Each Revolving Lender hereby absolutely and unconditionally agrees, upon receipt of notice as provided above, to pay to the Administrative Agent, for the account of the Swingline Lender, such Lender's Applicable Percentage of such Swingline Loan or Loans. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations in Swingline Loans pursuant to this paragraph is absolute and unconditional and shall not be affected by any circumstance whatsoever, including the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever. Each Revolving Lender shall comply with its obligation under this paragraph by wire transfer of immediately available funds, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Swingline Lender the amounts so received by it from the Revolving Lenders. The Administrative Agent shall notify the Borrower of any participations in any Swingline Loan acquired pursuant to this paragraph, and thereafter payments in respect of such Swingline Loan shall be made to the Administrative Agent and not to the Swingline Lender. Any amounts received by the Swingline Lender from the Borrower (or other party on behalf of the Borrower) in respect of a Swingline Loan after receipt by the Swingline Lender of the proceeds of a sale of participations therein shall be promptly remitted to the Administrative Agent; any such amounts received by the Administrative Agent shall be promptly remitted by the Administrative Agent to the Revolving Lenders that shall have made their payments pursuant to this paragraph and to the Swingline Lender, as their interests may appear. The purchase of participations in a Swingline Loan pursuant to this paragraph shall not relieve the Borrower of any default in the payment thereof.

(d) Replacement of Swingline Lender. A Swingline Lender may be replaced by any other Lender at any time that there are no outstanding Swingline Loans by a written agreement among the Administrative Agent, the Borrower and successor Swingline Lender. The Administrative Agent shall notify the Lenders of any such replacement of the Swingline Lender. From and after the effective date of any such replacement, (i) the successor Swingline Lender shall have all the rights and obligations of the Swingline Lender under this Agreement and (ii) references herein to the term

"Swingline Lender" shall be deemed to refer to such successor Swingline Lender. After the replacement of the Swingline Lender pursuant to this clause (d), the replaced Swingline Lender shall not be required to make any Swingline Loans. Notwithstanding any provisions to the contrary in Section 9.04, at no time following the replacement of the Swingline Lender pursuant to this clause (d), may the Swingline Lender as of such time make an assignment or assignments the effect of which would be to reduce its Revolving Commitment to zero.

SECTION 2.05. Letters of Credit. (a) General. Subject to the terms and conditions set forth herein, the Borrower may request the issuance of Letters of Credit for its own account, in a form reasonably acceptable to the Administrative Agent and the applicable Issuing Bank, at any time and from time to time during the Revolving Availability Period. In the event of any inconsistency between the terms and conditions of this Agreement and the terms and conditions of any form of letter of credit application or other agreement submitted by the Borrower to, or entered into by the Borrower with, an Issuing Bank relating to any Letter of Credit, the terms and conditions of this Agreement shall control.

(b) Notice of Issuance, Amendment, Renewal, Extension; Certain Conditions. To request the issuance of a Letter of Credit (or the amendment, renewal or extension of an outstanding Letter of Credit), the Borrower shall hand deliver or telecopy (or transmit by electronic communication, if arrangements for doing so have been approved by the applicable Issuing Bank) to the applicable Issuing Bank and the Administrative Agent (reasonably in advance of the requested date of issuance, amendment, renewal or extension) a notice requesting the issuance of a Letter of Credit, or identifying the Letter of Credit to be amended, renewed or extended, and specifying the date of issuance, amendment, renewal or extension (which shall be a Business Day), the date on which such Letter of Credit is to expire (which shall comply with paragraph (c) of this Section), the amount of such Letter of Credit, the name and address of the beneficiary thereof and such other information as shall be necessary to prepare, amend, renew or extend such Letter of Credit. If there is more than one Issuing Bank, the Borrower may select among the Issuing Banks in connection with the issuance of any Letter of Credit. If requested by the Issuing Bank, the Borrower also shall submit a letter of credit application on the Issuing Bank's standard form in connection with any request for a Letter of Credit. A Letter of Credit shall be issued, amended, renewed or extended only if (and upon issuance,

amendment, renewal or extension of each Letter of Credit the Borrower shall be deemed to represent and warrant that), after giving effect to such issuance, amendment, renewal or extension (i) the LC Exposure shall not exceed \$35,000,000 and (ii) the total Revolving Exposures shall not exceed the total Revolving Commitments.

(c) Expiration Date. Each Letter of Credit shall expire at or prior to the close of business on the earlier of (i) the date one year after the date of the issuance of such Letter of Credit (or, in the case of any renewal or extension thereof, one year after such renewal or extension) and (ii) the date that is five Business Days prior to the Revolving Maturity Date.

(d) Participations. By the issuance of a Letter of Credit (or an amendment to a Letter of Credit increasing the amount thereof) and without any further action on the part of the Issuing Bank or the Lenders, the Issuing Bank hereby grants to each Revolving Lender, and each Revolving Lender hereby acquires from the Issuing Bank, a participation in such Letter of Credit equal to such Lender's Applicable Percentage of the aggregate amount available to be drawn under such Letter of Credit. In consideration and in furtherance of the foregoing, each Revolving Lender hereby absolutely and unconditionally agrees to pay to the Administrative Agent, for the account of the Issuing Bank, such Lender's Applicable Percentage of each LC Disbursement made by the Issuing Bank and not reimbursed by the Borrower on the date due as provided in paragraph (e) of this Section, or of any reimbursement payment required to be refunded to the Borrower for any reason. Each Revolving Lender acknowledges and agrees that its obligation to acquire participations pursuant to this paragraph in respect of Letters of Credit is absolute and unconditional and shall not be affected by any circumstance whatsoever, including any amendment, renewal or extension of any Letter of Credit or the occurrence and continuance of a Default or reduction or termination of the Commitments, and that each such payment shall be made without any offset, abatement, withholding or reduction whatsoever.

(e) Reimbursement. If the Issuing Bank shall make any LC Disbursement in respect of a Letter of Credit, the Borrower shall reimburse such LC Disbursement by paying to the Administrative Agent an amount equal to such LC Disbursement not later than 12:00 noon, New York City time, on the date that such LC Disbursement is made, if the Borrower shall have received notice of such LC Disbursement prior to 10:00 a.m., New York City time, on such date, or, if such notice has not been received by the Borrower prior

to such time on such date, then not later than 12:00 noon, New York City time, on (i) the Business Day that the Borrower receives such notice, if such notice is received prior to 10:00 a.m., New York City time, on the day of the receipt, or (ii) the Business Day immediately following the day that the Borrower receives such notice, if such notice is not received prior to such time on the day of receipt; provided that, if such LC Disbursement is not less than \$100,000, the Borrower may, subject to the conditions to borrowing set forth herein, request in accordance with Section 2.03 or 2.04 that such payment be financed with an ABR Revolving Borrowing or Swingline Loan in an equivalent amount and, to the extent so financed, the Borrower's obligation to make such payment shall be discharged and replaced by the resulting ABR Revolving Borrowing or Swingline Loan. If the Borrower fails to make such payment when due, the Administrative Agent shall notify each Revolving Lender of the applicable LC Disbursement, the payment then due from the Borrower in respect thereof and such Lender's Applicable Percentage thereof. Promptly following receipt of such notice, each Revolving Lender shall pay to the Administrative Agent its Applicable Percentage of the payment then due from the Borrower, in the same manner as provided in Section 2.06 with respect to Loans made by such Lender (and Section 2.06 shall apply, mutatis mutandis, to the payment obligations of the Revolving Lenders), and the Administrative Agent shall promptly pay to the Issuing Bank the amounts so received by it from the Revolving Lenders. Promptly following receipt by the Administrative Agent of any payment from the Borrower pursuant to this paragraph, the Administrative Agent shall distribute such payment to the Issuing Bank or, to the extent that Revolving Lenders have made payments pursuant to this paragraph to reimburse the Issuing Bank, then to such Lenders and the Issuing Bank as their interests may appear. Any payment made by a Revolving Lender pursuant to this paragraph to reimburse the Issuing Bank for any LC Disbursement (other than the funding of ABR Revolving Loans or a Swingline Loan as contemplated above) shall not constitute a Loan and shall not relieve the Borrower of its obligation to reimburse such LC Disbursement.

(f) Obligations Absolute. The Borrower's obligation to reimburse LC Disbursements as provided in paragraph (e) of this Section shall be absolute, unconditional and irrevocable, and shall be performed strictly in accordance with the terms of this Agreement under any and all circumstances whatsoever and irrespective of (i) any lack of validity or enforceability of any Letter of Credit or this Agreement, or any term or provision herein or therein, (ii) any draft or other document presented under

a Letter of Credit proving to be forged, fraudulent or invalid in any respect or any statement therein being untrue or inaccurate in any respect, (iii) payment by the Issuing Bank under a Letter of Credit against presentation of a draft or other document that does not comply with the terms of such Letter of Credit or (iv) any other event or circumstance whatsoever, whether or not similar to any of the foregoing, that might, but for the provisions of this Section, constitute a legal or equitable discharge of, or provide a right of setoff against, the Borrower's obligations hereunder. Neither the Administrative Agent, the Lenders nor the Issuing Bank, nor any of their Related Parties, shall have any liability or responsibility by reason of or in connection with the issuance or transfer of any Letter of Credit or any payment or failure to make any payment thereunder (irrespective of any of the circumstances referred to in the preceding sentence), or any error, omission, interruption, loss or delay in transmission or delivery of any draft, notice or other communication under or relating to any Letter of Credit (including any document required to make a drawing thereunder), any error in interpretation of technical terms or any consequence arising from causes beyond the control of the Issuing Bank; provided that the foregoing shall not be construed to excuse the Issuing Bank from liability to the Borrower to the extent of any direct damages (as opposed to consequential damages, claims in respect of which are hereby waived by the Borrower to the extent permitted by applicable law) suffered by the Borrower that are caused by the Issuing Bank's failure to exercise care when determining whether drafts and other documents presented under a Letter of Credit comply with the terms thereof. The parties hereto expressly agree that, in the absence of gross negligence or wilful misconduct on the part of the Issuing Bank (as finally determined by a court of competent jurisdiction), the Issuing Bank shall be deemed to have exercised care in each such determination. In furtherance of the foregoing and without limiting the generality thereof, the parties agree that, with respect to documents presented which appear on their face to be in substantial compliance with the terms of a Letter of Credit, the Issuing Bank may, in its sole discretion, either accept and make payment upon such documents without responsibility for further investigation, regardless of any notice or information to the contrary, or refuse to accept and make payment upon such documents if such documents are not in strict compliance with the terms of such Letter of Credit.

(g) Disbursement Procedures. The Issuing Bank shall, promptly following its receipt thereof, examine all documents purporting to represent a demand for payment under a Letter of Credit. The Issuing Bank shall promptly notify

the Administrative Agent and the Borrower by telephone (confirmed by telecopy) of such demand for payment and whether the Issuing Bank has made or will make an LC Disbursement thereunder; provided that any failure to give or delay in giving such notice shall not relieve the Borrower of its obligation to reimburse the Issuing Bank and the Revolving Lenders with respect to any such LC Disbursement.

(h) Interim Interest. If the Issuing Bank shall make any LC Disbursement, then, unless the Borrower shall reimburse such LC Disbursement in full on the date such LC Disbursement is made, the unpaid amount thereof shall bear interest, for each day from and including the date such LC Disbursement is made to but excluding the date that the Borrower reimburses such LC Disbursement, at the rate per annum then applicable to ABR Revolving Loans; provided that, if the Borrower fails to reimburse such LC Disbursement when due pursuant to paragraph (e) of this Section, then Section 2.13(c) shall apply. Interest accrued pursuant to this paragraph shall be for the account of the Issuing Bank, except that interest accrued on and after the date of payment by any Revolving Lender pursuant to paragraph (e) of this Section to reimburse the Issuing Bank shall be for the account of such Lender to the extent of such payment.

(i) Replacement of the Issuing Bank. An Issuing Bank may be replaced at any time by written agreement among the Borrower, the Administrative Agent and the successor to such Issuing Bank. The Administrative Agent shall notify the Lenders of any such replacement of an Issuing Bank. At the time any such replacement shall become effective, the Borrower shall pay all unpaid fees accrued for the account of the replaced Issuing Bank pursuant to Section 2.12(b). From and after the effective date of any such replacement, (i) the successor Issuing Bank shall have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit to be issued by it thereafter and (ii) references herein to the term "Issuing Bank" shall be deemed to refer to such successor or to any previous Issuing Bank, or to such successor and all previous Issuing Banks, as the context shall require. After the replacement of an Issuing Bank hereunder, the replaced Issuing Bank shall remain a party hereto and shall continue to have all the rights and obligations of an Issuing Bank under this Agreement with respect to Letters of Credit issued by it prior to such replacement, but shall not be required to issue additional Letters of Credit.

(j) Cash Collateralization. If any Event of Default shall occur and be continuing, on the Business Day

that the Borrower receives notice from the Administrative Agent or the Required Lenders (or, if the maturity of the Loans has been accelerated, Revolving Lenders with LC Exposure representing greater than 50% of the total LC Exposure) demanding the deposit of cash collateral pursuant to this paragraph, the Borrower shall deposit in an account with the Administrative Agent, in the name of the Administrative Agent and for the benefit of the Lenders, an amount in cash equal to 105% of the LC Exposure as of such date plus any accrued and unpaid interest thereon; provided that the obligation to deposit such cash collateral shall become effective immediately, and such deposit shall become immediately due and payable, without demand or other notice of any kind, upon the occurrence of any Event of Default with respect to the Borrower described in clause (h) or (i) of Article VII. Each such deposit shall be held by the Administrative Agent as collateral for the payment and performance of the obligations of the Borrower under this Agreement. The Administrative Agent shall have exclusive dominion and control, including the exclusive right of withdrawal, over such account. Other than any interest earned on the investment of such deposits, which investments shall be made at the option and sole discretion of the Administrative Agent and at the Borrower's risk and expense, such deposits shall not bear interest. Interest or profits, if any, on such investments shall accumulate in such account. Moneys in such account shall be applied by the Administrative Agent to reimburse the Issuing Bank for LC Disbursements for which it has not been reimbursed and, to the extent not so applied, shall be held for the satisfaction of the reimbursement obligations of the Borrower for the LC Exposure at such time or, if the maturity of the Loans has been accelerated (but subject to the consent of Revolving Lenders with LC Exposure representing greater than 50% of the total LC Exposure), be applied to satisfy other obligations of the Borrower under this Agreement. If the Borrower is required to provide an amount of cash collateral hereunder as a result of the occurrence of an Event of Default, such amount (to the extent not applied as aforesaid) shall be returned to the Borrower within three Business Days after all Events of Default have been cured or waived.

(k) Each of the Existing Issuing Bank and the Existing DAP Issuing Bank shall deliver to the Administrative Agent, on or prior to the Effective Date, a schedule identifying all Existing Letters of Credit issued by it. Each of the Existing Issuing Bank and the Existing DAP Issuing Bank also shall notify the Administrative Agent of any LC Disbursement or any expiration, termination or renewal of any Existing Letters of Credit issued by it.

SECTION 2.06. Funding of Borrowings. (a) Each Lender shall make each Loan to be made by it hereunder on the proposed date thereof by wire transfer of immediately available funds by 12:00 noon, New York City time, to the account of the Administrative Agent most recently designated by it for such purpose by notice to the Lenders; provided that Swingline Loans shall be made as provided in Section 2.04. The Administrative Agent will make such Loans available to the Borrower by promptly crediting the amounts so received, in like funds, to an account of the Borrower designated by the Borrower in the applicable Borrowing Request; provided that ABR Revolving Loans made to finance the reimbursement of an LC Disbursement as provided in Section 2.05(e) shall be remitted by the Administrative Agent to the Issuing Bank.

(b) Unless the Administrative Agent shall have received notice from a Lender prior to the proposed date of any Borrowing that such Lender will not make available to the Administrative Agent such Lender's share of such Borrowing, the Administrative Agent may assume that such Lender has made such share available on such date in accordance with paragraph (a) of this Section and may, in reliance upon such assumption, make available to the Borrower a corresponding amount. In such event, if a Lender has not in fact made its share of the applicable Borrowing available to the Administrative Agent, then the applicable Lender and the Borrower severally agree to pay to the Administrative Agent forthwith on demand such corresponding amount with interest thereon, for each day from and including the date such amount is made available to the Borrower to but excluding the date of payment to the Administrative Agent, at (i) in the case of such Lender, the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation or (ii) in the case of the Borrower, the interest rate applicable to ABR Loans. If such Lender pays such amount to the Administrative Agent, then such amount shall constitute such Lender's Loan included in such Borrowing.

SECTION 2.07. Interest Elections. (a) Each Revolving Borrowing and Term Borrowing initially shall be of the Type specified in the applicable Borrowing Request and, in the case of a Eurodollar Borrowing, shall have an initial Interest Period as specified in such Borrowing Request. Thereafter, the Borrower may elect to convert such Borrowing to a different Type or to continue such Borrowing and, in the case of a Eurodollar Borrowing, may elect Interest Periods therefor, all as provided in this Section. The Borrower may elect different options with respect to

different portions of the affected Borrowing, in which case each such portion shall be allocated ratably among the Lenders holding the Loans comprising such Borrowing, and the Loans comprising each such portion shall be considered a separate Borrowing. This Section shall not apply to Swingline Borrowings, which may not be converted or continued.

(b) To make an election pursuant to this Section, the Borrower shall notify the Administrative Agent of such election by telephone by the time that a Borrowing Request would be required under Section 2.03 if the Borrower were requesting a Revolving Borrowing of the Type resulting from such election to be made on the effective date of such election. Each such telephonic Interest Election Request shall be irrevocable and shall be confirmed promptly by hand delivery or telecopy to the Administrative Agent of a written Interest Election Request in a form approved by the Administrative Agent and signed by the Borrower.

(c) Each telephonic and written Interest Election Request shall specify the following information in compliance with Section 2.02 and paragraph (f) of this Section:

(i) the Borrowing to which such Interest Election Request applies and, if different options are being elected with respect to different portions thereof, the portions thereof to be allocated to each resulting Borrowing (in which case the information to be specified pursuant to clauses (iii) and (iv) below shall be specified for each resulting Borrowing);

(ii) the effective date of the election made pursuant to such Interest Election Request, which shall be a Business Day;

(iii) whether the resulting Borrowing is to be an ABR Borrowing or a Eurodollar Borrowing; and

(iv) if the resulting Borrowing is a Eurodollar Borrowing, the Interest Period to be applicable thereto after giving effect to such election, which shall be a period contemplated by the definition of the term "Interest Period".

If any such Interest Election Request requests a Eurodollar Borrowing but does not specify an Interest Period, then the Borrower shall be deemed to have selected an Interest Period of one month's duration.

(d) Promptly following receipt of an Interest Election Request, the Administrative Agent shall advise each Lender of the details thereof and of such Lender's portion of each resulting Borrowing.

(e) If the Borrower fails to deliver a timely Interest Election Request with respect to a Eurodollar Borrowing prior to the end of the Interest Period applicable thereto, then, unless such Borrowing is repaid as provided herein, at the end of such Interest Period such Borrowing shall be converted to an ABR Borrowing. Notwithstanding any contrary provision hereof, if an Event of Default has occurred and is continuing and the Administrative Agent, at the request of the Required Lenders, so notifies the Borrower, then, so long as an Event of Default is continuing (i) no outstanding Borrowing may be converted to or continued as a Eurodollar Borrowing and (ii) unless repaid, each Eurodollar Borrowing shall be converted to an ABR Borrowing at the end of the Interest Period applicable thereto.

(f) A Borrowing of any Class may not be converted to or continued as a Eurodollar Borrowing if after giving effect thereto (i) the Interest Period therefor would commence before and end after a date on which any principal of the Loans of such Class is scheduled to be repaid and (ii) the sum of the aggregate principal amount of outstanding Eurodollar Borrowings of such Class with Interest Periods ending on or prior to such scheduled repayment date plus the aggregate principal amount of outstanding ABR Borrowings of such Class would be less than the aggregate principal amount of Loans of such Class required to be repaid on such scheduled repayment date.

SECTION 2.08. Termination and Reduction of Commitments. (a) Unless previously terminated, (i) the Tranche A-1 Commitments and Tranche C-1 Commitments shall terminate at 5:00 p.m., New York City time, on the Redemption Date and (ii) the Revolving Commitments shall terminate on the Revolving Maturity Date.

(b) The Borrower may at any time terminate, or from time to time reduce, the Revolving Commitments; provided that (i) each reduction of the Revolving Commitments shall be in an amount that is an integral multiple of \$1,000,000 and not less than \$5,000,000 and (ii) the Borrower shall not terminate or reduce the Revolving Commitments if, after giving effect to any concurrent prepayment of the Revolving Loans in accordance with Section 2.11, the sum of the Revolving Exposures would exceed the total Revolving Commitments.

(c) The Borrower shall notify the Administrative Agent of any election to terminate or reduce the Revolving Commitments under paragraph (b) of this Section at least three Business Days prior to the effective date of such termination or reduction, specifying such election and the effective date thereof. Promptly following receipt of any notice, the Administrative Agent shall advise the Lenders of the contents thereof. Each notice delivered by the Borrower pursuant to this Section shall be irrevocable; provided that a notice of termination of the Revolving Commitments delivered by the Borrower may state that such notice is conditioned upon the effectiveness of other credit facilities, in which case such notice may be revoked by the Borrower (by notice to the Administrative Agent on or prior to the specified effective date) if such condition is not satisfied. Any termination or reduction of the Revolving Commitments shall be permanent. Each reduction of the Revolving Commitments shall be made ratably among the Lenders in accordance with their respective Revolving Commitments.

(d) The parties hereto acknowledge that the Tranche A Commitments, Tranche B Commitments, and Tranche C Commitments have terminated.

SECTION 2.09. Repayment of Loans; Evidence of Debt. (a) The Borrower hereby unconditionally promises to pay (i) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Revolving Loan of such Lender on the Revolving Maturity Date, (ii) to the Administrative Agent for the account of each Lender the then unpaid principal amount of each Term Loan of such Lender as provided in Section 2.10 and (iii) to the Swingline Lender the then unpaid principal amount of each Swingline Loan on the earlier of the Revolving Maturity Date and the first date after such Swingline Loan is made that is the 15th or last day of a calendar month and is at least two Business Days after such Swingline Loan is made; provided that on each date that a Revolving Borrowing is made, the Borrower shall repay all Swingline Loans then outstanding.

(b) Each Lender shall maintain in accordance with its usual practice an account or accounts evidencing the indebtedness of the Borrower to such Lender resulting from each Loan made by such Lender, including the amounts of principal and interest payable and paid to such Lender from time to time hereunder.

(c) The Administrative Agent shall maintain accounts in which it shall record (i) the amount of each Loan made hereunder, the Class and Type thereof and the

Interest Period applicable thereto, (ii) the amount of any principal or interest due and payable or to become due and payable from the Borrower to each Lender hereunder and (iii) the amount of any sum received by the Administrative Agent hereunder for the account of the Lenders and each Lender's share thereof.

(d) The entries made in the accounts maintained pursuant to paragraph (b) or (c) of this Section shall be prima facie evidence of the existence and amounts of the obligations recorded therein; provided that the failure of any Lender or the Administrative Agent to maintain such accounts or any error therein shall not in any manner affect the obligation of the Borrower to repay the Loans in accordance with the terms of this Agreement.

(e) Any Lender may request that Loans of any Class made by it be evidenced by a promissory note. In such event, the Borrower shall prepare, execute and deliver to such Lender a promissory note payable to the order of such Lender (or, if requested by such Lender, to such Lender and its registered assigns) and in a form approved by the Administrative Agent. Thereafter, the Loans evidenced by such promissory note and interest thereon shall at all times (including after assignment pursuant to Section 9.04) be represented by one or more promissory notes in such form payable to the order of the payee named therein (or, if such promissory note is a registered note, to such payee and its registered assigns).

SECTION 2.10. Amortization of Term Loans. (a) Subject to adjustment pursuant to paragraph (f) of this Section, the Borrower shall repay Tranche A Term Borrowings on each date set forth below in the aggregate principal amount set forth opposite such date:

Date	Amount
May 31, 2003	\$ 1,427,808.51
November 30, 2003	\$ 7,195,029.24
May 31, 2004	\$11,449,024.63
November 30, 2004	\$11,449,024.63
May 31, 2005	\$12,867,023.09
November 30, 2005	\$12,867,023.09
May 31, 2006	\$12,867,023.09
Tranche A Maturity Date	\$12,867,023.10

(b) Subject to adjustment pursuant to paragraph (f) of this Section, the Borrower shall repay

Tranche A-1 Term Borrowings on each date set forth below in the aggregate principal amount set forth opposite such date:

Date	Amount
May 31, 2003	\$ 1,290,359.75
November 30, 2003	\$ 6,502,395.82
May 31, 2004	\$10,346,878.03
November 30, 2004	\$10,346,878.03
May 31, 2005	\$11,628,372.09
November 30, 2005	\$11,628,372.09
May 31, 2006	\$11,628,372.09
Tranche A Maturity Date	\$11,628,372.10

(c) Subject to adjustment pursuant to paragraph (f) of this Section, the Borrower shall repay Tranche C Term Borrowings on each date set forth below in the aggregate principal amount set forth opposite such date:

Date	Amount
November 30, 2003	\$ 2,067,497.08
May 31, 2004	\$ 2,067,497.08
November 30, 2004	\$ 2,067,497.08
May 31, 2005	\$ 2,067,497.08
November 30, 2005	\$ 2,067,497.08
May 31, 2006	\$ 2,067,497.08
November 30, 2006	\$ 2,067,497.08
May 31, 2007	\$ 2,067,497.08
Tranche C Maturity Date	\$231,559,673.36

(d) Subject to adjustment pursuant to paragraph (f) of this Section, the Borrower shall repay Tranche C-1 Term Borrowings on each date set forth below in the aggregate principal amount set forth opposite such date:

Date	Amount
November 30, 2003	\$ 2,291,666.66
May 31, 2004	\$ 2,291,666.66
November 30, 2004	\$ 2,291,666.66
May 31, 2005	\$ 2,291,666.66
November 30, 2005	\$ 2,291,666.66
May 31, 2006	\$ 2,291,666.66
November 30, 2006	\$ 2,291,666.66
May 31, 2007	\$ 2,291,666.66
Tranche C Maturity Date	\$256,666,666.72

(e) To the extent not previously paid, (i) all Tranche A Term Loans and Tranche A-1 Term Loans shall be due and payable on the Tranche A Maturity Date and (ii) all Tranche C Term Loans and Tranche C-1 Term Loans shall be due and payable on the Tranche C Maturity Date.

(f) Any prepayment of a Term Borrowing of any Class shall be applied to reduce the subsequent scheduled repayments of the Term Borrowings of such Class to be made pursuant to this Section ratably; provided that any prepayment made pursuant to Section 2.11(a) shall be applied, first, to reduce the next scheduled repayments of the Term Borrowings of such Class to be made pursuant to this Section in chronological order, to the extent such repayments are scheduled to be due within 12 months after such prepayment is made, until such next scheduled repayments have been eliminated as a result of reductions hereunder and, second, to reduce the subsequent scheduled repayments of the Term Borrowings of such Class to be made pursuant to this Section ratably. The parties hereto acknowledge that the amortization amounts set forth in paragraph (a) and (c) above reflect all adjustments for prepayments of Tranche A Term Loans and Tranche C Term Loans made prior to the Restatement Effective Date.

(g) Prior to any repayment of any Term Borrowings of any Class hereunder, the Borrower shall select the Borrowing or Borrowings of the applicable Class to be repaid and shall notify the Administrative Agent by telephone (confirmed by telecopy) of such selection not later than 11:00 a.m., New York City time, three Business Days before the scheduled date of such repayment; provided that each repayment of Term Borrowings of any Class shall be applied to repay any outstanding ABR Term Borrowings of such Class before any other Borrowings of such Class. Each repayment of a Borrowing shall be applied ratably to the Loans included in the repaid Borrowing. Repayments of Term Borrowings shall be accompanied by accrued interest on the amount repaid.

SECTION 2.11. Prepayment of Loans. (a) The Borrower shall have the right at any time and from time to time to prepay any Borrowing in whole or in part, subject to the requirements of this Section.

(b) In the event and on each occasion that any Net Cash Proceeds are received by or on behalf of Holdings, the Borrower or any Subsidiary in respect of any Prepayment Event, the Borrower shall, immediately after such Net Cash Proceeds are received, prepay Term Borrowings in an aggregate amount equal to such Net Cash Proceeds; provided

that, in the case of a Prepayment Event described in clause (c) of the definition of the term "Prepayment Event", if such Prepayment Event is an IPO and if the Borrower delivers to the Administrative Agent, on or prior to the date of such IPO, a certificate of a Financial Officer certifying that (i) no Default has occurred and is continuing and (ii) the Borrower or Holdings intends to apply a portion of the Net Cash Proceeds from such IPO (which portion shall be specified in such certificate and shall not exceed 25% of such Net Cash Proceeds), within 365 days after the date of such IPO, for the purposes specified in clause (viii) of Section 6.07(b), then the amount of the prepayment required by this paragraph in respect of such event shall be reduced by the portion of the Net Cash Proceeds therefrom specified in such certificate; provided further that, upon the expiration of such 365-day period, if the Borrower and Holdings have not applied the entire amount of such portion of such Net Cash Proceeds for the purposes specified in clause (viii) of Section 6.07(b), the Borrower shall notify the Administrative Agent thereof and a prepayment shall be required under this paragraph to the extent such portion has not been so applied during such period.

(c) Following the end of each fiscal year of the Borrower, commencing with the fiscal year ending December 28, 2002, the Borrower shall prepay Term Borrowings in an aggregate amount equal to 50% of Excess Cash Flow for such fiscal year; provided that the amount of the prepayment required by this paragraph shall be equal to 25% (instead of 50%) of Excess Cash Flow for such fiscal year if, at the end of such fiscal year, the Senior Leverage Ratio is less than or equal to 1.00 to 1.00. Each prepayment pursuant to this paragraph shall be made on the last day of the first fiscal quarter of the fiscal year following the fiscal year for which Excess Cash Flow is being calculated.

(d) Prior to any optional or mandatory prepayment of Borrowings hereunder, the Borrower shall select the Borrowing or Borrowings to be prepaid and shall specify such selection in the notice of such prepayment pursuant to paragraph (e) of this Section; provided that each prepayment of Borrowings of any Class shall be applied to prepay ABR Borrowings of such Class before any other Borrowings of such Class. In the event of any optional or mandatory prepayment of Term Borrowings made at a time when Term Borrowings of more than one Class remain outstanding, the Borrower shall select Term Borrowings to be prepaid so that the aggregate amount of such prepayment is allocated among the Tranche A Term Borrowings, Tranche A-1 Term Borrowings, Tranche C Term Borrowings and Tranche C-1 Term Borrowings pro rata based on the aggregate principal amount of outstanding Borrowings of

each such Class; provided that, so long as there are any Tranche A Term Borrowings or Tranche A-1 Term Borrowings outstanding, any Tranche C Lender or Tranche C-1 Lender may elect, by notice to the Administrative Agent by telephone (confirmed by telecopy) at least one Business Day prior to the prepayment date, to decline all or any portion of any prepayment of its Tranche C Term Loans or Tranche C-1 Term Loans pursuant to this Section (other than an optional prepayment pursuant to paragraph (a) of this Section, which may not be declined), in which case the aggregate amount of the prepayment that would have been applied to prepay Tranche C Term Loans or Tranche C-1 Term Loans but was so declined shall be applied to prepay Tranche A Term Borrowings and Tranche A-1 Term Borrowings on a pro rata basis. The rights of the Tranche C Lenders and the Tranche C-1 Lenders under this Section 2.11(d) shall not be changed without the written consent of the Tranche C Lenders or the Tranche C-1 Lenders, as applicable, holding a majority of the outstanding Tranche C Term Loans or Tranche C-1 Term Loans, as applicable.

(e) The Borrower shall notify the Administrative Agent (and, in the case of prepayment of a Swingline Loan, the Swingline Lender) by telephone (confirmed by telecopy) of any prepayment hereunder (i) in the case of prepayment of a Eurodollar Borrowing, not later than 11:00 a.m., New York City time, three Business Days before the date of prepayment, (ii) in the case of prepayment of an ABR Borrowing, not later than 11:00 a.m., New York City time, one Business Day before the date of prepayment or (iii) in the case of prepayment of a Swingline Loan, not later than 12:00 noon, New York City time, on the date of prepayment. Each such notice shall be irrevocable and shall specify the prepayment date, the principal amount of each Borrowing or portion thereof to be prepaid and, in the case of a mandatory prepayment, a reasonably detailed calculation of the amount of such prepayment; provided that, if a notice of optional prepayment is given in connection with a conditional notice of termination of the Revolving Commitments as contemplated by Section 2.08, then such notice of prepayment may be revoked if such notice of termination is revoked in accordance with Section 2.08. Promptly following receipt of any such notice (other than a notice relating solely to Swingline Loans), the Administrative Agent shall advise the Lenders of the contents thereof. Each partial prepayment of any Borrowing shall be in an amount that would be permitted in the case of an advance of a Borrowing of the same Type as provided in Section 2.02, except as necessary to apply fully the required amount of a mandatory prepayment. Each prepayment of a Borrowing shall be applied ratably to the Loans

included in the prepaid Borrowing. Prepayments shall be accompanied by accrued interest to the extent required by Section 2.13.

SECTION 2.12. Fees. (a) The Borrower agrees to pay to the Administrative Agent (i) for the account of each Revolving Lender a commitment fee, which shall accrue at the Applicable Rate on the average daily unused amount of the Revolving Commitment of such Lender during the period from and including the Effective Date to but excluding the date on which the Revolving Commitments terminate and (ii) for the account of each Tranche A-1 Term Lender and Tranche C-1 Term Lender a commitment fee which shall accrue at the rate of 0.50% per annum on the amount of the Tranche A-1 Commitment and Tranche C-1 Commitment of such Lender during the period from and including the Restatement Effective Date to but excluding the date on which such Commitments terminate. Accrued commitment fees shall be payable in arrears on the last day of March, June, September and December of each year and on the date on which the Revolving Commitments terminate, commencing on the first such date to occur after the Effective Date; provided that accrued commitment fees for the Tranche A-1 Commitments and Tranche C-1 Commitments shall be payable on the date on which such Commitments terminate. All commitment fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day). For purposes of computing commitment fees, a Revolving Commitment of a Lender shall be deemed to be used to the extent of the outstanding Revolving Loans and LC Exposure of such Lender (and the Swingline Exposure of such Lender shall be disregarded for such purpose).

(b) The Borrower agrees to pay (i) to the Administrative Agent for the account of each Revolving Lender a participation fee with respect to its participations in Letters of Credit, which shall accrue at the same Applicable Rate as interest on Eurodollar Revolving Loans on the average daily amount of such Lender's LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date on which such Lender's Revolving Commitment terminates and the date on which such Lender ceases to have any LC Exposure, and (ii) to the Issuing Bank a fronting fee, which shall accrue at the rate of 1/4 of 1% per annum on the average daily amount of the LC Exposure (excluding any portion thereof attributable to unreimbursed LC Disbursements) during the period from and including the Effective Date to but excluding the later of the date of

termination of the Revolving Commitments and the date on which there ceases to be any LC Exposure, as well as the Issuing Bank's standard fees with respect to the issuance, amendment, renewal or extension of any Letter of Credit or processing of drawings thereunder. Participation fees and fronting fees accrued through and including the last day of March, June, September and December of each year shall be payable on the third Business Day following such last day, commencing on the first such date to occur after the Effective Date; provided that all such fees shall be payable on the date on which the Revolving Commitments terminate and any such fees accruing after the date on which the Revolving Commitments terminate shall be payable on demand. Any other fees payable to the Issuing Bank pursuant to this paragraph shall be payable within 10 days after demand. All participation fees and fronting fees shall be computed on the basis of a year of 360 days and shall be payable for the actual number of days elapsed (including the first day but excluding the last day).

(c) The Borrower agrees to pay to the Administrative Agent, for its own account, fees payable in the amounts and at the times separately agreed upon between the Borrower and the Administrative Agent.

(d) All fees payable hereunder shall be paid on the dates due, in immediately available funds, to the Administrative Agent (or to the Issuing Bank, in the case of fees payable to it) for distribution, in the case of commitment fees and participation fees, to the Lenders entitled thereto. Fees paid shall not be refundable under any circumstances.

SECTION 2.13. Interest. (a) The Loans comprising each ABR Borrowing (including each Swingline Loan) shall bear interest at the Alternate Base Rate plus the Applicable Rate.

(b) The Loans comprising each Eurodollar Borrowing shall bear interest at the Adjusted LIBO Rate for the Interest Period in effect for such Borrowing plus the Applicable Rate.

(c) Notwithstanding the foregoing, if any principal of or interest on any Loan or any fee or other amount payable by the Borrower hereunder is not paid when due, whether at stated maturity, upon acceleration or otherwise, such overdue amount shall bear interest, after as well as before judgment, at a rate per annum equal to (i) in the case of overdue principal of any Loan, 2% plus the rate otherwise applicable to such Loan as provided in the

preceding paragraphs of this Section or (ii) in the case of any other amount, 2% plus the rate applicable to ABR Revolving Loans as provided in paragraph (a) of this Section.

(d) Accrued interest on each Loan shall be payable in arrears on each Interest Payment Date for such Loan and, in the case of Revolving Loans, upon termination of the Revolving Commitments; provided that (i) interest accrued pursuant to paragraph (c) of this Section shall be payable on demand, (ii) in the event of any repayment or prepayment of any Loan (other than a prepayment of an ABR Revolving Loan prior to the end of the Revolving Availability Period), accrued interest on the principal amount repaid or prepaid shall be payable on the date of such repayment or prepayment and (iii) in the event of any conversion of any Eurodollar Loan prior to the end of the current Interest Period therefor, accrued interest on such Loan shall be payable on the effective date of such conversion.

(e) All interest hereunder shall be computed on the basis of a year of 360 days, except that interest computed by reference to the Alternate Base Rate at times when the Alternate Base Rate is based on the Prime Rate shall be computed on the basis of a year of 365 days (or 366 days in a leap year), and in each case shall be payable for the actual number of days elapsed (including the first day but excluding the last day). The applicable Alternate Base Rate or Adjusted LIBO Rate shall be determined by the Administrative Agent, and such determination shall be conclusive absent manifest error.

SECTION 2.14. Alternate Rate of Interest. If prior to the commencement of any Interest Period for a Eurodollar Borrowing:

(a) the Administrative Agent determines (which determination shall be conclusive absent manifest error) that adequate and reasonable means do not exist for ascertaining the Adjusted LIBO Rate for such Interest Period; or

(b) the Administrative Agent is advised by the Required Lenders that the Adjusted LIBO Rate for such Interest Period will not adequately and fairly reflect the cost to such Lenders of making or maintaining their Loans included in such Borrowing for such Interest Period;

then the Administrative Agent shall give notice thereof to the Borrower and the Lenders by telephone or telecopy as promptly as practicable thereafter and, until the Administrative Agent notifies the Borrower and the Lenders that the circumstances giving rise to such notice no longer exist, (i) any Interest Election Request that requests the conversion of any Borrowing to, or continuation of any Borrowing as, a Eurodollar Borrowing shall be ineffective and (ii) if any Borrowing Request requests a Eurodollar Borrowing, such Borrowing shall be made as an ABR Borrowing.

SECTION 2.15. Increased Costs. (a) If any Change in Law shall:

(i) impose, modify or deem applicable any reserve, special deposit or similar requirement against assets of, deposits with or for the account of, or credit extended by, any Lender (except any such reserve requirement reflected in the Adjusted LIBO Rate) or the Issuing Bank; or

(ii) impose on any Lender or the Issuing Bank or the London interbank market any other condition affecting this Agreement or Eurodollar Loans made by such Lender or any Letter of Credit or participation therein;

and the result of any of the foregoing shall be to increase the cost to such Lender of making or maintaining any Eurodollar Loan (or of maintaining its obligation to make any such Loan) or to increase the cost to such Lender or the Issuing Bank of participating in, issuing or maintaining any Letter of Credit or to reduce the amount of any sum received or receivable by such Lender or the Issuing Bank hereunder (whether of principal, interest or otherwise), then the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank, as the case may be, for such additional costs incurred or reduction suffered.

(b) If any Lender or the Issuing Bank determines that any Change in Law regarding capital requirements has or would have the effect of reducing the rate of return on such Lender's or the Issuing Bank's capital or on the capital of such Lender's or the Issuing Bank's holding company, if any, as a consequence of this Agreement or the Loans made by, or participations in Letters of Credit held by, such Lender, or the Letters of Credit issued by the Issuing Bank, to a level below that which such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company could have

achieved but for such Change in Law (taking into consideration such Lender's or the Issuing Bank's policies and the policies of such Lender's or the Issuing Bank's holding company with respect to capital adequacy), then from time to time the Borrower will pay to such Lender or the Issuing Bank, as the case may be, such additional amount or amounts as will compensate such Lender or the Issuing Bank or such Lender's or the Issuing Bank's holding company for any such reduction suffered.

(c) A certificate of a Lender or the Issuing Bank setting forth the amount or amounts necessary to compensate such Lender or the Issuing Bank or its holding company, as the case may be, as specified in paragraph (a) or (b) of this Section, and, in reasonable detail, the basis therefor, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender or the Issuing Bank, as the case may be, the amount shown as due on any such certificate within 10 days after receipt thereof.

(d) Failure or delay on the part of any Lender or the Issuing Bank to demand compensation pursuant to this Section shall not constitute a waiver of such Lender's or the Issuing Bank's right to demand such compensation; provided that the Borrower shall not be required to compensate a Lender or the Issuing Bank pursuant to this Section for any increased costs or reductions incurred more than 270 days prior to the date that such Lender or the Issuing Bank, as the case may be, notifies the Borrower of the Change in Law giving rise to such increased costs or reductions and of such Lender's or the Issuing Bank's intention to claim compensation therefor; provided further that, if the Change in Law giving rise to such increased costs or reductions is retroactive, then the 270-day period referred to above shall be extended to include the period of retroactive effect thereof.

SECTION 2.16. Break Funding Payments. In the event of (a) the payment of any principal of any Eurodollar Loan other than on the last day of an Interest Period applicable thereto (including as a result of an Event of Default), (b) the conversion of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto, (c) the failure to borrow, convert, continue or prepay any Revolving Loan or Term Loan on the date specified in any notice delivered pursuant hereto (regardless of whether such notice may be revoked under Section 2.11(e) and is revoked in accordance therewith), or (d) the assignment of any Eurodollar Loan other than on the last day of the Interest Period applicable thereto as a result of a request

by the Borrower pursuant to Section 2.19, then, in any such event, the Borrower shall compensate each Lender for the loss, cost and expense attributable to such event. In the case of a Eurodollar Loan, such loss, cost or expense to any Lender shall be deemed to include an amount determined by such Lender to be the excess, if any, of (i) the amount of interest which would have accrued on the principal amount of such Loan had such event not occurred, at the Adjusted LIBO Rate that would have been applicable to such Loan, for the period from the date of such event to the last day of the then current Interest Period therefor (or, in the case of a failure to borrow, convert or continue, for the period that would have been the Interest Period for such Loan), over (ii) the amount of interest which would accrue on such principal amount for such period at the interest rate which such Lender would bid were it to bid, at the commencement of such period, for dollar deposits of a comparable amount and period from other banks in the Eurodollar market. A certificate of any Lender setting forth any amount or amounts that such Lender is entitled to receive pursuant to this Section, and, in reasonable detail, the basis therefor, shall be delivered to the Borrower and shall be conclusive absent manifest error. The Borrower shall pay such Lender the amount shown as due on any such certificate within 10 days after receipt thereof.

SECTION 2.17. Taxes. (a) Any and all payments by or on account of any obligation of the Borrower hereunder or under any other Loan Document shall be made free and clear of and without deduction for any Indemnified Taxes or Other Taxes; provided that if the Borrower shall be required to deduct any Indemnified Taxes or Other Taxes from such payments, then (i) the sum payable shall be increased as necessary so that after making all required deductions (including deductions applicable to additional sums payable under this Section) the Administrative Agent, Lender or Issuing Bank (as the case may be) receives an amount equal to the sum it would have received had no such deductions been made, (ii) the Borrower shall make such deductions and (iii) the Borrower shall pay the full amount deducted to the relevant Governmental Authority in accordance with applicable law.

(b) In addition, the Borrower shall pay any Other Taxes to the relevant Governmental Authority in accordance with applicable law.

(c) The Borrower shall indemnify the Administrative Agent, each Lender and the Issuing Bank, within 10 days after written demand therefor, for the full amount of any Indemnified Taxes or Other Taxes paid by the

Administrative Agent, such Lender or the Issuing Bank, as the case may be, on or with respect to any payment by or on account of any obligation of the Borrower hereunder or under any other Loan Document (including Indemnified Taxes or Other Taxes imposed or asserted on or attributable to amounts payable under this Section) and any penalties, interest and reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes or Other Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability, and setting forth, in reasonable detail, the basis therefor, delivered to the Borrower by a Lender or the Issuing Bank, or by the Administrative Agent on its own behalf or on behalf of a Lender or the Issuing Bank, shall be conclusive absent manifest error.

(d) As soon as practicable after any payment of Indemnified Taxes or Other Taxes by the Borrower to a Governmental Authority, the Borrower shall deliver to the Administrative Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to the Administrative Agent.

(e) Any Foreign Lender that is entitled to an exemption from or reduction of withholding tax under the Code, the law of the jurisdiction in which the Borrower is located, or any treaty to which such jurisdiction is a party, with respect to payments under this Agreement shall deliver to the Borrower (with a copy to the Administrative Agent), at the time or times prescribed by applicable law, such properly completed and executed documentation prescribed by applicable law or reasonably requested by the Borrower as will permit such payments to be made without withholding or at a reduced rate. Any Foreign Lender which is not a "bank" within the meaning of Section 881(c)(3)(A) of the Code and intends to claim exemption from U.S. Federal withholding tax under Section 871(h) or 881(c) of the Code with respect to payments of "portfolio interest" shall deliver to the Borrower (with a copy for the Administrative Agent) a Form W-8BEN, or any subsequent versions thereof or successors thereto (and, if such Foreign Lender delivers a Form W-8BEN, a certificate representing that such Foreign Lender is not a bank for purposes of Section 881(c) of the Code, is not a ten-percent shareholder (within the meaning of Section 871(h)(3)(B) of the Code) of the Borrower and is not a controlled foreign corporation related to the Borrower (within the meaning of Section 864(d)(4) of the Code)), properly completed and duly executed by such Foreign Lender

claiming complete exemption from, or a reduced rate of, U.S. Federal withholding tax on payments of interest by the Borrower under this Agreement and the other Loan Documents.

(f) If the Administrative Agent or a Lender determines, in its sole discretion, that it has received a refund of any Taxes or Other Taxes as to which it has been indemnified by the Borrower or with respect to which the Borrower has paid additional amounts pursuant to this Section 2.17, it shall pay over such refund to the Borrower (but only to the extent of indemnity payments made, or additional amounts paid, by the Borrower under this Section 2.17 with respect to the Taxes or Other Taxes giving rise to such refund), net of all out-of-pocket expenses of the Administrative Agent or such Lender and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund); provided that the Borrower, upon the request of the Administrative Agent or such Lender, agrees to repay the amount paid over to the Borrower (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) to the Administrative Agent or such Lender in the event the Administrative Agent or such Lender is required to repay such refund to such Governmental Authority. Nothing contained in this Section 2.17(f) shall require the Administrative Agent or any Lender to make available its tax returns (or any other information relating to its taxes which it deems confidential) to the Borrower or any other Person.

SECTION 2.18. Payments Generally; Pro Rata Treatment; Sharing of Set-offs. (a) The Borrower shall make each payment required to be made by it hereunder or under any other Loan Document (whether of principal, interest, fees or reimbursement of LC Disbursements, or of amounts payable under Section 2.15, 2.16 or 2.17, or otherwise) prior to 12:00 noon, New York City time, on the date when due, in immediately available funds, without set-off or counterclaim. Any amounts received after such time on any date may, in the discretion of the Administrative Agent, be deemed to have been received on the next succeeding Business Day for purposes of calculating interest thereon. All such payments shall be made to the Administrative Agent at its offices at 270 Park Avenue, New York, New York, except payments to be made directly to the Issuing Bank or Swingline Lender as expressly provided herein and except that payments pursuant to Sections 2.15, 2.16, 2.17 and 9.03 shall be made directly to the Persons entitled thereto and payments pursuant to other Loan Documents shall be made to the Persons specified therein. The Administrative Agent shall distribute any such payments

received by it for the account of any other Person to the appropriate recipient promptly following receipt thereof. If any payment under any Loan Document shall be due on a day that is not a Business Day, the date for payment shall be extended to the next succeeding Business Day, and, in the case of any payment accruing interest, interest thereon shall be payable for the period of such extension. All payments under each Loan Document shall be made in dollars.

(b) If at any time insufficient funds are received by and available to the Administrative Agent to pay fully all amounts of principal, unreimbursed LC Disbursements, interest and fees then due hereunder, such funds shall be applied (i) first, towards payment of interest and fees then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of interest and fees then due to such parties, and (ii) second, towards payment of principal and unreimbursed LC Disbursements then due hereunder, ratably among the parties entitled thereto in accordance with the amounts of principal and unreimbursed LC Disbursements then due to such parties.

(c) If any Lender shall, by exercising any right of set-off or counterclaim or otherwise, obtain payment in respect of any principal of or interest on any of its Revolving Loans, Term Loans or participations in LC Disbursements or Swingline Loans resulting in such Lender receiving payment of a greater proportion of the aggregate amount of its Revolving Loans, Term Loans and participations in LC Disbursements and Swingline Loans and accrued interest thereon than the proportion received by any other Lender, then the Lender receiving such greater proportion shall purchase (for cash at face value) participations in the Revolving Loans, Term Loans and participations in LC Disbursements and Swingline Loans of other Lenders to the extent necessary so that the benefit of all such payments shall be shared by the Lenders ratably in accordance with the aggregate amount of principal of and accrued interest on their respective Revolving Loans, Term Loans and participations in LC Disbursements and Swingline Loans; provided that (i) if any such participations are purchased and all or any portion of the payment giving rise thereto is recovered, such participations shall be rescinded and the purchase price restored to the extent of such recovery, without interest, and (ii) the provisions of this paragraph shall not be construed to apply to any payment made by the Borrower pursuant to and in accordance with the express terms of this Agreement or any payment obtained by a Lender as consideration for the assignment of or sale of a participation in any of its Loans or participations in LC Disbursements to any assignee or participant, other than to

the Borrower or any Subsidiary or Affiliate thereof (as to which the provisions of this paragraph shall apply). The Borrower consents to the foregoing and agrees, to the extent it may effectively do so under applicable law, that any Lender acquiring a participation pursuant to the foregoing arrangements may exercise against the Borrower rights of set-off and counterclaim with respect to such participation as fully as if such Lender were a direct creditor of the Borrower in the amount of such participation.

(d) Unless the Administrative Agent shall have received notice from the Borrower prior to the date on which any payment is due to the Administrative Agent for the account of the Lenders or the Issuing Bank hereunder that the Borrower will not make such payment, the Administrative Agent may assume that the Borrower has made such payment on such date in accordance herewith and may, in reliance upon such assumption, distribute to the Lenders or the Issuing Bank, as the case may be, the amount due. In such event, if the Borrower has not in fact made such payment, then each of the Lenders or the Issuing Bank, as the case may be, severally agrees to repay to the Administrative Agent forthwith on demand the amount so distributed to such Lender or Issuing Bank with interest thereon, for each day from and including the date such amount is distributed to it to but excluding the date of payment to the Administrative Agent, at the greater of the Federal Funds Effective Rate and a rate determined by the Administrative Agent in accordance with banking industry rules on interbank compensation.

(e) If any Lender shall fail to make any payment required to be made by it pursuant to Section 2.04(c), 2.05(d) or (e), 2.06(b), 2.18(d) or 9.03(c), then the Administrative Agent may, in its discretion (notwithstanding any contrary provision hereof), apply any amounts thereafter received by the Administrative Agent for the account of such Lender to satisfy such Lender's obligations under such Sections until all such unsatisfied obligations are fully paid.

SECTION 2.19. Mitigation Obligations; Replacement of Lenders. (a) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, then such Lender shall use reasonable efforts to designate a different lending office for funding or booking its Loans hereunder or to assign its rights and obligations hereunder to another of its offices, branches or affiliates, if, such designation or assignment (i) would eliminate or reduce amounts payable pursuant to Section 2.15

or 2.17, as the case may be, in the future and (ii) in the reasonable judgment of such Lender, would not subject such Lender to any unreimbursed cost or expense and would not otherwise be disadvantageous to such Lender. The Borrower hereby agrees to pay all reasonable costs and expenses incurred by any Lender in connection with any such designation or assignment.

(b) If any Lender requests compensation under Section 2.15, or if the Borrower is required to pay any additional amount to any Lender or any Governmental Authority for the account of any Lender pursuant to Section 2.17, or if any Lender defaults in its obligation to fund Loans hereunder, then the Borrower may, at its sole expense and effort, upon notice to such Lender and the Administrative Agent, require such Lender to assign and delegate, without recourse (in accordance with and subject to the restrictions contained in Section 9.04), all its interests, rights and obligations under this Agreement to an assignee that shall assume such obligations (which assignee may be another Lender, if a Lender accepts such assignment); provided that (i) the Borrower shall have received the prior written consent of the Administrative Agent (and, if a Revolving Commitment is being assigned, the Issuing Bank and Swingline Lender), which consent shall not unreasonably be withheld, (ii) such Lender shall have received payment of an amount equal to the outstanding principal of its Loans and participations in LC Disbursements and Swingline Loans, accrued interest thereon, accrued fees and all other amounts payable to it hereunder, from the assignee (to the extent of such outstanding principal and accrued interest and fees) or the Borrower (in the case of all other amounts) and (iii) in the case of any such assignment resulting from a claim for compensation under Section 2.15 or payments required to be made pursuant to Section 2.17, such assignment will result in a material reduction in such compensation or payments. A Lender shall not be required to make any such assignment and delegation if, prior thereto, as a result of a waiver by such Lender or otherwise, the circumstances entitling the Borrower to require such assignment and delegation cease to apply.

SECTION 2.20. Incremental Facility.
[Intentionally Omitted].

ARTICLE III

Representations and Warranties

Each of Holdings and the Borrower represents and warrants to the Lenders on the Restatement Effective Date and on each date thereafter as required under any Loan Document that:

SECTION 3.01. Organization; Powers. Each of Holdings, the Borrower and their Subsidiaries is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization, has all requisite power and authority to carry on its business as now conducted and, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, is qualified to do business in, and is in good standing in, every jurisdiction where such qualification is required.

SECTION 3.02. Authorization; Enforceability. The Transactions to be entered into by each Loan Party are within such Loan Party's corporate powers and have been duly authorized by all necessary corporate and, if required, stockholder action. This Agreement has been duly executed and delivered by each of Holdings and the Borrower and constitutes, and each other Loan Document to which any Loan Party is to be a party, when executed and delivered by such Loan Party, will constitute, a legal, valid and binding obligation of Holdings, the Borrower or such Loan Party (as the case may be), enforceable in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

SECTION 3.03. Governmental Approvals; No Conflicts. The Transactions (a) do not require any consent or approval of, registration or filing with, or any other action by, any Governmental Authority, except (i) such as have been obtained or made and are in full force and effect and except filings necessary to perfect Liens created under the Loan Documents or (ii) where the failure to obtain such consent or approval or make such registration or filing, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, (b) will not violate any applicable law or regulation or the charter, by-laws or other organizational documents of Holdings, the Borrower or any of their Subsidiaries or any order of any Governmental Authority, (c) will not violate or result in a

default under any material indenture, agreement or other instrument binding upon Holdings, the Borrower or any of their Subsidiaries or their assets, or give rise to a right thereunder to require any payment to be made by Holdings, the Borrower or any of their Subsidiaries (other than repayment of the Existing DAP Indebtedness), and (d) will not result in the creation or imposition of any Lien on any asset of Holdings, the Borrower or any of their Subsidiaries, except Liens created under the Loan Documents.

SECTION 3.04. Financial Condition; No Material Adverse Change. (a) Each of Holdings and the Borrower has heretofore furnished to the Lenders its consolidated balance sheet and statements of income, stockholders equity and cash flows (i) as of and for the fiscal year ended December 30, 2001, reported on by Arthur Andersen LLP, independent public accountants, (ii) as of and for the fiscal quarter and the portion of the fiscal year ended October 5, 2002, certified by one of its Financial Officers and (iii) as of the end of and for each fiscal month ended after the end of the fiscal quarter ended October 5, 2002 and prior to the date 30 days prior to the Restatement Effective Date, certified by one of its Financial Officers. Such financial statements present fairly, in all material respects, the financial position and results of operations and cash flows of Holdings and its consolidated subsidiaries as of such dates and for such periods in accordance with GAAP, subject to customary year-end audit adjustments and the absence of footnotes in the case of the statements referred to in clauses (ii) and (iii) above.

(b) Except as disclosed in the financial statements referred to above or the notes thereto or in the Slide Presentation and except for the Disclosed Matters, after giving effect to the Transactions, none of Holdings, the Borrower or their Subsidiaries has, as of the Restatement Effective Date, any material contingent liabilities.

(c) Since October 5, 2002, there has been no material adverse change in the business, assets, operations, prospects or condition, financial or otherwise, of Holdings, the Borrower and their Subsidiaries, taken as a whole.

SECTION 3.05. Properties. (a) Each of Holdings, the Borrower and their Subsidiaries has good title to, or valid leasehold interests in, all its real and personal property material to its business (including its Mortgaged Properties), except for minor defects in title that do not interfere with its ability to conduct its business as

currently conducted or to utilize such properties for their intended purposes.

(b) Each of Holdings, the Borrower and their Subsidiaries owns, or is licensed to use, all trademarks, trade names, copyrights, patents and other intellectual property material to its business, and the use thereof by Holdings, the Borrower and their Subsidiaries does not infringe upon the rights of any other Person, except for any such infringements that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect.

(c) The Borrower has delivered to the Administrative Agent a schedule setting forth the address of each real property that is owned or leased by Holdings or any of its Subsidiaries as of the Effective Date after giving effect to the Transactions.

(d) As of the Restatement Effective Date, neither Holdings, the Borrower nor any of their Subsidiaries has received notice of, or has knowledge of, any pending or contemplated condemnation proceeding affecting any Mortgaged Property or any sale or disposition thereof in lieu of condemnation. Neither any Mortgaged Property nor any interest therein is subject to any right of first refusal, option or other contractual right to purchase such Mortgaged Property or interest therein (other than options to purchase any such Mortgaged Property leased by the Borrower as lessee).

SECTION 3.06. Litigation and Environmental Matters. (a) There are no actions, suits or proceedings by or before any arbitrator or Governmental Authority pending against or, to the knowledge of Holdings or the Borrower, threatened against or affecting Holdings, the Borrower or any of their Subsidiaries (i) as to which there is a reasonable possibility of an adverse determination and that, if adversely determined, would reasonably be expected, individually or in the aggregate, to result in a Material Adverse Effect (other than the Disclosed Matters) or (ii) that involve any of the Loan Documents or the Transactions.

(b) Except for the Disclosed Matters and except with respect to any other matters that, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect, neither Holdings, the Borrower nor any of their Subsidiaries (i) has failed to comply with any Environmental Law or to obtain, maintain or comply with any permit, license or other approval required under any

Environmental Law, (ii) has become subject to any Environmental Liability, (iii) has received notice of any claim with respect to any Environmental Liability or (iv) knows of any basis for any Environmental Liability.

(c) Since the Effective Date, there has been no change in the status of the Disclosed Matters that, individually or in the aggregate, has resulted in, or materially increased the likelihood of, a Material Adverse Effect.

SECTION 3.07. Compliance with Laws and Agreements. Each of Holdings, the Borrower and their Subsidiaries is in compliance with all laws, regulations and orders of any Governmental Authority applicable to it or its property and all indentures, agreements and other instruments binding upon it or its property, except where the failure to do so, individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. No Default has occurred and is continuing.

SECTION 3.08. Investment and Holding Company Status. Neither Holdings, the Borrower nor any of their Subsidiaries is (a) an "investment company" as defined in, or subject to regulation under, the Investment Company Act of 1940 or (b) a "holding company" as defined in, or subject to regulation under, the Public Utility Holding Company Act of 1935.

SECTION 3.09. Taxes. Each of Holdings, the Borrower and their Subsidiaries has timely filed or caused to be filed all Tax returns and reports required to have been filed and has paid or caused to be paid all Taxes required to have been paid by it, except (a) Taxes that are being contested in good faith by appropriate proceedings and for which Holdings, the Borrower or such Subsidiary, as applicable, has set aside on its books adequate reserves or (b) to the extent that the failure to do so would not reasonably be expected to result in a Material Adverse Effect.

SECTION 3.10. ERISA. No ERISA Event has occurred or is reasonably expected to occur that, when taken together with all other such ERISA Events for which liability is reasonably expected to occur, could reasonably be expected to result in a Material Adverse Effect. The present value of all accumulated benefit obligations under each Plan (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$1,000,000 the fair market

value of the assets of such Plan, and the present value of all accumulated benefit obligations of all underfunded Plans (based on the assumptions used for purposes of Statement of Financial Accounting Standards No. 87) did not, as of the date of the most recent financial statements reflecting such amounts, exceed by more than \$1,000,000 the fair market value of the assets of all such underfunded Plans.

SECTION 3.11. Disclosure. Holdings and the Borrower have disclosed to the Lenders all agreements, instruments and corporate or other restrictions to which Holdings, the Borrower or any of their Subsidiaries is subject, and all other matters known to any of them, that, individually or in the aggregate, would reasonably be expected to result in a Material Adverse Effect. Neither the Slide Presentation nor any of the other reports, financial statements, certificates or other information furnished by or on behalf of any Loan Party to the Administrative Agent or any Lender in connection with the negotiation of this Agreement or any other Loan Document or delivered hereunder or thereunder (as modified or supplemented by other information so furnished) contains any material misstatement of fact or omits to state any material fact necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading; provided that, with respect to projected financial information, Holdings and the Borrower represent only that such information was prepared in good faith based upon assumptions believed to be reasonable at the time.

SECTION 3.12. Subsidiaries. After giving effect to the consummation of the Reorganization on the Effective Date, Holdings does not have any Subsidiaries other than the Borrower and the Borrower's Subsidiaries. Schedule 3.12 sets forth the name of, and the ownership interest of the Borrower in, each Subsidiary of the Borrower and identifies each Subsidiary that is a Subsidiary Loan Party, in each case as of the Restatement Effective Date.

SECTION 3.13. Insurance. Schedule 3.13 sets forth a description of all insurance maintained by or on behalf of Holdings, the Borrower and their Subsidiaries as of the Restatement Effective Date. As of the Restatement Effective Date, all premiums in respect of such insurance have been paid.

SECTION 3.14. Labor Matters. As of the Restatement Effective Date, there are no strikes, lockouts or slowdowns against Holdings, the Borrower or any Subsidiary pending or, to the knowledge of Holdings or the Borrower, threatened. Holdings, the Borrower and the

Subsidiaries have not been in material violation of the Fair Labor Standards Act or any other applicable Federal, state, local or foreign law dealing with the hours worked by or payments made to employees or any similar matters. All payments due from Holdings, the Borrower or any Subsidiary, or for which any claim may be made against Holdings, the Borrower or any Subsidiary, on account of wages and employee health and welfare insurance and other benefits, have been paid or accrued as a liability on the books of Holdings, the Borrower or such Subsidiary, except where the failure to pay such liability individually or in the aggregate, would not reasonably be expected to result in a Material Adverse Effect. The consummation of the Transactions will not give rise to any right of termination or right of renegotiation on the part of any union under any collective bargaining agreement to which Holdings, the Borrower or any Subsidiary is bound.

SECTION 3.15. Solvency. Immediately after the consummation of the Restatement Transactions to occur on the Restatement Effective Date and the Redemption Date and immediately following the making of each Loan made on the Restatement Effective Date and after giving effect to the application of the proceeds of such Loans, (a) the fair value of the assets of each Loan Party, at a fair valuation, will exceed its debts and liabilities, subordinated, contingent or otherwise; (b) the present fair saleable value of the property of each Loan Party will be greater than the amount that will be required to pay the probable liability of its debts and other liabilities, subordinated, contingent or otherwise, as such debts and other liabilities become absolute and matured; (c) each Loan Party will be able to pay its debts and liabilities, subordinated, contingent or otherwise, as such debts and liabilities become absolute and matured; and (d) each Loan Party will not have unreasonably small capital with which to conduct the business in which it is engaged as such business is now conducted and is proposed to be conducted following the Restatement Effective Date.

SECTION 3.16. Senior Indebtedness. The Obligations constitute "Senior Debt" and "Designated Senior Debt" under and as defined in the Existing Subordinated Debt Documents and the Additional Subordinated Debt Documents.

SECTION 3.17. Security Documents. (a) The Pledge Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Pledge Agreement) and, when such Collateral is delivered to the Collateral Agent, the Pledge Agreement shall constitute a fully perfected

first priority Lien on, and security interest in, all right, title and interest of each pledgor thereunder in such Collateral, in each case prior and superior in right to any other Person.

(b) The Security Agreement is effective to create in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a legal, valid and enforceable security interest in the Collateral (as defined in the Security Agreement) and, when financing statements in appropriate form are filed in the offices specified on Schedule 6 to the Perfection Certificate, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the grantors thereunder in such Collateral other than the Intellectual Property (as defined in the Security Agreement), to the extent that a security interest can be perfected in such Collateral by filing, recording or registering a financing statement or analogous document in the United States (or any political subdivision thereof) and its territories and possessions pursuant to the Uniform Commercial Code or other applicable law in such jurisdiction, in each case prior and superior in right to any other Person, other than with respect to Liens expressly permitted by Section 6.02.

(c) When the Security Agreement is filed in the United States Patent and Trademark Office and the United States Copyright Office, the Security Agreement shall constitute a fully perfected Lien on, and security interest in, all right, title and interest of the Loan Parties in the Intellectual Property (as defined in the Security Agreement) in which a security interest may be perfected by filing, recording or registering a security agreement, financing statement or analogous document in the United States Patent and Trademark Office or the United States Copyright Office, as applicable, in each case prior and superior in right to any other Person other than Liens expressly permitted by Section 6.02 (it being understood that subsequent recordings in the United States Patent and Trademark Office and the United States Copyright Office may be necessary to perfect a Lien on registered trademarks, trademark applications and copyrights acquired by the Loan Parties after the Effective Date).

(d) The Mortgages are effective to create, subject to the exceptions listed in each title insurance policy covering such Mortgage (or, in the case of the Mortgages with respect to each Mortgaged Property set forth on Schedule 1.01(b) and identified with an asterisk, subject to Permitted Encumbrances), in favor of the Collateral Agent, for the ratable benefit of the Secured Parties, a

legal, valid and enforceable Lien on all of the Loan Parties' right, title and interest in and to the Mortgaged Properties thereunder and the proceeds thereof, and when the Mortgages are filed in the offices specified on Schedule 3.17, the Mortgages shall constitute a Lien on, and security interest in, all right, title and interest of the Loan Parties in such Mortgaged Properties and the proceeds thereof, in each case prior and superior in right to any other Person, other than with respect to the rights of Persons pursuant to Liens expressly permitted by Section 6.02.

ARTICLE IV

Conditions

SECTION 4.01. [Intentionally Omitted].

SECTION 4.02. Each Credit Event. The obligation of each Lender to make a Loan on the occasion of any Borrowing, and of the Issuing Bank to issue, amend, renew or extend any Letter of Credit, is subject to the satisfaction of the following conditions:

(a) The representations and warranties of each Loan Party set forth in the Loan Documents shall be true and correct on and as of the date of such Borrowing or the date of issuance, amendment, renewal or extension of such Letter of Credit, as applicable, except for representations and warranties expressly made as of an earlier date, which shall be true and correct as of such earlier date.

(b) At the time of and immediately after giving effect to such Borrowing or the issuance, amendment, renewal or extension of such Letter of Credit, as applicable, no Default shall have occurred and be continuing.

Each Borrowing and each issuance, amendment, renewal or extension of a Letter of Credit shall be deemed to constitute a representation and warranty by Holdings and the Borrower on the date thereof as to the matters specified in paragraphs (a) and (b) of this Section.

ARTICLE V

Affirmative Covenants

Until the Commitments have expired or been terminated and the principal of and interest on each Loan and all fees payable hereunder shall have been paid in full and all Letters of Credit shall have expired or terminated and all LC Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 5.01. Financial Statements and Other Information. Holdings and the Borrower will furnish to the Administrative Agent and each Lender:

(a) within 90 days after the end of each fiscal year of Holdings and the Borrower, both Holdings' and the Borrower's audited consolidated and consolidating balance sheets and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, all reported on by Deloitte & Touche LLP or other independent public accountants of recognized national standing (without a "going concern" or like qualification or exception and without any qualification or exception as to the scope of such audit or other material qualification or exception) to the effect that such consolidated and consolidating financial statements present fairly in all material respects the financial condition and results of operations of Holdings or the Borrower, as applicable, and their consolidated Subsidiaries on a consolidated and consolidating basis in accordance with GAAP consistently applied;

(b) within 45 days after the end of each of the first three fiscal quarters of each fiscal year of Holdings and the Borrower, both Holdings' and the Borrower's consolidated and consolidating balance sheets and related statements of operations, stockholders' equity and cash flows as of the end of and for such fiscal quarter and the then elapsed portion of the fiscal year, setting forth in each case in comparative form the figures for the corresponding period or periods of (or, in the case of the balance sheet, as of the end of) the previous fiscal year, all certified by one of its Financial Officers as presenting fairly in all material respects the financial condition and results of operations of

Holdings or the Borrower, as applicable, and their consolidated Subsidiaries on a consolidated and consolidating basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes;

(c) within 30 days after the end of each month (other than the last month) of each fiscal quarter of Holdings and the Borrower, both Holdings' and the Borrower's consolidated balance sheets and related statements of operations, stockholders' equity as of the end of and for such fiscal month and the then elapsed portion of the fiscal year, all certified by one of its Financial Officers as presenting in all material respects the financial condition and results of operations of Holdings or the Borrower, as applicable, and their consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, subject to normal year-end audit adjustments and the absence of footnotes; provided that, with respect to the balance sheets and related statements as of the end of November 2001, the Borrower and Holdings may provide consolidated balance sheets and related statements for Holdings and all Subsidiaries which were Subsidiaries prior to the Reorganization and separate consolidated balance sheets and related statements for all other Subsidiaries;

(d) concurrently with any delivery of financial statements under clause (a) or (b) above, a certificate of a Financial Officer of the Borrower (i) certifying as to whether a Default has occurred and, if a Default has occurred, specifying the details thereof and any action taken or proposed to be taken with respect thereto, (ii) setting forth a reasonably detailed calculation of the Leverage Ratio as of the end of the period covered by such financial statements, (iii) setting forth reasonably detailed calculations demonstrating compliance with Sections 6.12, 6.13, 6.14, 6.15 and 6.17 and (iv) stating whether any change in GAAP or in the application thereof has occurred since the date of Holdings' audited financial statements referred to in Section 3.04 and, if any such change has occurred, specifying the effect of such change on the financial statements accompanying such certificate;

(e) concurrently with any delivery of financial statements under clause (a) above, a certificate of the accounting firm that reported on such financial statements stating whether they obtained knowledge

during the course of their examination of such financial statements of any Default (which certificate may be limited to the extent required by accounting rules or guidelines);

(f) as soon as the same are complete, but in no event more than 60 days after the commencement of each fiscal year of Holdings, a detailed consolidated budget presented on a quarterly basis for such fiscal year (including a projected consolidated balance sheet and related statements of projected operations and cash flow as of the end of and for such fiscal year) and, promptly when available, any significant revisions of such budget;

(g) promptly after the same become publicly available, copies of all periodic and other reports, proxy statements and other materials filed by Holdings, the Borrower or any Subsidiary with the Securities and Exchange Commission, or any Governmental Authority succeeding to any or all of the functions of said Commission, or with any national securities exchange, or distributed by Holdings to its shareholders generally, as the case may be;

(h) promptly following any request therefor, such other information regarding the operations, business affairs and financial condition of Holdings, the Borrower or any Subsidiary, or compliance with the terms of any Loan Document, as the Administrative Agent or any Lender may reasonably request; and

(i) promptly after the same are furnished to the Borrower, copies of any "Management Letter" delivered to Holdings and the Borrower by their independent certified public accountants in connection with the delivery of financial statements contemplated by Section 5.01(a) if such Letter discloses any material weaknesses in internal financial controls or other material concerns relating to the financial statements identified by such accountants.

SECTION 5.02. Notices of Material Events. Upon Holdings or the Borrower obtaining knowledge thereof, Holdings and the Borrower will furnish to the Administrative Agent and each Lender prompt written notice of the following:

(a) the occurrence of any Default;

(b) the filing or commencement of any action, suit or proceeding by or before any arbitrator or Governmental Authority against or affecting Holdings, the Borrower or any Affiliate thereof that, if adversely determined, could reasonably be expected to result in a Material Adverse Effect;

(c) the occurrence of any ERISA Event that, alone or together with any other ERISA Events that have occurred, could reasonably be expected to result in liability of Holdings, the Borrower and their Subsidiaries in an aggregate amount exceeding \$1,000,000; and

(d) any other development that results in, or could reasonably be expected to result in, a Material Adverse Effect.

Each notice delivered under this Section shall be accompanied by a statement of a Financial Officer or other executive officer of Holdings or the Borrower setting forth the details of the event or development requiring such notice and any action taken or proposed to be taken with respect thereto.

SECTION 5.03. Information Regarding Collateral. (a) Holdings or the Borrower will furnish to the Administrative Agent prompt written notice of any change (i) in any Loan Party's corporate name, (ii) in the jurisdiction of incorporation or organization of any Loan Party, (iii) in any office in which any Loan Party maintains books or records relating to Collateral owned by it or (iv) in any Loan Party's Organizational Identification Number. Holdings and the Borrower agree not to effect or permit any change referred to in the preceding sentence unless all filings have been made under the Uniform Commercial Code or otherwise that are required in order for the Administrative Agent to continue at all times following such change to have a valid, legal and perfected security interest in all the Collateral. Holdings and the Borrower also agree promptly to notify the Administrative Agent if any material portion of the Collateral is damaged or destroyed.

(b) Each year, at the time of delivery of annual financial statements with respect to the preceding fiscal year pursuant to clause (a) of Section 5.01, Holdings or the Borrower shall deliver to the Administrative Agent a certificate of a Financial Officer of Holdings or the Borrower (i) setting forth the information required pursuant to Section 2 of the Perfection Certificate or confirming

that there has been no change in such information since the date of the Perfection Certificate delivered on the Effective Date or the date of the most recent certificate delivered pursuant to this Section and (ii) certifying that all Uniform Commercial Code financing statements (including fixture filings, as applicable) or other appropriate filings, recordings or registrations, including all refilings, rerecordings and reregistrations, containing a description of the Collateral have been filed of record in each governmental, municipal or other appropriate office in each jurisdiction identified pursuant to clause (i) above to the extent necessary to protect and perfect the security interests under the Security Agreement for a period of not less than 18 months after the date of such certificate (except as noted therein with respect to any continuation statements to be filed within such period).

SECTION 5.04. Existence; Conduct of Business. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, do or cause to be done all things necessary to preserve, renew and keep in full force and effect its legal existence and the rights, licenses, permits, privileges, franchises, patents, copyrights, trademarks and trade names material to the conduct of its business; provided that the foregoing shall not prohibit any merger, consolidation, liquidation or dissolution permitted under Section 6.03.

SECTION 5.05. Payment of Obligations. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, pay its Indebtedness and other obligations, including Tax liabilities, that, if not paid, would reasonably be expected to result in a Material Adverse Effect before the same shall become delinquent or in default, except where (a) the validity or amount thereof is being contested in good faith by appropriate proceedings, (b) Holdings, the Borrower or such Subsidiary has set aside on its books adequate reserves with respect thereto in accordance with GAAP, (c) such contest effectively suspends collection of the contested obligation and the enforcement of any Lien securing such obligation and (d) the failure to make payment pending such contest would not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.06. Maintenance of Properties. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, keep and maintain all property material to the conduct of its business in good working order and condition, ordinary wear and tear excepted.

SECTION 5.07. Insurance. (a) Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, maintain, with financially sound and reputable insurance companies (i) adequate insurance for its insurable properties, all to such extent and against such risks, including fire, casualty and other risks insured against by extended coverage, as is customary with companies in the same or similar businesses operating in the same or similar locations, (ii) such other insurance as is required pursuant to the terms of any Security Document and (iii) business interruption insurance, insuring against loss of gross earnings for a period of not less than 12 months arising from any risks or occurrences required to be covered by insurance pursuant to this Section 5.07.

(b) Fire and extended coverage policies maintained with respect to any Collateral shall be endorsed or otherwise amended to include (i) a non-contributing mortgage clause (regarding improvements to real property) and lenders' loss payable clause (regarding personal property), in each case in favor of the Administrative Agent and providing for losses thereunder to be payable to the Administrative Agent or its designee, (ii) a provision to the effect that neither the Borrower, the Administrative Agent nor any other party shall be a coinsurer and (iii) such other provisions as the Administrative Agent may reasonably require from time to time to protect the interests of the Lenders. Commercial general liability policies shall be endorsed to name the Administrative Agent as an additional insured. Business interruption policies shall name the Administrative Agent as loss payee. Each such policy referred to in this paragraph also shall provide that it shall not be canceled, modified or not renewed (i) by reason of nonpayment of premium except upon not less than 10 days' prior written notice thereof by the insurer to the Administrative Agent (giving the Administrative Agent the right to cure defaults in the payment of premiums) or (ii) for any other reason except upon not less than 30 days' prior written notice thereof by the insurer to the Administrative Agent. Holdings or the Borrower shall deliver to the Administrative Agent, prior to the cancelation, modification or nonrenewal of any such policy of insurance, a copy of a renewal or replacement policy (or other evidence of renewal of a policy previously delivered to the Administrative Agent) together with evidence satisfactory to the Administrative Agent of payment of the premium therefor.

SECTION 5.08. Casualty and Condemnation. (a) Holdings or the Borrower will furnish to the Administrative Agent and the Lenders prompt written notice

of any casualty or other insured damage to any material portion of any Collateral or the commencement of any action or proceeding for the taking of any Collateral or any part thereof or interest therein under power of eminent domain or by condemnation or similar proceeding.

(b) If any event described in paragraph (a) of this Section results in Net Cash Proceeds (whether in the form of insurance proceeds, condemnation award or otherwise), the Administrative Agent is authorized to collect such Net Cash Proceeds and, if received by Holdings, the Borrower or any Subsidiary, such Net Cash Proceeds shall be paid over the Administrative Agent; provided that (i) if the aggregate Net Cash Proceeds in respect of such event (other than proceeds of business income insurance) are less than \$5,000,000, such Net Cash Proceeds shall be paid over to Holdings or the Borrower unless a Default has occurred and is continuing, and (ii) all proceeds of business income insurance shall be paid over to the Borrower unless a Default has occurred and is continuing. All such Net Cash Proceeds retained by or paid over to the Administrative Agent shall be held by the Administrative Agent and released from time to time to pay the costs of repairing, restoring or replacing the affected property in accordance with the terms of the applicable Security Document, subject to the provisions of the applicable Security Document regarding application of such Net Cash Proceeds during a Default.

(c) If any Net Cash Proceeds retained by or paid over to the Administrative Agent as provided above continue to be held by the Administrative Agent on the date that is 360 days (or, in the case of a distribution center, two years, provided that repair, restoration or replacement commenced within 270 days after the occurrence of such event) after the occurrence of the event resulting in such Net Cash Proceeds, then such Net Cash Proceeds shall be applied to prepay Term Borrowings as provided in Section 2.11(b).

SECTION 5.09. Books and Records; Inspection and Audit Rights. (a) Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, keep proper books of record and account in which full, true and correct entries are made of all dealings and transactions in relation to its business and activities. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent or any Lender, upon reasonable prior notice, to visit and inspect its properties, to examine and make extracts from its books and records, and to discuss its affairs, finances and condition with its

officers and independent accountants, all at such reasonable times and as often as reasonably requested; provided that the Borrower shall be given the opportunity to be present at any discussion with its independent accountants.

(b) Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, permit any representatives designated by the Administrative Agent (including any consultants, accountants, lawyers and appraisers retained by the Administrative Agent) to conduct evaluations and appraisals of (i) the inventory of the Borrower and its Subsidiaries and (ii) the systems providing for the monitoring and reporting of such inventory, all at such reasonable times and as often as reasonably requested. The Borrower shall pay the reasonable fees and expenses of any representatives retained by the Administrative Agent to conduct any such evaluation or appraisal (including the fees and expenses associated with the services performed by the Administrative Agent's collateral monitoring department); provided that the Borrower shall not be required to pay such fees and expenses for more than one such evaluation or appraisal during any calendar year unless an Event of Default has occurred and is continuing.

SECTION 5.10. Compliance with Laws. Each of Holdings and the Borrower will, and will cause each of its Subsidiaries to, comply with all laws, rules, regulations and orders of any Governmental Authority applicable to it or its property, except where the failure to do so, individually or in the aggregate, could not reasonably be expected to result in a Material Adverse Effect.

SECTION 5.11. Use of Proceeds and Letters of Credit. The proceeds of the Tranche A-1 Term Loans and Tranche C-1 Term Loans will be used only to finance the Redemption. The proceeds of the Revolving Loans (other than the proceeds from the Initial Revolving Borrowing) and Swingline Loans will be used only for general corporate purposes. No part of the proceeds of any Loan will be used, whether directly or indirectly, for any purpose that entails a violation of any of the Regulations of the Board, including Regulations U and X. Letters of Credit will be issued only for general corporate purposes.

SECTION 5.12. Additional Subsidiaries. If any additional Subsidiary is formed or acquired after the Effective Date, Holdings and the Borrower will notify the Administrative Agent and the Lenders thereof and (a) if such Subsidiary is a Subsidiary Loan Party, Holdings and the Borrower will cause such Subsidiary to become a party to the Guarantee Agreement, the Indemnity Subrogation and

Contribution Agreement and each applicable Security Document in the manner provided therein within three Business Days after such Subsidiary is formed or acquired and promptly take such actions to create and perfect Liens on such Subsidiary's assets (other than commercial delivery vehicles and leasehold interests in Stores) to secure the Obligations as the Administrative Agent or the Required Lenders shall reasonably request and (b) if any Equity Interests or Indebtedness of such Subsidiary are owned by or on behalf of any Loan Party, Holdings and the Borrower will cause such Equity Interests and promissory notes evidencing such Indebtedness to be pledged pursuant to the Pledge Agreement within three Business Days after such Subsidiary is formed or acquired (except that, if such Subsidiary is a Foreign Subsidiary and is not a Subsidiary Loan Party, Equity Interests of such Subsidiary to be pledged pursuant to the Pledge Agreement may be limited to 65% of the outstanding voting Equity Interests of such Subsidiary).

SECTION 5.13. Further Assurances. (a) Each of Holdings and the Borrower will, and will cause each Subsidiary Loan Party to, execute any and all further documents, financing statements, agreements and instruments, and take all such further actions (including the filing and recording of financing statements, fixture filings, mortgages, deeds of trust and other documents), which may be required under any applicable law, or which the Administrative Agent or the Required Lenders may reasonably request, to effectuate the transactions contemplated by the Loan Documents or to grant, preserve, protect or perfect the Liens created or intended to be created by the Security Documents or the validity or priority of any such Lien, all at the expense of the Loan Parties. Holdings and the Borrower also agree to provide to the Administrative Agent, from time to time upon request, evidence reasonably satisfactory to the Administrative Agent as to the perfection and priority of the Liens created or intended to be created by the Security Documents.

(b) If any material assets (including any real property or improvements thereto or any interest therein) are acquired by the Borrower or any Subsidiary Loan Party after the Effective Date (other than assets constituting Collateral under the Security Agreement that become subject to the Lien of the Security Agreement upon acquisition thereof), the Borrower will notify the Administrative Agent and the Lenders thereof, and, if requested by the Administrative Agent or the Required Lenders, the Borrower will cause such assets to be subjected to a Lien securing the Obligations and will take, and cause the Subsidiary Loan Parties to take, such actions as shall be necessary or

reasonably requested by the Administrative Agent to grant and perfect such Liens, including actions described in paragraph (a) of this Section, all at the expense of the Loan Parties; provided that the foregoing shall not require the Borrower to grant a Lien on assets constituting commercial delivery vehicles, leasehold interests in Stores or Vehicles owned by the Vehicle Subsidiary.

(c) If any Mortgaged Property set forth on Schedule 1.01(b) and identified with an asterisk is not sold prior to the date that is one year after the Effective Date, the Borrower shall, within 60 days of such date, deliver to the Administrative Agent a policy or policies of title insurance (or binding commitments to issue such title policies), or a title endorsement to an existing title policy, issued by a nationally recognized title insurance company, insuring the Lien of each Mortgage with respect to each such Mortgaged Property as a valid first Lien on such Mortgaged Property, free of any other Liens except as permitted by Section 6.02, in form and substance reasonably acceptable to the Collateral Agent, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Required Lenders may reasonably request.

SECTION 5.14. Collection Deposit Accounts. As promptly as practicable and in any event prior to September 30, 2002 and at all times thereafter, the Borrower shall maintain Collection Deposit Letter Agreements for Collection Deposit Accounts representing the collections of Stores which account for no less than 80% of Consolidated EBITDA for the fiscal year most recently ended. The Borrower will use its reasonable best efforts to enter into and maintain Collection Deposit Agreements for all other Collection Deposit Accounts.

SECTION 5.15. Designated Senior Indebtedness. The Borrower hereby designates the Obligations as "Designated Senior Indebtedness" under and as defined in the Existing Subordinated Debt Documents.

SECTION 5.16. Interest Rate Protection. As promptly as practicable, and in any event no later than 90 days after the Restatement Effective Date, the Borrower will enter into, and thereafter for a period of not less than 18 months will maintain in effect, one or more interest rate protection agreements on such terms and with such parties as shall be reasonably satisfactory to the Administrative Agent, the effect of which shall be to fix or limit the interest cost to the Borrower with respect to 35% of the outstanding Term Loans.

ARTICLE VI

Negative Covenants

Until the Commitments have expired or terminated and the principal of and interest on each Loan and all fees payable hereunder have been paid in full and all Letters of Credit have expired or terminated and all LC Disbursements shall have been reimbursed, each of Holdings and the Borrower covenants and agrees with the Lenders that:

SECTION 6.01. Indebtedness; Certain Equity Securities. (a) The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Indebtedness, except:

(i) Indebtedness created under the Loan Documents;

(ii) in the case of the Borrower, the Existing Subordinated Debt, the Additional Subordinated Debt and the Replacement Subordinated Debt;

(iii) Indebtedness existing on the Effective Date and set forth in Schedule 6.01, but not any extensions, renewals or replacements of any such Indebtedness;

(iv) Indebtedness of the Borrower to any Subsidiary of the Borrower and of any Subsidiary of the Borrower to the Borrower or any other Subsidiary of the Borrower; provided that Indebtedness of any Subsidiary that is not a Loan Party to the Borrower or any Subsidiary Loan Party shall be subject to Section 6.04;

(v) Guarantees by the Borrower of Indebtedness of any Subsidiary of the Borrower and by any Subsidiary of the Borrower of Indebtedness of the Borrower or any other Subsidiary of the Borrower; provided that (A) the Indebtedness so guaranteed is permitted by this Section, (B) Guarantees by the Borrower or any Subsidiary Loan Party of Indebtedness of any Subsidiary that is not a Loan Party shall be subject to Section 6.04, (C) the Existing Subordinated Debt shall not be guaranteed by any Subsidiary that is not a Subsidiary Loan Party and any such Guarantee shall be subordinated to the obligations hereunder of the applicable Subsidiary on the same terms as the Existing Subordinated Debt of the Borrower is subordinated to its obligations hereunder, (D) the Additional Subordinated Debt shall not be guaranteed by any Subsidiary that is not a Subsidiary Loan Party and any such Guarantee shall be subordinated to the obligations

under the Loan Documents of the applicable Subsidiary on the same terms as the Additional Subordinated Debt of the Borrower is subordinated to its obligations hereunder, (E) the Holdings Senior Discount Debentures shall not be Guaranteed and (F) the Replacement Subordinated Debt shall not be guaranteed by any Subsidiary that is not a Subsidiary Loan Party and any such Guarantee shall be subordinated to the obligations under the Loan Documents of the applicable Subsidiary on the same terms as the Replacement Subordinated Debt of the Borrower is subordinated to its obligations hereunder;

(vi) Indebtedness of the Borrower or any Subsidiary of the Borrower incurred to finance the acquisition, construction or improvement of any fixed or capital assets after the Effective Date, including Capital Lease Obligations and any Indebtedness assumed in connection with the acquisition of any such assets or secured by a Lien on any such assets prior to the acquisition thereof, and extensions, renewals and replacements of any such Indebtedness that do not increase the outstanding principal amount thereof or result in an earlier maturity date or decreased weighted average life thereof; provided that (A) such Indebtedness is incurred prior to or within 270 days after such acquisition or the completion of such construction or improvement and (B) the aggregate principal amount of Indebtedness permitted by this clause (vi) shall not exceed \$75,000,000 at any time outstanding; provided further that the amount permitted under clause (vi) above shall not include Indebtedness set forth in Schedule 6.01;

(vii) Indebtedness of (A) any Person that becomes a Subsidiary after the Effective Date pursuant to a Permitted Acquisition to the extent that such Indebtedness exists at the time such Person becomes a Subsidiary and is not created in contemplation of or in connection with such Person becoming a Subsidiary, (B) the Borrower or a Subsidiary to the extent that such Indebtedness is assumed in connection with a Permitted Acquisition made by the Borrower or such Subsidiary and is not created in contemplation of such Permitted Acquisition and (C) the Borrower in respect of unsecured promissory notes issued as consideration for Permitted Acquisitions; provided that the aggregate principal amount of Indebtedness permitted by this clause (vii) shall be subject to the limitations set forth in clause (h) of Section 6.04;

(viii) other unsecured Indebtedness of the Borrower or any Subsidiary Loan Party in an aggregate principal amount not exceeding \$20,000,000 at any time outstanding; and

(ix) Receivables Indebtedness in an aggregate principal amount not exceeding \$45,000,000 at any time outstanding.

(b) Holdings will not create, incur, assume or permit to exist any Indebtedness except (i) Indebtedness existing on the Effective Date and set forth in Schedule 6.01, but not any extensions, renewals or replacements of any such Indebtedness, (ii) Indebtedness created under the Loan Documents and (iii) the Holdings Senior Discount Debentures.

(c) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to (i) create, incur, assume or permit to exist any Indebtedness (other than Indebtedness created under the Loan Documents) in reliance upon such Indebtedness constituting a "Credit Facility" (as defined in the Existing Subordinated Debt Documents, the Additional Subordinated Debt Documents or the Replacement Subordinated Debt Documents) for purposes of determining whether such Indebtedness is permitted under the Existing Subordinated Debt Documents, the Additional Subordinated Debt Documents or the Replacement Subordinated Debt Documents, as applicable, regardless of whether such Indebtedness is permitted by this Section, or (ii) designate any Indebtedness (other than Indebtedness created under the Loan Documents) as "Designated Senior Debt" (as defined in the Existing Subordinated Debt Documents, the Additional Subordinated Debt Documents or the Replacement Subordinated Debt Documents).

(d) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, issue any preferred stock or other preferred Equity Interests or be or become liable in respect of any obligation (contingent or otherwise) to purchase, redeem, retire, acquire or make any other payment in respect of any Equity Interests of Holdings, the Borrower or any Subsidiary or any option, warrant or other right to acquire any such Equity Interests.

SECTION 6.02. Liens. (a) The Borrower will not, and will not permit any Subsidiary to, create, incur, assume or permit to exist any Lien on any property or asset now

owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect of any thereof, except:

(i) Liens created under the Loan Documents;

(ii) Permitted Encumbrances;

(iii) any Lien on any property or asset of the Borrower or any Subsidiary existing on the Effective Date and set forth in Schedule 6.02; provided that (i) such Lien shall not apply to any other property or asset of the Borrower or any Subsidiary and (ii) such Lien shall secure only those obligations which it secures on the date hereof and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(iv) any Lien existing on any property or asset prior to the acquisition thereof by the Borrower or any Subsidiary (other than pursuant to the Reorganization) or existing on any property or asset of any Person that becomes a Subsidiary after the Effective Date prior to the time such Person becomes a Subsidiary; provided that (A) such Lien is not created in contemplation of or in connection with such acquisition or such Person becoming a Subsidiary, as the case may be, (B) such Lien shall not apply to any other property or assets of the Borrower or any Subsidiary and (C) such Lien shall secure only those obligations which it secures on the date of such acquisition or the date such Person becomes a Subsidiary, as the case may be, and extensions, renewals and replacements thereof that do not increase the outstanding principal amount thereof;

(v) Liens on fixed or capital assets acquired, constructed or improved by the Borrower or any Subsidiary after the Effective Date; provided that (A) such security interests secure Indebtedness permitted by clause (vi) of Section 6.01(a), (B) such security interests and the Indebtedness secured thereby are incurred prior to or within 270 days after such acquisition or the completion of such construction or improvement, (C) the Indebtedness secured thereby does not exceed the cost (including design, engineering, sales taxes, delivery, installation and other similar costs) of acquiring, constructing or improving such fixed or capital assets and (D) such security interests shall not apply to any other property or assets of the Borrower or any Subsidiary; and

(vi) Liens arising under any Receivables Program on accounts receivables sold or transferred to Persons other than the Borrower and its Subsidiaries pursuant to such Receivables Program.

(b) Holdings will not create, incur, assume or permit to exist any Lien on any property or asset now owned or hereafter acquired by it, or assign or sell any income or revenues (including accounts receivable) or rights in respect thereof, except Liens created under the Security Documents and Permitted Encumbrances.

SECTION 6.03. Fundamental Changes. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, merge into or consolidate with any other Person, or permit any other Person to merge into or consolidate with it, or liquidate or dissolve, except that, if at the time thereof and immediately after giving effect thereto no Default shall have occurred and be continuing (i) any Subsidiary may merge into the Borrower in a transaction in which the Borrower is the surviving corporation, (ii) any Subsidiary (other than the Borrower) may merge into any Subsidiary Loan Party in a transaction in which the surviving entity is a Subsidiary Loan Party, (iii) any Subsidiary (other than the Borrower) may liquidate or dissolve if the Borrower determines in good faith that such liquidation or dissolution is in the best interests of the Borrower and is not materially disadvantageous to the Lenders and (iv) any Subsidiary may merge with another entity to implement a Permitted Acquisition; provided that any such merger involving a Person that is not a wholly owned Subsidiary immediately prior to such merger shall not be permitted unless also permitted by Section 6.04; provided further that this Section shall not be construed to prohibit consummation of the AHC Merger and the DAP Merger in accordance with the Merger Agreement.

(b) The Borrower will not, and will not permit any of its Subsidiaries to, engage to any material extent in any business other than businesses of the type conducted by the Borrower, DAP and their respective subsidiaries on the Effective Date and businesses reasonably related thereto.

(c) Holdings will not engage in any business or activity other than the ownership of all the outstanding shares of capital stock of the Borrower and activities incidental thereto. Holdings will not own or acquire any assets (other than shares of capital stock of the Borrower, cash, promissory notes held pursuant to clause (g)(i) of Section 6.04 and Permitted Investments) or incur any liabilities (other than liabilities under the Loan

Documents, the Holdings Senior Discount Debentures, liabilities imposed by law, including tax liabilities, and other liabilities incidental to its existence and permitted business and activities). Holdings will not have any Subsidiaries, other than the Borrower and its Subsidiaries.

(d) Prior to the consummation of the DAP Merger, Newco Sub will not engage in any business or activity. Newco Sub will not own or acquire any assets or incur any liabilities. Newco Sub will not have any subsidiaries.

SECTION 6.04. Investments, Loans, Advances, Guarantees and Acquisitions. The Borrower will not, and will not permit any of its Subsidiaries to, purchase, hold or acquire (including pursuant to any merger with any Person that was not a wholly owned Subsidiary prior to such merger) any Equity Interests, evidences of indebtedness or other securities (including any option, warrant or other right to acquire any of the foregoing) of, make or permit to exist any loans or advances to, Guarantee any obligations of, or make or permit to exist any investment or any other interest in, any other Person, or purchase or otherwise acquire (in one transaction or a series of transactions) any assets of any other Person constituting a business unit, except:

(a) Permitted Investments;

(b) investments existing on the Effective Date and set forth on Schedule 6.04, to the extent such investments would not be permitted under any other clause of this Section;

(c) investments in the Equity Interests of their respective Subsidiaries; provided that (i) any such Equity Interests held by a Loan Party shall be pledged pursuant to the Pledge Agreement (subject to the limitations applicable to Equity Interests of a Foreign Subsidiary referred to in Section 5.12) and (ii) the aggregate amount of investments in, and loans and advances to, and Guarantees of Indebtedness of, Subsidiaries that are not Loan Parties shall not exceed \$1,000,000 in the aggregate at any time outstanding;

(d) loans or advances made by the Borrower to any Subsidiary of the Borrower (or to Holdings, but only as permitted by Section 6.07) and made by any Subsidiary of the Borrower to the Borrower or any other Subsidiary of the Borrower; provided that (i) any such loans and advances made by a Loan Party shall be evidenced by a promissory note pledged pursuant to the Pledge Agreement and (ii) the amount of all such loans and

advances by Loan Parties to Subsidiaries that are not Loan Parties shall be subject to the limitation set forth in clause (c)(ii) above;

(e) Guarantees constituting Indebtedness permitted by Section 6.01; provided that (i) neither the Borrower nor any Subsidiary shall Guarantee the Holdings Senior Discount Debentures, (ii) the Existing Subordinated Debt shall not be Guaranteed by Holdings or by any Subsidiary other than a Subsidiary Loan Party that is a Subsidiary of the Borrower, (iii) the Additional Subordinated Debt shall not be Guaranteed by any Subsidiary other than a Subsidiary Loan Party that is a Subsidiary of the Borrower, (iv) the Replacement Subordinated Debt shall not be Guaranteed by any Subsidiary other than a Subsidiary Loan Party that is a Subsidiary of the Borrower, (v) the aggregate principal amount of Indebtedness of Subsidiaries that are not Loan Parties Guaranteed by any Loan Party shall be subject to the limitation set forth in clause (c)(ii) above and (vi) a Subsidiary that is not a Loan Party shall not Guarantee any Indebtedness of any Loan Party;

(f) investments received in connection with the bankruptcy or reorganization of, or settlement of delinquent accounts and disputes with, customers and suppliers, in each case in the ordinary course of business;

(g) promissory notes received from employees of Holdings and its Subsidiaries evidencing loans made for the purpose of permitting such employees to purchase capital stock of Holdings in an aggregate principal amount not exceeding \$5,000,000 at any time outstanding;

(h) Permitted Acquisitions; provided that (i) the consideration for each Permitted Acquisition shall consist solely of cash, shares of common stock of Holdings, the assumption of Indebtedness of the acquired Person or encumbering the acquired assets, Indebtedness referred to in clauses (vii) and (viii) of Section 6.01(a) or a combination thereof and (ii) the sum of all Indebtedness so assumed or otherwise resulting from Permitted Acquisitions (including Indebtedness referred to in clauses (vii) and (viii) of Section 6.01(a)) plus the cash consideration paid in connection with Permitted Acquisitions (other than cash consideration received as Net Cash Proceeds from the issuance by Holdings of additional shares of its common stock to finance Permitted Acquisitions, as

contemplated by clause (c)(ii) of the definition of "Prepayment Event"), minus the book value (determined, in respect of each Permitted Acquisition, as of the date of consummation thereof) of all cash, cash equivalents, prepaid expenses, inventory and accounts receivable acquired pursuant to Permitted Acquisitions, shall not exceed, during any fiscal year of the Borrower, when aggregated with the sum of all Capital Expenditures during such fiscal year, the amount permitted for such fiscal year pursuant to Section 6.12;

(i) loans or advances to employees in the ordinary course of business; provided that the aggregate amount of all loans and advances permitted by this clause (i) shall not exceed \$750,000 at any time outstanding;

(j) other investments in an aggregate amount not exceeding \$2,000,000 at any time outstanding;

(k) obligations of management to the Borrower in connection with split dollar life insurance policies; provided that the aggregate amount of all obligations permitted by this clause (k) shall not exceed \$1,000,000 at any time outstanding; and

(l) promissory notes contemplated by clause (ii) of the proviso to Section 6.05.

(m) investments incurred in connection with Deferred Compensation Obligations.

SECTION 6.05. Asset Sales. The Borrower will not, and will not permit any of its Subsidiaries to, sell, transfer, lease or otherwise dispose of any asset, including any Equity Interests, nor will the Borrower permit any of its Subsidiaries to issue any additional Equity Interests in such Subsidiary, except:

(a) sales of inventory, used or surplus equipment and Permitted Investments in the ordinary course of business;

(b) (i) sales, transfers, leases and dispositions to the Borrower or a Subsidiary, provided that any such sales, transfers, leases or dispositions involving a Subsidiary that is not a Loan Party shall be made in compliance with Section 6.08, and (ii) issuances of additional Equity Interests by any Subsidiary to the Borrower or any other Subsidiary (except that a Subsidiary Loan Party may not issue additional Equity

Interests to a Subsidiary that is not a Loan Party), provided that any such issuances shall be made in compliance with Section 6.04;

(c) sales, transfers and dispositions of assets (other than Equity Interests of a Subsidiary) that are not permitted by any other clause of this Section; provided that the aggregate fair market value of all assets sold, transferred or otherwise disposed of in reliance upon this clause (c) shall not exceed \$20,000,000 during any fiscal year of the Borrower and \$75,000,000 in the aggregate after the Restatement Effective Date;

(d) the Borrower may sell or otherwise convey accounts receivable pursuant to and in accordance with any Receivables Program;

(e) sales of fixed or capital assets made pursuant to sale and lease-back transactions permitted under Section 6.11;

(f) sales, transfers and dispositions of assets constituting Permitted Asset Swaps;

(g) sales, transfers and other dispositions of property identified on Schedule 6.05(a); provided that the fair market value of all assets sold, transferred or otherwise disposed of pursuant to this clause (g) shall not exceed, on a cumulative basis from the Effective Date, \$35,000,000;

(h) [intentionally omitted]; and

(i) sales of assets which as of the Effective Date are owned by Western Auto of St. Thomas, Inc., a Delaware corporation, Western Auto of Puerto Rico, Inc., a Delaware corporation or WASC0 Insurance Agency, Inc., a Missouri corporation or which constitute the Western Auto Wholesale Network, Western Auto Specialty Stores or rights with respect to Western Auto Dealer Stores or of the capital stock of any Subsidiary of the Borrower substantially all the assets of which at the time of such sale are assets permitted to be sold pursuant to this clause (i);

provided that all sales, transfers, leases and other dispositions permitted hereby (other than those permitted by clause (b) above) shall be made for fair value and solely for cash consideration, except that (i) consideration for Permitted Asset Swaps may consist of non-cash consideration

as contemplated by the definition of such term, (ii) up to 30% of the aggregate consideration for transactions permitted by clause (i) above may consist of promissory notes, (iii) in the case of distribution centers, up to 30% of the aggregate consideration for transactions permitted by clause (g) above may consist of promissory notes, and (iv) up to 10% of the aggregate consideration for transactions (other than those involving distribution centers) permitted by clause (g) above may consist of promissory notes.

SECTION 6.06. Hedging Agreements. The Borrower will not, and will not permit any of its Subsidiaries to, enter into any Hedging Agreement, other than Hedging Agreements entered into in the ordinary course of business to (a) hedge or mitigate risks to which the Borrower or any Subsidiary is exposed in the conduct of its business or the management of its liabilities and (b) effectively cap, collar or exchange interest rates (from fixed to floating rates, from one floating rate to another floating rate or otherwise) with respect to any interest-bearing liability or investment of the Borrower or any Subsidiary, provided that in the case of clause (b), any such agreement must be in compliance with Section 5.16.

SECTION 6.07. Restricted Payments; Certain Payments of Indebtedness. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, declare or make, or agree to pay or make, directly or indirectly, any Restricted Payment, except:

(i) Holdings may declare and pay dividends with respect to its capital stock payable solely in additional shares of its common stock;

(ii) Subsidiaries of the Borrower may make Restricted Payments to the Borrower and to wholly owned Subsidiaries of the Borrower and may declare and pay dividends ratably with respect to their Equity Interests;

(iii) if at the time thereof and after giving effect thereto no Default has occurred and is continuing, the Borrower may pay dividends or make loans to Holdings at such times and in such amounts, not exceeding \$1,000,000 during any fiscal year, as shall be necessary to permit Holdings to discharge its permitted liabilities (other than to make any payments with respect to the Holdings Senior Discount Debentures);

(iv) following April 15, 2003, if at the time thereof and after giving effect thereto no Default has occurred and is continuing, the Borrower may pay dividends or make loans to Holdings at such times and in such amounts, not exceeding \$14,420,000 during any fiscal year, as shall be necessary to permit Holdings to pay, as and when due, interest on the Holdings Senior Discount Debentures accrued subsequent to April 15, 2003;

(v) Holdings may make Restricted Payments pursuant to and in accordance with stock option plans or other benefit plans for management or employees of Holdings and its Subsidiaries, including the redemption or purchase of shares of common stock of Holdings held by former employees of Holdings or any Subsidiary following the termination of their employment, if (A) at the time thereof and after giving effect thereto no Default has occurred and is continuing and (B) after giving effect to any such Restricted Payment, the aggregate cumulative amount of Restricted Payments made pursuant to this clause (v) shall not exceed the sum of (1) \$2,000,000 during any fiscal year or (2) \$10,000,000 in the aggregate from the Effective Date, plus the amount of Net Cash Proceeds received by Holdings and its Subsidiaries after the Effective Date and prior to making such Restricted Payment from the issuance of additional shares of its common stock to members of management or employees of Holdings and its Subsidiaries; provided that the promissory notes permitted under Section 6.04(g) may be forgiven or returned without regard to the limitation in clause (B) above and the forgiveness or return thereof shall not be treated as Restricted Payments for purposes of determining compliance with such clause (B) above;

(vi) the Borrower may pay cash dividends or make loans to Holdings in such amounts and at such times as Holdings makes Restricted Payments permitted by clause (v) above and clause (ix) below;

(vii) if at the time thereof and after giving effect thereto no Default has occurred and is continuing, the Borrower may pay dividends or make loans to Holdings in such amounts and at such times as required to permit Holdings to pay, as and when due, income taxes payable by Holdings with respect to the consolidated, combined tax filing group that includes the Borrower and its Subsidiaries; provided that dividends or loans pursuant to this clause (vii) shall not at any time exceed the amount of income taxes that would then be payable by

the Borrower and its Subsidiaries if the Borrower and its Subsidiaries were not a part of a consolidated, combined tax filing group with Holdings or any other Person;

(viii) the Borrower may pay cash dividends or make loans to Holdings in such amounts and at such times as Holdings makes payments to purchase Holdings Senior Discount Debentures as permitted by clauses (vii) and (viii) of Section 6.07(b); and

(ix) if at the time thereof and after giving effect thereto no Default has occurred and is continuing, Holdings may make Restricted Payments in cash from time to time after the Restatement Effective Date in addition to those otherwise permitted under this Section 6.07(a); provided that after giving effect to each Restricted Payment made under this clause (ix), (a) the cumulative amount of all such Restricted Payments does not exceed the lesser of (i) the sum of \$25,000,000 plus (in the case of any Restricted Payments made after financial statements are available for the fiscal year ending January 3, 2004) 25% of Consolidated Net Income for the period commencing on January 1, 2003 through the last fiscal quarter prior to the date of such Restricted Payment as to which financial statements are available and (ii) \$100,000,000; and (b) the Borrower shall be in compliance on a pro forma basis with Sections 6.13, 6.14, 6.15 and 6.17 after giving effect to such Restricted Payment.

(b) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, make or agree to pay or make, directly or indirectly, any payment or other distribution (whether in cash securities or other property) in respect of principal of or interest on any Indebtedness, or any payment or other distribution (whether in cash, securities or other property), including any sinking fund or similar deposit, on account of the purchase, redemption, retirement, acquisition, cancelation or termination of any Indebtedness, except:

(i) payment of Indebtedness created under the Loan Documents;

(ii) payment of interest, stated premiums and principal payments in respect of any Indebtedness other than payments in respect of the Existing Subordinated Debt, the Additional Subordinated Debt or the

Replacement Subordinated Debt prohibited by the subordination provisions thereof;

(iii) refinancings of Indebtedness to the extent permitted by Section 6.01;

(iv) payment of secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(v) payment of interest on the Holdings Senior Discount Debentures payable solely by the issuance by Holdings of additional Holdings Senior Discount Debentures, provided that after April 15, 2003, Holdings will be permitted to pay interest in cash on the Holdings Senior Discount Debentures as and when due;

(vi) payment of intercompany Indebtedness between or among the Borrower and its Subsidiaries permitted under clause (iv) of Section 6.01(a) and payment of Indebtedness permitted under clauses (viii) and (ix) of Section 6.01(a);

(vii) payments to purchase or redeem Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes; provided that (A) at the time of and after giving effect to each such purchase or redemption of Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes, as the case may be, (1) no Default shall have occurred and be continuing and (2) the Borrower and its Subsidiaries are in compliance, on a pro forma basis after giving effect to any such payments (and any Public Offering made or Replacement Subordinated Debt incurred), with the covenants contained in Sections 6.13, 6.14, 6.15 and 6.17 recomputed as of the last day of the most recently ended fiscal quarter of the Borrower for which financial statements are available, as if such payment (and any Public Offering made or Replacement Subordinated Debt incurred to effect any such payments) had occurred on the first day of each relevant period for testing such compliance; and (B) all Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes, as the case may be, so purchased or redeemed shall be retired and canceled;

(viii) payments, in an aggregate amount not exceeding the portion of the Net Cash Proceeds of an IPO reserved for such purpose in accordance with the proviso to Section 2.11(b), to purchase Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes within 365 days after the date of such IPO; provided that (A) at the time of and after giving effect to each such purchase of Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes, as the case may be, no Default shall have occurred and be continuing; (B) all Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes, as the case may be, so purchased shall be retired and canceled; and (C) for purposes of determining the amount of the Net Cash Proceeds of such IPO applied to purchase Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes as permitted by this clause (viii), the aggregate amount of such payments shall be calculated excluding the aggregate amount of accrued and unpaid interest on the Existing Senior Subordinated Notes, Additional Senior Subordinated Notes, Holdings Senior Discount Debentures or Replacement Senior Subordinated Notes so purchased that is discharged as a result of such purchase;

(ix) the issuance of Equity Interests in Holdings to any holder of Holdings Senior Discount Debentures in exchange for Holdings Senior Discount Debentures; provided that (A) at the time of and after giving effect to such exchange, no Default shall have occurred and be continuing, (B) such exchange shall not be made in connection with any issuance of Equity Interests in Holdings to other investors for cash consideration, (C) such exchange is made on an arm's length basis with unrelated third parties and (D) all Holdings Senior Discount Debentures so exchanged shall be retired and canceled; and

(x) the repayment of (A) all amounts outstanding in respect of the Existing DAP Indebtedness, including accrued interest and fees and any prepayment penalties and all amounts necessary to terminate the DAP Synthetic Lease Agreement and purchase the property subject thereto.

(c) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, enter into or be party to, or make any payment under, any Synthetic Purchase Agreement unless (i) in the case of any Synthetic Purchase Agreement related to any Equity Interest of Holdings, the payments required to be made by Holdings are limited to amounts permitted to be paid under Section 6.07(a), (ii) in the case of any Synthetic Purchase Agreement related to any Restricted Indebtedness, the payments required to be made by Holdings, the Borrower or the Subsidiaries thereunder are limited to the amount permitted under Section 6.07(b) and (iii) in the case of any Synthetic Purchase Agreement, the obligations of Holdings, the Borrower and the Subsidiaries thereunder are subordinated to the Obligations on terms satisfactory to the Required Lenders.

SECTION 6.08. Transactions with Affiliates. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, sell, lease or otherwise transfer any property or assets to, or purchase, lease or otherwise acquire any property or assets from, or otherwise engage in any other transactions with, any of its Affiliates, except (a) transactions that do not involve Holdings and are at prices and on terms and conditions not less favorable to the Borrower or such Subsidiary than could be obtained on an arm's-length basis from unrelated third parties, provided that the Borrower delivers to the Administrative Agent (i) with respect to any transaction or series of related transactions involving aggregate consideration in excess of \$2,000,000, a resolution of the Borrower's board of directors set forth in an officers' certificate certifying that such transaction complies with this clause (a) and that such transaction has been approved by a majority of the disinterested members of the Borrower's board of directors and (ii) with respect to any transaction or series of related transactions involving aggregate consideration in excess of \$10,000,000, an opinion as to the fairness to the Lenders of such transaction from a financial point of view issued by an accounting, appraisal or investment banking firm of national standing, (b) transactions between or among the Borrower and its Subsidiaries that are Subsidiary Loan Parties which do not involve any other Affiliate, (c) any Restricted Payment permitted by Section 6.07, (d) loans to management of Holdings or the Borrower permitted by clause (g) of Section 6.04, (e) payments made under and in accordance with agreements in effect on the Effective Date and specified in Schedule 6.08 (without giving effect to any amendment or modification thereof that has not been approved by the Required Lenders), (f) any employment agreements, stock option or other compensation agreements or plans (and the payment of amounts or the issuance of securities

thereunder) and other reasonable fees, compensation, benefits and indemnities paid or entered into by Holdings or any of its Subsidiaries in the ordinary course of business of Holdings or such Subsidiary to or with the officers, directors or employees of Holdings or its Subsidiaries and (g) sales of common stock of Holdings, when such sales are exclusively for cash.

SECTION 6.09. Restrictive Agreements. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, directly or indirectly, enter into, incur or permit to exist any agreement or other arrangement that prohibits, restricts or imposes any condition upon (a) the ability of Holdings, the Borrower or any Subsidiary to create, incur or permit to exist any Lien upon any of its property or assets, or (b) the ability of any Subsidiary to pay dividends or other distributions with respect to any shares of its capital stock or to make or repay loans or advances to the Borrower or any other Subsidiary or to Guarantee Indebtedness of the Borrower or any other Subsidiary; provided that (i) the foregoing shall not apply to restrictions and conditions imposed by law or by any Loan Document, Existing Subordinated Debt Document, Additional Subordinated Debt Document, Holdings Senior Discount Debenture Documents or Replacement Subordinated Debt Documents, (ii) the foregoing shall not apply to restrictions and conditions existing on the Effective Date identified on Schedule 6.09 (but shall apply to any extension or renewal of, or any amendment or modification expanding the scope of, any such restriction or condition), (iii) the foregoing shall not apply to customary restrictions and conditions contained in agreements relating to the sale of a Subsidiary pending such sale, provided such restrictions and conditions apply only to the Subsidiary that is to be sold and such sale is permitted hereunder, (iv) clause (a) of the foregoing shall not apply to restrictions or conditions imposed by any agreement relating to secured Indebtedness permitted by this Agreement if such restrictions or conditions apply only to the property or assets securing such Indebtedness and (v) clause (a) of the foregoing shall not apply to customary provisions in leases or other contracts restricting the assignment thereof.

SECTION 6.10. Amendment of Material Documents. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, amend, modify or waive any of its rights under (a) any Existing Subordinated Debt Document, Additional Subordinated Debt Document, Holdings Senior Discount Note Document, Replacement Subordinated Debt Document or any agreement specified in Schedule 6.08, (b) its certificate of incorporation, by-laws or other

organizational documents or (c) the documents governing any Receivables Program or the documents governing the McDuffie County industrial revenue bonds, except amendments and modification to agreements and documents referred to in clauses (b) and (c) shall be permitted to the extent that the cumulative effect of all such amendments and modifications does not have a Material Adverse Effect or a material adverse effect on the interests of the Lenders; provided that amendments and modifications to documents governing Receivables Programs that have a monetary effect on the Borrower or any of its Subsidiaries shall be deemed not to have a Material Adverse Effect or adversely affect the Lenders in any material respect so long as the cumulative net monetary effect of such amendments and modifications does not exceed \$5,000,000 from the Effective Date (compared to the monetary effect of the existing Receivables Programs).

SECTION 6.11. Sale and Lease-Back Transactions. Neither Holdings nor the Borrower will, nor will they permit any Subsidiary to, enter into any arrangement, directly or indirectly, with any Person whereby it shall sell or transfer any property, real or personal, used or useful in its business, whether now owned or hereafter acquired, and thereafter rent or lease such property or other property which it intends to use for substantially the same purpose or purposes as the property being sold or transferred, except for (a) any such sale and leaseback of property involving the sale of fixed or capital assets (other than those acquired pursuant to a Permitted Acquisition), at a price not less than the cost thereof, that is consummated within 270 days after the date that such assets are acquired, (b) Specified Lease Financings and (c) any such sale and leaseback of up to 35 Stores that are transferred by the Borrower or any of its Subsidiaries within 90 days after the Effective Date to any of DAPPER Properties I, LLC, DAPPER Properties II, LLC or DAPPER Properties III, LLC (and leased back under the DAP Master Lease Agreement) in exchange for Stores transferred by DAPPER Properties I, LLC, DAPPER Properties II, LLC or DAPPER Properties III, LLC to the Borrower or a Subsidiary Loan Party and released from the DAP Master Lease Agreement.

SECTION 6.12. Capital Expenditures. The Borrower will not permit the sum of (a) the aggregate amount of Capital Expenditures made by the Borrower and the Subsidiaries in any fiscal year (excluding those permitted by the last paragraph of this Section 6.12), plus (b) all amounts that are to be aggregated with Capital Expenditures for such fiscal year as provided in clause (h) of Section 6.04 (the sum of the amounts referred to in clauses (a) and

(b) being referred to as "Restricted Expenditures"), to exceed the amount set forth below opposite such year; provided, that the Restricted Expenditures in any fiscal year (the "Pending Fiscal Year") may be increased by an amount (not exceeding \$30,000,000) equal to the excess, if any, of the sum of the amounts set forth below under "Amount" for each fiscal year referred to below ending prior to the Pending Fiscal Year, minus the sum of the Restricted Expenditures for such preceding fiscal years:

Fiscal Year Ending	Amount
December 29, 2001	\$135,000,000
December 28, 2002	\$140,000,000
January 3, 2004	\$150,000,000
January 1, 2005	\$150,000,000
December 31, 2005	\$165,000,000
December 30, 2006	\$185,000,000

The Borrower and the Subsidiaries may make additional Capital Expenditures not included in the foregoing provisions of this Section; provided that (i) such Capital Expenditures are made for the purpose of constructing Stores to be sold pursuant to sale leaseback transactions permitted by clause (a) of Section 6.11 and (ii) the aggregate amount of such Capital Expenditures allowed under this paragraph shall be limited to the sum of (A) \$20,000,000 plus (B) the Net Cash Proceeds received by the Borrower or the Subsidiaries from such sale leaseback transactions.

SECTION 6.13. Leverage Ratio. The Borrower will not permit the Leverage Ratio as of any date during any period set forth below to be in excess of the ratio set forth below opposite such period:

Period	Ratio
December 29, 2002 through April 14, 2003	4.00 to 1.00
April 15, 2003 through January 3, 2004	3.50 to 1.00
January 4, 2004 through July 17, 2004	3.25 to 1.00
July 18, 2004 and thereafter	3.00 to 1.00

SECTION 6.14. Consolidated Interest Expense Coverage Ratio. The Borrower will not permit the Consolidated Interest Expense Coverage Ratio as of the last day of any fiscal quarter ending during any period set forth

below to be less than the ratio set forth below opposite such period:

Period	Ratio
December 29, 2002 through July 17, 2004	3.00 to 1.00
July 18, 2004 and thereafter	3.25 to 1.00

SECTION 6.15. Current Assets to Funded Senior Debt Ratio. The Borrower will not permit the ratio of (a) Current Assets to (b) Funded Senior Debt, in each case as of the end of any fiscal quarter of the Borrower ending during any period set forth below, to be less than the ratio set forth below opposite such period:

Period	Ratio
Restatement Effective Date through July 12, 2003	1.15 to 1.00
July 13, 2003 through July 17, 2004	1.25 to 1.00
July 18, 2004 through January 1, 2005	1.50 to 1.00
January 2, 2005 and thereafter	1.75 to 1.00

SECTION 6.16. Purchase and Sale of Vehicles; Vehicle Subsidiary. (a) Neither Holdings nor the Borrower will, nor will they permit any Subsidiary (other than the Vehicle Subsidiary) to, own, purchase, acquire or hold title to, any Vehicle.

(b) The Vehicle Subsidiary will not engage in any business or activity other than acquiring, owning and disposing of Vehicles used in the business of the Borrower and its Subsidiaries, and activities incidental thereto. The Vehicle Subsidiary will not own or acquire any assets (other than Vehicles) or incur any liabilities (other than liabilities imposed by law, including tax liabilities, the Guarantee of the Existing Subordinated Debt, the Additional Subordinated Debt or any Replacement Subordinated Debt by the Vehicle Subsidiary to the extent permitted by clause (v) of Section 6.01(a), Indebtedness created under the Loan Documents and other liabilities incidental to its existence and permitted business and activities). The Vehicle Subsidiary will not have any Subsidiaries or other investments. The Borrower will not make or permit any investments in the Vehicle Subsidiary, other than contributions of equity capital by the Borrower to the extent necessary to permit the Vehicle Subsidiary to acquire Vehicles and to satisfy its permitted liabilities as and when done.

SECTION 6.17. Senior Leverage Ratio. The Borrower will not permit the Senior Leverage Ratio as of any date during any

period set forth below to be in excess of the ratio set forth below opposite such period:

Period	Ratio
December 29, 2002 through April 14, 2003	2.75 to 1.00
April 15, 2003 through July 12, 2003	3.00 to 1.00
July 13, 2003 through January 3, 2004	2.75 to 1.00
January 4, 2004 through July 17, 2004	2.50 to 1.00
July 18, 2004 and thereafter	2.00 to 1.00

ARTICLE VII

Events of Default

If any of the following events ("Events of Default") shall occur:

(a) the Borrower shall fail to pay any principal of any Loan or any reimbursement obligation in respect of any LC Disbursement when and as the same shall become due and payable, whether at the due date thereof or at a date fixed for prepayment thereof or otherwise;

(b) the Borrower shall fail to pay any interest on any Loan or any fee or any other amount (other than an amount referred to in clause (a) of this Article) payable under this Agreement or any other Loan Document, when and as the same shall become due and payable, and such failure shall continue unremedied for a period of three Business Days;

(c) any representation or warranty made or deemed made by or on behalf of Holdings, the Borrower or any Subsidiary in or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, or in any report, certificate, financial statement or other document furnished pursuant to or in connection with any Loan Document or any amendment or modification thereof or waiver thereunder, shall prove to have been incorrect in any material respect when made or deemed made;

(d) Holdings or the Borrower shall fail to observe or perform any covenant, condition or agreement contained in Section 5.02, 5.04 (with respect to the existence of Holdings or the Borrower) or 5.11 or in Article VI;

(e) any Loan Party shall fail to observe or perform any covenant, condition or agreement contained in any Loan Document (other than those specified in clause (a), (b) or (d) of this Article), and such failure shall continue unremedied for a period of 30 days after notice thereof from the Administrative Agent to the Borrower (which notice will be given at the request of any Lender);

(f) Holdings, the Borrower or any Subsidiary shall fail to make any payment (whether of principal or interest and regardless of amount) in respect of any Material Indebtedness, when and as the same shall become due and payable;

(g) any event or condition occurs that results in any Material Indebtedness becoming due prior to its scheduled maturity or that enables or permits (with or without the giving of notice, the lapse of time or both) the holder or holders of any Material Indebtedness or any trustee or agent on its or their behalf to cause any Material Indebtedness to become due, or to require the prepayment, repurchase, redemption or defeasance thereof, prior to its scheduled maturity; provided that this clause (g) shall not apply to secured Indebtedness that becomes due as a result of the voluntary sale or transfer of the property or assets securing such Indebtedness;

(h) an involuntary proceeding shall be commenced or an involuntary petition shall be filed seeking (i) liquidation, reorganization or other relief in respect of Holdings, the Borrower or any Subsidiary or its debts, or of a substantial part of its assets, under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect or (ii) the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or any Subsidiary or for a substantial part of its assets, and, in any such case, such proceeding or petition shall continue undismissed for 60 days or an order or decree approving or ordering any of the foregoing shall be entered;

(i) Holdings, the Borrower or any Subsidiary shall (i) voluntarily commence any proceeding or file any petition seeking liquidation, reorganization or other relief under any Federal, state or foreign bankruptcy, insolvency, receivership or similar law now or hereafter in effect, (ii) consent to the institution

of, or fail to contest in a timely and appropriate manner, any proceeding or petition described in clause (h) of this Article, (iii) apply for or consent to the appointment of a receiver, trustee, custodian, sequestrator, conservator or similar official for Holdings, the Borrower or any Subsidiary or for a substantial part of its assets, (iv) file an answer admitting the material allegations of a petition filed against it in any such proceeding, (v) make a general assignment for the benefit of creditors or (vi) take any action for the purpose of effecting any of the foregoing;

(j) Holdings, the Borrower or any Subsidiary shall become unable, admit in writing its inability or fail generally to pay its debts as they become due;

(k) one or more judgments for the payment of money in an aggregate amount in excess of \$5,000,000 shall be rendered against Holdings, the Borrower, any Subsidiary or any combination thereof and the same shall remain undischarged for a period of 30 consecutive days during which execution shall not be effectively stayed, or any action shall be legally taken by a judgment creditor (and such action is not effectively stayed) to attach or levy upon any assets of Holdings, the Borrower or any Subsidiary to enforce any such judgment;

(l) an ERISA Event shall have occurred that, in the opinion of the Required Lenders, when taken together with all other ERISA Events that have occurred, could reasonably be expected to result in liability of the Borrower and its Subsidiaries in an aggregate amount exceeding (i) \$3,000,000 in any year or (ii) \$5,000,000 for all periods;

(m) any Lien purported to be created under any Security Document shall cease to be, or shall be asserted by any Loan Party not to be, a valid and perfected Lien on any Collateral, with the priority required by the applicable Security Document, except (i) as a result of the sale or other disposition of the applicable Collateral in a transaction permitted under the Loan Documents or (ii) as a result of the Collateral Agent's failure to maintain possession of any stock certificates, promissory notes or other instruments delivered to it under the Pledge Agreement;

(n) a Change in Control shall occur;

then, and in every such event (other than an event with respect to the Borrower described in clause (h) or (i) of this Article), and at any time thereafter during the continuance of such event, the Administrative Agent may, and at the request of the Required Lenders shall, by notice to the Borrower, take either or both of the following actions, at the same or different times: (i) terminate the Commitments, and thereupon the Commitments shall terminate immediately, and (ii) declare the Loans then outstanding to be due and payable in whole (or in part, in which case any principal not so declared to be due and payable may thereafter be declared to be due and payable), and thereupon the principal of the Loans so declared to be due and payable, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall become due and payable immediately, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower; and in case of any event with respect to the Borrower described in clause (h) or (i) of this Article, the Commitments shall automatically terminate and the principal of the Loans then outstanding, together with accrued interest thereon and all fees and other obligations of the Borrower accrued hereunder, shall automatically become due and payable, without presentment, demand, protest or other notice of any kind, all of which are hereby waived by the Borrower.

ARTICLE VIII

The Administrative Agent

Each of the Lenders and the Issuing Bank hereby irrevocably appoints the Administrative Agent as its agent and authorizes the Administrative Agent to take such actions on its behalf and to exercise such powers as are delegated to the Administrative Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto.

The bank serving as the Administrative Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not the Administrative Agent, and such bank and its Affiliates may accept deposits from, lend money to and generally engage in any kind of business with Holdings, the Borrower or any Subsidiary or other Affiliate thereof as if it were not the Administrative Agent hereunder.

The Administrative Agent shall not have any duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (a) the Administrative Agent shall not be subject to any fiduciary or other implied duties, regardless of whether a Default has occurred and is continuing, (b) the Administrative Agent shall not have any duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated by the Loan Documents that the Administrative Agent is required to exercise in writing by the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02), and (c) except as expressly set forth in the Loan Documents, the Administrative Agent shall not have any duty to disclose, and shall not be liable for the failure to disclose, any information relating to Holdings, the Borrower or any of its Subsidiaries that is communicated to or obtained by the bank serving as Administrative Agent or any of its Affiliates in any capacity. The Administrative Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of the Lenders as shall be necessary under the circumstances as provided in Section 9.02) or in the absence of its own gross negligence or wilful misconduct. The Administrative Agent shall not be deemed not to have knowledge of any Default unless and until written notice thereof is given to the Administrative Agent by Holdings, the Borrower or a Lender, and the Administrative Agent shall not be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in Article IV or elsewhere in any Loan Document, other than to confirm receipt of items expressly required to be delivered to the Administrative Agent.

The Administrative Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. The Administrative Agent also may rely upon any statement made to it orally or by telephone and believed by

it to be made by the proper Person, and shall not incur any liability for relying thereon. The Administrative Agent may consult with legal counsel (who may be counsel for the Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

The Administrative Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by the Administrative Agent. The Administrative Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers through their respective Related Parties. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to the Related Parties of each Administrative Agent and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the credit facilities provided for herein as well as activities as Administrative Agent.

Subject to the appointment and acceptance of a successor the Administrative Agent as provided in this paragraph, the Administrative Agent may resign at any time by notifying the Lenders, the Issuing Bank and the Borrower. Upon any such resignation, the Required Lenders shall have the right, in consultation with the Borrower (except that no consultation is required during an Event of Default), to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Administrative Agent gives notice of its resignation, then the retiring Administrative Agent may, on behalf of the Lenders and the Issuing Bank, appoint a successor Administrative Agent which shall be a bank with an office in New York, New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Administrative Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Administrative Agent, and the retiring Administrative Agent shall be discharged from its duties and obligations hereunder. The fees payable by the Borrower to a successor Administrative Agent shall be the same as those payable to its predecessor unless otherwise agreed between the Borrower and such successor. After the Administrative Agent's resignation hereunder, the provisions of this Article and Section 9.03 shall continue in effect for the benefit of such retiring Administrative Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while it was acting as Administrative Agent.

Each Lender acknowledges that it has, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon the Administrative Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement, any other Loan Document or related agreement or any document furnished hereunder or thereunder.

The provisions of this Article applicable to the Administrative Agent also shall apply to the Collateral Agent, *mutatis mutandis*. The parties hereto acknowledge and agree that neither of the Documentation Agents has any right, duty or liability under any Loan Document in its capacity as Documentation Agent.

ARTICLE IX

Miscellaneous

SECTION 9.01. Notices. Except in the case of notices and other communications expressly permitted to be given by telephone, all notices and other communications provided for herein shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail or sent by telecopy, as follows:

(a) if to Holdings or the Borrower, to Advance Stores Company, Incorporated at 5673 Airport Road, Roanoke, Virginia 24012, Attention of Chief Financial Officer (Telecopy No. (540) 561-1699);

(b) if to the Administrative Agent or the Collateral Agent, to JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin Street, 10th Floor, Houston, Texas 77002, Attention of Leah Hughes (Telecopy No. (713) 750-2932), with a copy to JPMorgan Chase Bank, 270 Park Avenue, 4th Floor, New York 10017, Attention of Neil Boylan (Telecopy No. (212) 270-6637);

(c) if to the Issuing Bank, to JPMorgan Chase Bank in care of JPMorgan Treasury Services, 10420 Highland

Manor Drive, 4th Floor, Tampa, Florida 33610, Attention of Standby LC Department (Telecopy No. (813) 432-5161);

(d) if to the Swingline Lender, to JPMorgan Chase Bank, Loan and Agency Services Group, 1111 Fannin Street, 10th Floor, Houston, Texas 77002, Attention of Leah Hughes (Telecopy No. (713) 750-2932)); and

(e) if to any other Lender, to it at its address (or telecopy number) set forth in its Administrative Questionnaire.

Any party hereto may change its address or telecopy number for notices and other communications hereunder by notice to the other parties hereto. All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt.

SECTION 9.02. Waivers; Amendments. (a) No failure or delay by the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender in exercising any right or power hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of the Administrative Agent, the Collateral Agent, the Issuing Bank and the Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of any Loan Document or consent to any departure by any Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) of this Section, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. Without limiting the generality of the foregoing, the making of a Loan or issuance of a Letter of Credit shall not be construed as a waiver of any Default, regardless of whether the Administrative Agent, the Collateral Agent, any Lender or the Issuing Bank may have had notice or knowledge of such Default at the time.

(b) Neither this Agreement nor any other Loan Document nor any provision hereof or thereof may be waived, amended or modified except, in the case of this Agreement, pursuant to an agreement or agreements in writing entered into by Holdings, the Borrower and the Required Lenders or, in the case of any other Loan Document, pursuant to an

agreement or agreements in writing entered into by the Administrative Agent or the Collateral Agent, as applicable, and the Loan Party or Loan Parties that are parties thereto, in each case with the consent of the Required Lenders; provided that no such agreement shall (i) increase the Commitment of any Lender without the written consent of such Lender, (ii) reduce the principal amount of any Loan or LC Disbursement or reduce the rate of interest thereon, or reduce any fees payable hereunder, without the written consent of each Lender affected thereby, (iii) postpone the scheduled date of payment of the principal amount of any Loan or LC Disbursement, or any interest thereon, or any fees payable hereunder, or reduce the amount of, waive or excuse any such payment, or postpone the scheduled date of expiration of any Commitment, without the written consent of each Lender affected thereby, (iv) change Section 2.18(b) or (c) in a manner that would alter the pro rata sharing of payments required thereby, without the written consent of each Lender, (v) change any of the provisions of this Section or the definition of "Required Lenders" or any other provision of any Loan Document specifying the number or percentage of Lenders (or Lenders of any Class) required to waive, amend or modify any rights thereunder or make any determination or grant any consent thereunder, without the written consent of each Lender (or each Lender of such Class, as the case may be), (vi) release Holdings or any Subsidiary Loan Party from its Guarantee under the Guarantee Agreement (except as expressly provided in the Guarantee Agreement), or limit its liability in respect of such Guarantee, without the written consent of each Lender, (vii) except in strict accordance with the express provisions thereof, release all or any substantial part of the Collateral from the Liens of the Security Documents, without the written consent of each Lender, (viii) change any provisions of any Loan Document in a manner that by its terms adversely affects the rights in respect of payments due to Lenders holding Loans of any Class differently than those holding Loans of any other Class, without the written consent of Lenders holding a majority in interest of the outstanding Loans and unused Commitments of each affected Class (in addition to any other consent required under this paragraph), (ix) amend, modify or waive any condition precedent set forth in Section 4.02 with respect to the making of Revolving Loans, without the written consent of Revolving Lenders holding a majority in interest of the Revolving Commitments or (x) change the rights of the Tranche B Lenders to decline mandatory prepayments as provided in Section 2.11, without the written consent of Tranche B Lenders holding a majority of the outstanding Tranche B Loans; provided further that (A) no such agreement shall amend, modify or otherwise affect the rights or duties

of the Administrative Agent, the Collateral Agent, the Issuing Bank or the Swingline Lender without the prior written consent of the Administrative Agent, the Collateral Agent, the Issuing Bank or the Swingline Lender, as the case may be, and (B) any waiver, amendment or modification of this Agreement that by its terms affects the rights or duties under this Agreement of the Revolving Lenders (but not any other Lenders), the Tranche A Lenders or the Tranche B Lenders (but not any other Lenders) may be effected by an agreement or agreements in writing entered into by Holdings, the Borrower and requisite percentage in interest of the affected Class of Lenders that would be required to consent thereto under this Section if such Class of Lenders were the only Class of Lenders hereunder at the time. In furtherance of clause (ix) of this Section 9.02(b), (i) any amendment or modification to or waiver of Section 6.12, 6.13, 6.14 or 6.15 of this Agreement or (ii) any amendment or modification to or waiver of any provision of this Agreement or any other Loan Document at a time when any Default has occurred and is continuing, and that would have the effect of eliminating any such Default, shall not be deemed to be effective for purposes of determining whether the conditions precedent set forth in Section 4.02 to the making of any Revolving Loan have been satisfied unless the Revolving Lenders holding a majority in interest of the Revolving Commitments shall have consented to such amendment, modification or waiver; provided that the foregoing shall not be construed to affect any amendment or modification to any provision of this Agreement or any other Loan Document (other than any amendment or modification to Section 6.12, 6.13, 6.14 or 6.15 of this Agreement) if no Default has occurred and is continuing at the time of such amendment or modification.

SECTION 9.03. Expenses; Indemnity; Damage Waiver. (a) The Borrower shall pay (i) all reasonable out-of-pocket expenses incurred by the Agents and their respective Affiliates, including the reasonable fees, charges and disbursements of counsel for the Agents, in connection with the syndication of the credit facilities provided for herein, the preparation and administration of the Loan Documents or any amendments, modifications or waivers of the provisions thereof (whether or not the transactions contemplated hereby or thereby shall be consummated), (ii) all reasonable out-of-pocket expenses incurred by the Issuing Bank in connection with the issuance, amendment, renewal or extension of any Letter of Credit or any demand for payment thereunder and (iii) all out-of-pocket expenses incurred by the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender, including the fees, charges and disbursements of any counsel for the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender,

in connection with the enforcement or protection of its rights in connection with the Loan Documents, including its rights under this Section, or in connection with the Loans made or Letters of Credit issued hereunder, including all such out-of-pocket expenses incurred during any workout, restructuring or negotiations in respect of such Loans or Letters of Credit.

(b) The Borrower shall indemnify the Agents, the Issuing Bank and each Lender, and each Related Party of any of the foregoing Persons (each such Person being called an "Indemnitee") against, and hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities and related expenses, including the fees, charges and disbursements of any counsel for any Indemnitee, incurred by or asserted against any Indemnitee arising out of, in connection with, or as a result of (i) the execution or delivery of any Loan Document or any other agreement or instrument contemplated hereby, the performance by the parties to the Loan Documents of their respective obligations thereunder or the consummation of the Transactions or any other transactions contemplated hereby, (ii) any Loan or Letter of Credit or the use of the proceeds therefrom (including any refusal by the Issuing Bank to honor a demand for payment under a Letter of Credit if the documents presented in connection with such demand do not strictly comply with the terms of such Letter of Credit), (iii) any actual or alleged presence or release of Hazardous Materials on or from any Mortgaged Property or any other property currently or formerly owned or operated by Holdings, the Borrower or any of its Subsidiaries, or any Environmental Liability related in any way to Holdings, the Borrower or any of its Subsidiaries, except that this clause (iii) shall not apply to Environmental Liabilities related to a Mortgaged Property that are attributable solely to acts or events occurring after completion of foreclosure proceedings with respect to such Mortgaged Property and surrender of possession thereof by the Borrower and its Subsidiaries to or as directed by the Collateral Agent or the purchasers at any such foreclosure sale, or (iv) any actual or prospective claim, litigation, investigation or proceeding relating to any of the foregoing, whether based on contract, tort or any other theory and regardless of whether any Indemnitee is a party thereto; provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses resulted from the gross negligence or wilful misconduct of such Indemnitee.

(c) To the extent that the Borrower fails to pay any amount required to be paid by it to the Administrative

Agent, the Collateral Agent, the Issuing Bank or the Swingline Lender under paragraph (a) or (b) of this Section, each Lender severally agrees to pay to the Administrative Agent, the Collateral Agent, the Issuing Bank or the Swingline Lender, as the case may be, such Lender's pro rata share (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against the Administrative Agent, the Collateral Agent, the Issuing Bank or the Swingline Lender in its capacity as such. For purposes hereof, a Lender's "pro rata share" shall be determined based upon its share of the sum of the total Revolving Exposures, outstanding Term Loans and unused Commitments at the time.

(d) To the extent permitted by applicable law, neither Holdings nor the Borrower shall assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement or any agreement or instrument contemplated hereby, the Transactions, any Loan or Letter of Credit or the use of the proceeds thereof.

(e) All amounts due under this Section shall be payable promptly after written demand therefor.

SECTION 9.04. Successors and Assigns. (a) The provisions of this Agreement shall be binding upon and inure to the benefit of the parties hereto and their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), except that (i) the Borrower may not assign or otherwise transfer any of its rights or obligations hereunder without the prior written consent of each Lender (and any attempted assignment or transfer by the Borrower without such consent shall be null and void) and (ii) no Lender may assign or otherwise transfer its rights or obligations hereunder except in accordance with this Section. Nothing in this Agreement, expressed or implied, shall be construed to confer upon any Person (other than the parties hereto, their respective successors and assigns permitted hereby (including any Affiliate of the Issuing Bank that issues any Letter of Credit), Participants (to the extent provided in paragraph (c) of this Section) and, to the extent expressly contemplated hereby, the Related Parties of each of the Administrative Agent, the Issuing Bank and the Lenders) any legal or equitable right, remedy

or claim under or by reason of this Agreement.

(b)(i) Subject to the conditions set forth in paragraph (b)(ii) below, any Lender may assign to one or more assignees all or a portion of its rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans at the time owing to it) with the prior written consent (such consent not to be unreasonably withheld) of:

(A) the Borrower, provided that no consent of the Borrower shall be required for an assignment to a Lender, an Affiliate of a Lender, an Approved Fund or, if an Event of Default under clause (a), (b), (h) or (i) of Article VII has occurred and is continuing, any other assignee; and

(B) the Administrative Agent, provided that no consent of the Administrative Agent shall be required for an assignment of (x) any Revolving Commitment to an assignee that is a Lender with a Revolving Commitment immediately prior to giving effect to such assignment or (y) all or any portion of a Term Loan.

(ii) Assignments shall be subject to the following additional conditions:

(A) except in the case of an assignment to a Lender or an Affiliate or Approved Fund of a Lender or an assignment of the entire remaining amount of the assigning Lender's Commitment or Loans of any Class, the amount of the Commitment or Loans of the assigning Lender subject to each such assignment (determined as of the date the Assignment and Assumption with respect to such assignment is delivered to the Administrative Agent) shall not be less than \$1,000,000 unless each of the Borrower and the Administrative Agent otherwise consent, provided that no such consent of the Borrower shall be required if an Event of Default under clause (a), (b), (h) or (i) of Article VII has occurred and is continuing;

(B) each partial assignment shall be made as an assignment of a proportionate part of all the assigning Lender's rights and obligations under this Agreement, provided that this clause shall not be construed to prohibit the assignment of a proportionate part of all the assigning Lender's rights and obligations in respect of one Class of

Commitments or Loans;

(C) the parties to each assignment shall execute and deliver to the Administrative Agent an Assignment and Assumption, together with a processing and recordation fee of \$3,500 (except in the case of an assignment to an Affiliate or Approved Fund of a Lender); and

(D) the assignee, if it shall not be a Lender, shall deliver to the Administrative Agent an Administrative Questionnaire.

For the purposes of this Section 9.04(b), the term "Approved Fund" has the following meaning:

"Approved Fund" means any Person (other than a natural person) that is engaged in making, purchasing, holding or investing in bank loans and similar extensions of credit in the ordinary course of its business and that is administered or managed by (a) a Lender, (b) an Affiliate of a Lender or (c) an entity or an Affiliate of an entity that administers or manages a Lender.

(iii) Subject to acceptance and recording thereof pursuant to paragraph (b)(iv) of this Section, from and after the effective date specified in each Assignment and Assumption the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Assumption, have the rights and obligations of a Lender under this Agreement, and the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Assumption, be released from its obligations under this Agreement (and, in the case of an Assignment and Assumption covering all of the assigning Lender's rights and obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Sections 2.15, 2.16, 2.17 and 9.03). Any assignment or transfer by a Lender of rights or obligations under this Agreement that does not comply with this Section 9.04 shall be treated for purposes of this Agreement as a sale by such Lender of a participation in such rights and obligations in accordance with paragraph (c) of this Section.

(iv) The Administrative Agent, acting for this purpose as an agent of the Borrower, shall maintain at one of its offices a copy of each Assignment and Assumption delivered to it and a register for the recordation of the names and addresses of the Lenders,

and the Commitment of, and principal amount of the Loans and LC Disbursements owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). The entries in the Register shall be conclusive, and the Borrower, the Administrative Agent, the Issuing Bank and the Lenders may treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by the Borrower, the Issuing Bank and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(v) Upon its receipt of a duly completed Assignment and Assumption executed by an assigning Lender and an assignee, the assignee's completed Administrative Questionnaire (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) of this Section and any written consent to such assignment required by paragraph (b) of this Section, the Administrative Agent shall accept such Assignment and Assumption and record the information contained therein in the Register. No assignment shall be effective for purposes of this Agreement unless it has been recorded in the Register as provided in this paragraph.

(c)(i) Any Lender may, without the consent of the Borrower, the Administrative Agent, the Issuing Bank or the Swingline Lender, sell participations to one or more banks or other entities (a "Participant") in all or a portion of such Lender's rights and obligations under this Agreement (including all or a portion of its Commitment and the Loans owing to it); provided that (A) such Lender's obligations under this Agreement shall remain unchanged, (B) such Lender shall remain solely responsible to the other parties hereto for the performance of such obligations and (C) the Borrower, the Administrative Agent, the Issuing Bank and the other Lenders shall continue to deal solely and directly with such Lender in connection with such Lender's rights and obligations under this Agreement. Any agreement or instrument pursuant to which a Lender sells such a participation shall provide that such Lender shall retain the sole right to enforce this Agreement and to approve any amendment, modification or waiver of any provision of this Agreement; provided that such agreement or instrument may provide that such Lender will not, without the consent of the Participant, agree to any amendment, modification or waiver described in the first proviso to Section 9.02(b) that affects such Participant. Subject to paragraph (c)(ii)

of this Section, the Borrower agrees that each Participant shall be entitled to the benefits of Sections 2.15, 2.16 and 2.17 to the same extent as if it were a Lender and had acquired its interest by assignment pursuant to paragraph (b) of this Section. To the extent permitted by law, each Participant also shall be entitled to the benefits of Section 9.08 as though it were a Lender, provided such Participant agrees to be subject to Section 2.18(c) as though it were a Lender.

(ii) A Participant shall not be entitled to receive any greater payment under Section 2.15 or 2.17 than the applicable Lender would have been entitled to receive with respect to the participation sold to such Participant, unless the sale of the participation to such Participant is made with the Borrower's prior written consent. A Participant that would be a Foreign Lender if it were a Lender shall not be entitled to the benefits of Section 2.17 unless the Borrower is notified of the participation sold to such Participant and such Participant agrees, for the benefit of the Borrower, to comply with Section 2.17(e) as though it were a Lender.

(d) Any Lender may at any time pledge or assign a security interest in all or any portion of its rights under this Agreement to secure obligations of such Lender, including without limitation any pledge or assignment to secure obligations to a Federal Reserve Bank, and this Section shall not apply to any such pledge or assignment of a security interest; provided that no such pledge or assignment of a security interest shall release a Lender from any of its obligations hereunder or substitute any such pledgee or assignee for such Lender as a party hereto.

(e) Notwithstanding anything to the contrary contained herein, any Lender (a "Granting Lender") may grant to a special purpose funding vehicle (an "SPV"), identified as such in writing from time to time by the Granting Lender to the Administrative Agent and the Borrower, the option to provide to the Borrower all or any part of any Loan that such Granting Lender would otherwise be obligated to make to the Borrower pursuant to this Agreement, provided that (i) nothing herein shall constitute a commitment by any SPV to make any Loan and (ii) if an SPV elects not to exercise such option or otherwise fails to provide all or any part of such Loan, the Granting Lender shall be obligated to make such Loan pursuant to the terms hereof. The making of a Loan by an SPV hereunder shall utilize the Commitment of the Granting Lender to the same extent, and as if, such Loan were made by such Granting Lender. Each party hereto hereby

agrees that no SPV shall be liable for any indemnity or similar payment obligation under this Agreement (all liability for which shall remain with the Granting Lender). In furtherance of the foregoing, each party hereto hereby agrees (which agreement shall survive the termination of this Agreement) that, prior to the date that is one year and one day after the payment in full of all outstanding commercial paper or other senior indebtedness of any SPV, it will not institute against, or join any other person in instituting against, such SPV any bankruptcy, reorganization, arrangement, insolvency or liquidation proceedings under the laws of the United States of America or any State thereof. In addition, notwithstanding anything to the contrary in this Section 9.04, any SPV may (i) with notice to, but without the prior written consent of, the Borrower and the Administrative Agent and without paying any processing fee therefor, assign all or a portion of its interests in any Loans to the Granting Lender or to any financial institutions (consented to by the Borrower and the Administrative Agent) providing liquidity and/or credit support to or for the account of such SPV to support the funding or maintenance of Loans and (ii) disclose on a confidential basis any non-public information relating to its Loans to any rating agency, commercial paper dealer or provider of any surety, guarantee or credit or liquidity enhancement to such SPV. As this Section 9.04(e) applies to any particular SPV, this Section may not be amended without the written consent of such SPV.

SECTION 9.05. Survival. All covenants, agreements, representations and warranties made by the Loan Parties in the Loan Documents and in the certificates or other instruments delivered in connection with or pursuant to this Agreement or any other Loan Document shall be considered to have been relied upon by the other parties hereto and shall survive the execution and delivery of the Loan Documents and the making of any Loans and issuance of any Letters of Credit, regardless of any investigation made by any such other party or on its behalf and notwithstanding that the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender may have had notice or knowledge of any Default or incorrect representation or warranty at the time any credit is extended hereunder, and shall continue in full force and effect as long as the principal of or any accrued interest on any Loan or any fee or any other amount payable under this Agreement is outstanding and unpaid or any Letter of Credit is outstanding and so long as the Commitments have not expired or terminated. The provisions of Sections 2.15, 2.16, 2.17 and 9.03 and Article VIII shall survive and remain in full force and effect regardless of the consummation of the transactions

contemplated hereby, the repayment of the Loans, the expiration or termination of the Letters of Credit and the Commitments or the termination of this Agreement or any provision hereof.

SECTION 9.06. Counterparts; Integration; Effectiveness. This Agreement may be executed in counterparts (and by different parties hereto on different counterparts), each of which shall constitute an original, but all of which when taken together shall constitute a single contract. This Agreement, the other Loan Document and any separate letter agreements with respect to fees payable to the Administrative Agent constitute the entire contract among the parties relating to the subject matter hereof and supersede any and all previous agreements and understandings, oral or written, relating to the subject matter hereof. This Agreement shall become effective as provided in the Amendment and Restatement Agreement.

SECTION 9.07. Severability. Any provision of this Agreement held to be invalid, illegal or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such invalidity, illegality or unenforceability without affecting the validity, legality and enforceability of the remaining provisions hereof; and the invalidity of a particular provision in a particular jurisdiction shall not invalidate such provision in any other jurisdiction.

SECTION 9.08. Right of Setoff. If an Event of Default shall have occurred and be continuing, each Lender and each of its Affiliates is hereby authorized at any time and from time to time, to the fullest extent permitted by law, to set off and apply any and all deposits (general or special, time or demand, provisional or final) at any time held and other obligations at any time owing by such Lender or Affiliate to or for the credit or the account of the Borrower against any of and all the obligations of the Borrower now or hereafter existing under this Agreement held by such Lender, irrespective of whether or not such Lender shall have made any demand under this Agreement and although such obligations may be unmatured. The rights of each Lender under this Section are in addition to other rights and remedies (including other rights of setoff) which such Lender may have.

SECTION 9.09. Governing Law; Jurisdiction; Consent to Service of Process. (a) This Agreement shall be construed in accordance with and governed by the law of the State of New York.

(b) Each of Holdings and the Borrower hereby irrevocably and unconditionally submits, for itself and its property, to the nonexclusive jurisdiction of the Supreme Court of the State of New York sitting in New York County and of the United States District Court of the Southern District of New York, and any appellate court from any thereof, in any action or proceeding arising out of or relating to any Loan Document, or for recognition or enforcement of any judgment, and each of the parties hereto hereby irrevocably and unconditionally agrees that all claims in respect of any such action or proceeding may be heard and determined in such New York State or, to the extent permitted by law, in such Federal court. Each of the parties hereto agrees that a final judgment in any such action or proceeding shall be conclusive and may be enforced in other jurisdictions by suit on the judgment or in any other manner provided by law. Nothing in this Agreement or any other Loan Document shall affect any right that the Administrative Agent, the Collateral Agent, the Issuing Bank or any Lender may otherwise have to bring any action or proceeding relating to this Agreement or any other Loan Document against Holdings, the Borrower or its properties in the courts of any jurisdiction.

(c) Each of Holdings and the Borrower hereby irrevocably and unconditionally waives, to the fullest extent it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Agreement or any other Loan Document in any court referred to in paragraph (b) of this Section. Each of the parties hereto hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

(d) Each party to this Agreement irrevocably consents to service of process in the manner provided for notices in Section 9.01. Nothing in this Agreement or any other Loan Document will affect the right of any party to this Agreement to serve process in any other manner permitted by law.

SECTION 9.10. WAIVER OF JURY TRIAL. EACH PARTY HERETO HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN ANY LEGAL PROCEEDING DIRECTLY OR INDIRECTLY ARISING OUT OF OR RELATING TO THIS AGREEMENT, ANY OTHER LOAN DOCUMENT OR THE TRANSACTIONS CONTEMPLATED HEREBY (WHETHER BASED ON CONTRACT, TORT OR ANY OTHER THEORY). EACH PARTY HERETO (A) CERTIFIES THAT NO REPRESENTATIVE, AGENT OR ATTORNEY OF

ANY OTHER PARTY HAS REPRESENTED, EXPRESSLY OR OTHERWISE, THAT SUCH OTHER PARTY WOULD NOT, IN THE EVENT OF LITIGATION, SEEK TO ENFORCE THE FOREGOING WAIVER AND (B) ACKNOWLEDGES THAT IT AND THE OTHER PARTIES HERETO HAVE BEEN INDUCED TO ENTER INTO THIS AGREEMENT BY, AMONG OTHER THINGS, THE MUTUAL WAIVERS AND CERTIFICATIONS IN THIS SECTION.

SECTION 9.11. Headings. Article and Section headings and the Table of Contents used herein are for convenience of reference only, are not part of this Agreement and shall not affect the construction of, or be taken into consideration in interpreting, this Agreement.

SECTION 9.12. Confidentiality. Each of the Administrative Agent, the Issuing Bank and the Lenders agrees to maintain the confidentiality of the Information (as defined below) in accordance with their customary procedures, except that Information may be disclosed (a) to its and its Affiliates' and Approved Funds' directors, officers, employees and agents, including accountants, legal counsel and other advisors (it being understood that the Persons to whom such disclosure is made will be informed of the confidential nature of such Information and instructed to keep such Information confidential), (b) to the extent requested by any regulatory authority, (c) to the extent required by applicable laws or regulations or by any subpoena or similar legal process, (d) to any other party to this Agreement, (e) in connection with the exercise of any remedies hereunder or any suit, action or proceeding relating to this Agreement or any other Loan Document or the enforcement of rights hereunder or thereunder, (f) subject to an agreement containing provisions substantially the same as those of this Section, to any assignee of or Participant in, or any prospective assignee of or Participant in, any of its rights or obligations under this Agreement, (g) with the consent of the Borrower, (h) to the extent such Information (i) becomes publicly available other than as a result of a breach of this Section or (ii) becomes available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential basis from a source other than Holdings or the Borrower or (i) to any creditor or direct or indirect contractual counterparty with a Lender or its affiliates in a swap agreement or such counterparty's professional advisor (so long as such creditor contractual counterparty or professional advisor to such contractual counterparty agrees to be bound by the provisions of this Section 9.12). For the purposes of this Section, "Information" means all information received from Holdings or the Borrower relating to Holdings or the Borrower or its business, other than any such information that is available to the Administrative Agent, the Issuing Bank or any Lender on a nonconfidential

basis prior to disclosure by Holdings or the Borrower; provided that, in the case of information received from Holdings or the Borrower after the Effective Date, such information is clearly identified at the time of delivery as confidential. Any Person required to maintain the confidentiality of Information as provided in this Section shall be considered to have complied with its obligation to do so if such Person has exercised the same degree of care to maintain the confidentiality of such Information as such Person would accord to its own confidential information. Nothing in this Section 9.12 is intended to prohibit any Lender (or any Affiliate or Approved Fund of any Lender) from acquiring or disposing of any of the Borrower's debt securities from or to an institutional "accredited investor" (as defined in Regulation D under the Securities Act of 1933); provided that in connection with any such acquisition or disposition, such Lender (or Affiliate or Approved Fund of such Lender) shall not disclose to its trade counterparty or any other Person any Information relating to the Borrower except in accordance with this Section 9.12.

SECTION 9.13. Interest Rate Limitation. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to any Loan, together with all fees, charges and other amounts which are treated as interest on such Loan under applicable law (collectively, the "Charges"), shall exceed the maximum lawful rate (the "Maximum Rate") which may be contracted for, charged, taken, received or reserved by the Lender holding such Loan in accordance with applicable law, the rate of interest payable in respect of such Loan hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such Loan but were not payable as a result of the operation of this Section shall be cumulated and the interest and Charges payable to such Lender in respect of other Loans or periods shall be increased (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Federal Funds Effective Rate to the date of repayment, shall have been received by such Lender.

SECTION 9.14. Existing Credit Agreement; Effectiveness of Amendment and Restatement. Until this Agreement becomes effective in accordance with the terms of the Amendment and Restatement Agreement, the Existing Credit Agreement shall remain in full force and effect and shall not be affected hereby. After the Restatement Effective Date, all obligations of the Borrower under the Existing Credit Agreement shall become obligations of the Borrower hereunder, secured by the Security Documents, and the

provisions of the Existing Credit Agreement shall be superseded by the provisions hereof.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first above written.

ADVANCE AUTO PARTS, INC.,

By /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

ADVANCE STORES COMPANY,
INCORPORATED,

By /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

JPMORGAN CHASE BANK,
individually and as
Administrative Agent,

By /s/ NEIL R. BOYLAN

Name: Neil R. Boylan
Title: Managing Director

SUNTRUST BANK,
individually and as
Documentation Agent

By /s/ MARTHA D. SHIFFLETT

Name: Martha D. Shifflett
Title: Sr. Vice President

WACHOVIA BANK, NATIONAL
ASSOCIATION,
individually and as
Documentation Agent

By /s/ SUSAN T. VITALE

Name: Susan T. Vitale
Title: Vice President

(THE OTHER LENDERS, ISSUING
BANKS AND SWINGLINE LENDERS
THAT ARE SIGNATORIES TO THE
AMENDMENT AND RESTATEMENT
AGREEMENT),

By *

Name:

Title:

* Numerous Lenders signatories hereto

AMENDMENT AND RESTATEMENT AGREEMENT

dated as of March 6, 2003, among ADVANCE STORES COMPANY, INCORPORATED, a Virginia corporation (the "Borrower"), ADVANCE AUTO PARTS, INC., a Delaware corporation ("Holdings"), the Lenders party hereto and JPMORGAN CHASE BANK, as Administrative Agent, and SUNTRUST BANK and WACHOVIA BANK, NATIONAL ASSOCIATION, as Documentations Agents, under the Amended and Restated Credit Agreement dated as of June 28, 2002, among the Borrower, Holdings, the lenders referred to therein and the Administrative Agent, as in effect on the date hereof (the "Existing Credit Agreement").

WHEREAS, Holdings and the Borrower have requested, and the Required Restatement Lenders and the Administrative Agent have agreed, upon the terms and subject to the conditions set forth herein, that the Existing Credit Agreement be amended and restated as provided herein to, among other things, provide for (a) the Tranche A-1 Lenders to extend credit in the form of Tranche A-1 Term Loans on the Redemption Date in an aggregate principal amount equal to \$75,000,000 and (b) the Tranche C-1 Lenders to extend credit in the form of Tranche C-1 Term Loans on the Redemption Date in an aggregate principal amount equal to \$275,000,000.

NOW, THEREFORE, Holdings, the Borrower, the Required Restatement Lenders and the Administrative Agent hereby agree as follows:

SECTION 1. Defined Terms. Capitalized terms used but not defined herein shall have the meanings assigned to such terms in the Restated Credit Agreement referred to below. As used in this Agreement, "Required Restatement Lenders" means, at any time, (a) the Required Lenders under (and as defined in) the Existing Credit Agreement, and (b) each of the Tranche A-1 Lenders and Tranche C-1 Lenders set forth on Schedule 2.01 to the Restated Credit Agreement.

SECTION 2. Restatement Effective Date. (a) The amendment and restatement of the Existing Credit Agreement provided for in Section 3 hereof shall be consummated at a closing to be held on the Restatement Effective Date at the

offices of Cravath, Swaine & Moore, or at such other time and place as the parties hereto shall agree upon.

(b) The "Restatement Effective Date" shall be specified by the Borrower, and shall be a date not later than March 6, 2003, as of which all the conditions set forth or referred to in Section 4 hereof shall have been satisfied. The Borrower shall give not less than one Business Day's written notice proposing a date as the Restatement Effective Date to the Administrative Agent, which shall send copies of such notice to the Lenders. This Agreement shall terminate at 5:00 p.m., New York City time, on March 6, 2003, if the Restatement Effective Date shall not have occurred at or prior to such time.

SECTION 3. Amendment and Restatement of the Existing Credit Agreement; Loans and Letters of Credit. (a) Effective on the Restatement Effective Date, the Existing Credit Agreement is hereby amended and restated to read in its entirety as set forth in Exhibit A hereto (the "Restated Credit Agreement"), and the Administrative Agent is hereby directed by the Required Restatement Lenders to enter into such Loan Documents and to take such other actions as may be required to give effect to the transactions contemplated hereby. From and after the effectiveness of such amendment and restatement, the terms "Agreement", "this Agreement", "herein", "hereinafter", "hereto", "hereof" and words of similar import, as used in the Restated Credit Agreement, shall, unless the context otherwise requires, refer to the Existing Credit Agreement as amended and restated in the form of the Restated Credit Agreement, and the term "Credit Agreement", as used in the other Loan Documents, shall mean the Restated Credit Agreement.

(b) All Tranche A Term Loans, Tranche C Term Loans, Revolving Loans, Swingline Loans and Letters of Credit outstanding under the Existing Credit Agreement on the Restatement Effective Date shall continue to be outstanding under the Restated Credit Agreement and the terms of the Restated Credit Agreement will govern the rights of the Lenders and the Issuing Bank with respect thereto.

SECTION 4. Conditions. The amendment and restatement of the Existing Credit Agreement as contemplated by Section 3 of this Agreement shall be subject to the satisfaction of the following conditions precedent:

(a) The Administrative Agent (or its counsel) shall have received from Holdings, the Borrower and the

Required Restatement Lenders either (i) a counterpart of this Agreement signed on behalf of such party or (ii) written evidence satisfactory to the Administrative Agent (which may include telecopy transmission of a signed signature page of this Agreement) that such party has signed a counterpart of this Agreement.

(b) The Administrative Agent shall have received a favorable written opinion (addressed to the Administrative Agent and the Lenders and dated the Restatement Effective Date) of each of (i) Riordan & McKinzie, counsel for the Loan Parties, substantially in the form of Exhibit B-1, (ii) Flippin Densmore Morse Rutherford & Jessee, Virginia counsel for the Loan Parties, substantially in the form of Exhibit B-2, and (iii) Bingham McCutchen LLP, special New York counsel for the Loan Parties, substantially in the form of Exhibit B-3, and, in the case of each such opinion required by this paragraph, covering such other matters relating to the Loan Parties, the Loan Documents or the Restatement Transactions as the Required Restatement Lenders shall reasonably request. Holdings and the Borrower hereby request such counsel to deliver such opinions.

(c) The Administrative Agent shall have received such documents and certificates as the Administrative Agent or its counsel may reasonably request relating to the organization, existence and good standing of each Loan Party, the authorization of the Restatement Transactions and any other legal matters relating to the Loan Parties, the Loan Documents or the Restatement Transactions, all in form and substance satisfactory to the Administrative Agent and its counsel.

(d) The Administrative Agent shall have received a certificate, dated the Restatement Effective Date and signed by the President, a Vice President or a Financial Officer of each of Holdings and the Borrower, confirming compliance with the conditions set forth in paragraphs (a) and (b) of Section 4.02 of the Restated Credit Agreement.

(e) The Administrative Agent shall have received all fees and other amounts due and payable on or prior to the Restatement Effective Date, including, to the extent invoiced, reimbursement or payment of all out-of-pocket expenses (including fees, charges and disbursements of counsel) required to be reimbursed or

paid by any Loan Party hereunder or under any other Loan Document.

(f) The Collateral Agent shall have received (i) all documents and instruments, including Uniform Commercial Code financing statements, required by law or reasonably requested by the Collateral Agent to be filed, registered or recorded to create or perfect the Liens intended to be created under the Security Agreement after giving effect to the Restatement Transactions, (ii) a completed Perfection Certificate dated the Restatement Effective Date and signed by an executive officer or Financial Officer of the Borrower and (iii) all documents and instruments necessary to create or perfect the Liens intended to be created under the Pledge Agreement after giving effect to the Restatement Transactions.

(g) The Collateral Agent shall have received (i) to the extent requested by the Collateral Agent, amendments to each Mortgage executed in connection with the Existing Credit Agreement providing that the Tranche A-1 Term Loans and Tranche C-1 Term Loans (in addition to the other Obligations) shall be secured by a Lien on each Mortgaged Property, signed on behalf of the record owner of such Mortgaged Property and (ii) a policy or policies of title insurance or a title endorsement to an existing title insurance policy, issued by a nationally recognized title insurance company, insuring the Lien of each such Mortgage as a valid first Lien on the Mortgaged Property described therein, free of any other Liens except as permitted by the Restated Credit Agreement, together with such endorsements, coinsurance and reinsurance as the Collateral Agent or the Required Restatement Lenders may reasonably request.

(h) The Administrative Agent shall have received evidence that the insurance required by Section 5.07 of the Restated Credit Agreement and the Security Documents is in effect.

(i) A Reaffirmation Agreement substantially in the form of Exhibit C hereto shall have been delivered by each party thereto.

The Administrative Agent shall notify the Borrower and the Lenders of the Restatement Effective Date, and such notice shall be conclusive and binding. Notwithstanding the foregoing, the amendment and restatement of the Existing

Credit Agreement as contemplated by Section 3 of this Agreement, the obligations of the Tranche A-1 Lenders to make Tranche A-1 Term Loans and the obligations of the Tranche C-1 Lenders to make Tranche C-1 Term Loans shall not become effective unless each of the foregoing conditions is satisfied (or waived pursuant to Section 5 below) at or prior to 5:00 p.m., New York City time, on March 6, 2003 (and, in the event such conditions are not so satisfied or waived, this Agreement shall terminate at such time).

SECTION 5. Effectiveness; Counterparts; Amendments; Fees. (a) This Agreement shall become effective when copies hereof which, when taken together, bearing the signatures of Holdings, the Borrower, the Administrative Agent and the Required Restatement Lenders shall have been received by the Administrative Agent. This Agreement may not be amended nor may any provision hereof be waived except pursuant to a writing signed by Holdings, the Borrower, the Administrative Agent and the Required Restatement Lenders. This Agreement may be executed in two or more counterparts, each of which shall constitute an original but all of which when taken together shall constitute a single contract. Delivery of an executed counterpart of a signature page of this Agreement by telecopy shall be effective as delivery of a manually executed counterpart of this Agreement.

(b) In consideration of the agreements of the Required Lenders contained in this Agreement, the Borrower agrees to pay to the Administrative Agent, for the account of each Lender under the Existing Credit Agreement that delivers an executed counterpart of this Agreement at or prior to 5:00 p.m. on March 6, 2003, a fee equal to 0.125% of the sum of such Lender's Revolving Commitment and outstanding Term Loans under the Existing Credit Agreement, in each case as of the date immediately prior to the Restatement Effective Date; provided that such fee shall not be payable unless and until the Restatement Effective Date occurs.

SECTION 6. No Novation. This Agreement shall not extinguish the Loans outstanding under the Existing Credit Agreement. Nothing herein contained shall be construed as a substitution or novation of the Loans outstanding under the Existing Credit Agreement, which shall remain outstanding after the Restatement Effective Date as modified hereby. Notwithstanding any provision of this Agreement, the provisions of Sections 2.15, 2.16, 2.17 and 9.03 of the Existing Credit Agreement as in effect immediately prior to the Restatement Effective Date will continue to be effective as to all matters arising out of or in any way related to

facts or events existing or occurring prior to the Restatement Effective Date.

SECTION 7. Notices. All notices hereunder shall be given in accordance with the provisions of Section 9.01 of the Restated Credit Agreement.

SECTION 8. Applicable Law; Waiver of Jury Trial. (A) THIS AGREEMENT SHALL BE CONSTRUED IN ACCORDANCE WITH AND GOVERNED BY THE LAWS OF THE STATE OF NEW YORK.

(B) EACH PARTY HERETO HEREBY AGREES TO THE PROVISIONS AS SET FORTH IN SECTION 9.10 OF THE RESTATED CREDIT AGREEMENT AS IF SUCH SECTION WERE SET FORTH IN FULL HEREIN.

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be duly executed by their respective authorized officers as of the day and year first written above.

ADVANCE AUTO PARTS, INC.,

By /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

ADVANCE STORES COMPANY,
INCORPORATED,

By /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

JPMORGAN CHASE BANK,
individually and as
Administrative Agent,

By /s/ NEIL R. BOYLAN

Name: Neil R. Boylan
Title: Managing Director

SUNTRUST BANK,
individually and as
Documentation Agent

By /s/ MARTHA D. SHIFFLETT

Name: Martha D. Shifflett
Title: Sr. Vice President

WACHOVIA BANK, NATIONAL
ASSOCIATION,
individually and as
Documentation Agent

By /s/ SUSAN T. VITALE

Name: Susan T. Vitale
Title: Vice President

SIGNATURE PAGE TO THE AMENDMENT
AND RESTATEMENT AGREEMENT, DATED
AS OF March 6, 2003, IN RESPECT
OF THE AMENDED AND RESTATED
CREDIT AGREEMENT, DATED June 28,
2002, AMONG ADVANCE STORES
COMPANY, INCORPORATED, ADVANCE
AUTO PARTS, INC., THE LENDERS
PARTY THERETO, JPMORGAN CHASE
BANK, AS ADMINISTRATIVE AGENT,
AND SUNTRUST BANK AND WACHOVIA
BANK, NATIONAL ASSOCIATION, AS
DOCUMENTATION AGENTS.

Name of Institution:

By *

Name:

Title:

* Numerous Lenders signatories hereto.

EXHIBITS

Exhibit A -- Amended and Restated Credit Agreement
Exhibit B-1 -- Form of Opinion of Riordan & McKinzie, counsel for the Loan Parties
Exhibit B-2 -- Form of Opinion of Flippin Densmore Morse Rutherford & Jessee, Virginia counsel for the Loan Parties
Exhibit B-3 -- Form of Opinion of Bingham McCutchen LLP, special New York counsel for the Loan Parties
Exhibit C -- Form of Reaffirmation Agreement

REAFFIRMATION AGREEMENT, dated as of March 6, 2003, among ADVANCE STORES COMPANY, INCORPORATED, a Virginia corporation (the "Borrower"), ADVANCE AUTO PARTS, INC., a Delaware corporation ("Holdings"), each subsidiary of Holdings listed on the signature pages hereof (collectively, the "Subsidiary Loan Parties" and, together with the Borrower and Holdings, the "Reaffirming Parties") and JPMORGAN CHASE BANK ("JPMCB"), as Administrative Agent and Collateral Agent under the Restated Credit Agreement referred to below.

WHEREAS Holdings, the Borrower, the Lenders party thereto, and JPMCB have entered into an Amendment and Restatement Agreement (the "Amendment and Restatement Agreement"), dated as of March 6, 2003, which amends and restates the Credit Agreement dated as of November 28, 2001, as amended and restated as of June 28, 2002 (the "Existing Credit Agreement", and, as amended and restated after giving effect to the Amendment and Restatement Agreement, the "Restated Credit Agreement"), among Holdings, the Borrower, the Lenders from time to time party thereto and JPMCB, as Administrative Agent;

WHEREAS each of the Reaffirming Parties is party to one or more of the Security Documents (such term and each other capitalized term used but not defined herein having the meaning assigned in the Restated Credit Agreement), the Guarantee Agreement, the Indemnity, Subrogation and Contribution Agreement (the Security Documents, the Guarantee Agreement and the Indemnity, Subrogation and Contribution Agreement, are collectively referred to herein as the "Reaffirmed Documents");

WHEREAS each Reaffirming Party expects to realize, or has realized, substantial direct and indirect benefits as a result of the Amendment and Restatement Agreement becoming effective and the consummation of the transactions contemplated thereby; and

WHEREAS the execution and delivery of this Agreement is a condition precedent to the consummation of the transactions contemplated by the Amendment and Restatement Agreement.

NOW, THEREFORE, in consideration of the foregoing and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the parties hereto agree as follows:

ARTICLE I

Reaffirmation/Amendment and Restatement

SECTION 1.01. Reaffirmation. (a) Each of the Reaffirming Parties hereby consents to the Amendment and Restatement Agreement and the transactions contemplated thereby and hereby confirms its respective guarantees, pledges, grants of security interests and other agreements, as applicable, under each of the Reaffirmed Documents to which it is party, and agrees that notwithstanding the effectiveness of the Amendment and Restatement Agreement and the consummation of the transactions contemplated thereby, such guarantees, pledges, grants of security interests and other agreements shall continue to be in full force and effect and shall accrue to the benefit of the Lenders under the Restated Credit Agreement. Each of the Reaffirming Parties further agrees to take any action that may be required or that is reasonably requested by the Administrative Agent to ensure compliance by Holdings and the Borrower with Sections 5.12 and 5.13 of the Restated Credit Agreement to the extent such covenant pertains to such Reaffirming Party and hereby reaffirms its obligations under each similar provision of each Reaffirmed Document to which it is party.

(b) Each of the Reaffirming Parties hereby confirms and agrees that the obligations of the Borrower in respect of the Tranche A-1 Term Loans and the Tranche C-1 Term Loans constitute Obligations under each of the Reaffirmed Documents.

SECTION 1.02. Amendment and Restatement. On and after the effectiveness of the Amendment and Restatement Agreement, (i) each reference in each Reaffirmed Document to the "Credit Agreement", "thereunder", "thereof" or words of like import shall mean and be a reference to the Restated Credit Agreement as such agreement may be amended, modified or supplemented and in effect from time to time and (ii) the definition of any term defined in any Reaffirmed Document by reference to the terms defined in the "Credit Agreement" shall be amended to be defined by reference to the defined term in the Restated Credit Agreement, as the same may be

amended, modified or supplemented and in effect from time to time.

ARTICLE II

Representations and Warranties

Each Reaffirming Party hereby represents and warrants, which representations and warranties shall survive execution and delivery of this Agreement, as follows:

SECTION 2.01. Organization. Such Reaffirming Party is duly organized, validly existing and in good standing under the laws of the jurisdiction of its organization.

SECTION 2.02. Authority; Enforceability. Such Reaffirming Party has the power and authority to execute, deliver and carry out the terms and provisions of this Agreement and has taken all necessary action to authorize the execution, delivery and performance by it of this Agreement. Such Reaffirming Party has duly executed and delivered this Agreement, and this Agreement constitutes its legal, valid and binding obligation, enforceable against it in accordance with its terms.

SECTION 2.03. Reaffirmed Documents. The representations and warranties of such Reaffirming Party contained in each Reaffirmed Document are true and correct on and as of the date hereof with the same effect as though made on and as of such date, except to the extent such representations and warranties expressly relate to an earlier date (in which case such representations and warranties shall have been true and correct as of such earlier date).

ARTICLE III

Miscellaneous

SECTION 3.01. Notices. All notices and other communications hereunder shall be made at the addresses, in the manner and with the effect provided in Article IX of the Restated Credit Agreement; provided that, for this purpose, the address of each Reaffirming Party shall be the one specified for the Borrower under the Restated Credit Agreement.

SECTION 3.02. Expenses. Each Reaffirming Party agrees to pay all reasonable costs, fees and expenses (including reasonable attorneys' fees and time charges of attorneys for JPMCB or any Lender, which attorneys may be employees of JPMCB or any Lender) incurred by JPMCB or any Lender in collecting or enforcing any Reaffirming Party's obligations under this Agreement.

SECTION 3.03. Loan Document. This Agreement is a Loan Document executed pursuant to the Restated Credit Agreement and shall (unless otherwise expressly indicated herein) be construed, administered and applied in accordance with the terms and provisions thereof.

SECTION 3.04. Section Captions. Section captions used in this Agreement are for convenience of reference only and shall not affect the construction of this Agreement.

SECTION 3.05. Severability. Wherever possible each provision of this Agreement shall be interpreted in such manner as to be effective and valid under applicable law, but if any provision of this Agreement shall be prohibited by or invalid under such law, such provision shall be ineffective to the extent of such prohibition or invalidity, without invalidating the remainder of such provision or the remaining provisions of this Agreement.

SECTION 3.06. Successors and Assigns. This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective successors and assigns.

SECTION 3.07. Amendment. This Agreement may be waived, modified or amended only by a written agreement executed by each of the parties hereto.

SECTION 3.08. Counterparts. This Agreement may be executed in any number of counterparts and by the different parties hereto on separate counterparts, each of which when so executed and delivered shall be an original but all of which shall together constitute one and the same agreement. Delivery of an executed counterpart of a signature page of this Agreement by facsimile or other electronic transmission shall be effective as delivery of a manually executed counterpart of this Agreement.

SECTION 3.09. No Novation. Neither this Agreement nor the execution, delivery or effectiveness of the Amendment and Restatement Agreement shall extinguish the obligations for the payment of money outstanding under the Amendment and Restatement Agreement or the Restated Credit

Agreement or discharge or release the Lien or priority of any Security Document or any other security therefor. Nothing herein contained shall be construed as a substitution or novation of the obligations outstanding under the Existing Credit Agreement or instruments securing the same, which shall remain in full force and effect, except to any extent modified hereby or by instruments executed concurrently herewith. Nothing implied in this Agreement, the Amendment and Restatement Agreement or in any other document contemplated hereby or thereby shall be construed as a release or other discharge of Holdings, the Borrower or any Subsidiary Loan Party under any Loan Document from any of its obligations and liabilities as "Holdings", the "Borrower", a "Subsidiary Loan Party", a "Pledgor" or a "Grantor" under the Restated Credit Agreement or the Loan Documents. Each of the Existing Credit Agreement and the Loan Documents shall remain in full force and effect, until (as applicable) and except to any extent modified hereby or by the Amendment and Restatement Agreement or in connection herewith and therewith.

[The remainder of this page intentionally left blank]

IN WITNESS WHEREOF, each Reaffirming Party and JPMCB, as Administrative Agent for the benefit of the Lenders, have caused this Agreement to be duly executed and delivered as of the date first above written.

ADVANCE AUTO PARTS, INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

ADVANCE STORES COMPANY,
INCORPORATED,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

ADVANCE TRUCKING CORPORATION,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

WESTERN AUTO SUPPLY COMPANY,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

WESTERN AUTO OF PUERTO RICO,
INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

WESTERN AUTO OF ST. THOMAS,
INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

WASCO INSURANCE AGENCY, INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

ADVANCE MERCHANDISING COMPANY,
INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

ADVANCE AIRCRAFT COMPANY,
INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

DISCOUNT AUTO PARTS, INC.,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

DAP ACCEPTANCE CORPORATION,

By: /s/ JEFFREY T. GRAY

Name: Jeffrey T. Gray
Title: SVP and Controller

JPMORGAN CHASE BANK, as
Administrative Agent,

By: /s/ NEIL R. BOYLAN

Name: Neil R. Boylan
Title: Managing Director

Subsidiaries

	Jurisdiction
Advance Stores Company, Incorporated	Virginia
Advance Trucking Corporation	Virginia
Western Auto Supply Company (Western Auto Supply Company operates auto parts stores through 2 wholly-owned subsidiaries organized in Delaware)	Delaware
WASCO Insurance Agency, Inc.	Missouri
Discount Auto Parts, Inc.	Florida
DAP Acceptance Corporation	Delaware
Advance Merchandising Company, Inc.	Virginia
Advance Aircraft Company, Inc.	Virginia

INDEPENDENT AUDITORS' CONSENT

We consent to the incorporation by reference in Registration Statements No. 333-74162 and No. 333-89154 of Advance Auto Parts, Inc. and subsidiaries on Form S-8 of our report dated March 7, 2003, appearing in the Annual Report on Form 10-K of Advance Auto Parts, Inc. and subsidiaries for the year ended December 28, 2002.

DELOITTE & TOUCHE LLP

McLean, Virginia
March 21, 2003

EXHIBIT 99.1

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Lawrence P. Castellani, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report on Form 10-K of Advance Auto Parts, Inc. for the year ended December 28, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Advance Auto Parts, Inc.

Date: March 27, 2003

By: /s/ LAWRENCE P. CASTELLANI

Name: Lawrence P. Castellani
Title: Chairman of the Board of
Directors and Chief Executive
Officer

I, Jimmie L. Wade, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that, to my knowledge, the Annual Report on Form 10-K of Advance Auto Parts, Inc. for the year ended December 28, 2002 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934 and that the information contained in such Annual Report on Form 10-K fairly presents in all material respects the financial condition and results of operations of Advance Auto Parts, Inc.

Date: March 27, 2003

By: /s/ JIMMIE L. WADE

Name: Jimmie L. Wade
Title: President and Chief Financial
Officer