

AUTOZONE INC  
Form 10-Q/A  
January 04, 2008

**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549

**FORM 10-Q/A**

**(Amendment No. 1)**

Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended November 17, 2007, 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 1-10714

**AUTOZONE, INC.**

(Exact name of registrant as specified in its charter)

**Nevada**

(State or other jurisdiction of  
incorporation or organization)

**62-1482048**

(I.R.S. Employer  
Identification No.)

**123 South Front Street  
Memphis, Tennessee 38103**

(Address of principal executive offices) (Zip Code)

**(901) 495-6500**

(Registrant's telephone number, including area code)

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 periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See the definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

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

Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Common Stock, \$.01 Par Value - 63,178,650 shares outstanding as of December 6, 2007.



**EXPLANATORY NOTE**

This amendment on Form 10-Q/A of AutoZone, Inc. is being filed to revise Part I, Item 1 - Financial Statements, of the Quarterly Report on Form 10-Q for the quarter ended November 17, 2007 that was filed on December 14, 2007 (the "Report"). Specifically, this Form 10-Q/A corrects a printer error in Stockholders' equity for the previous fiscal year ended August 25, 2007 as shown in the Condensed Consolidated Balance Sheets contained in the Report. This amendment does not reflect events occurring after the filing of the Report and, other than the correction in Stockholders' equity described above, does not modify or update the disclosures in the original Report in any way.

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**PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.**

**AUTOZONE, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(Unaudited)  
(in thousands)

|   | November 17,<br>2007 | August 25,<br>2007 |
|---|----------------------|--------------------|
| <b>ASSETS</b>                                   |                      |                    |
| Current assets                                  |                      |                    |
| Cash and cash equivalents                       | \$ 79,813            | \$ 86,654          |
| Accounts receivable                             | 53,900               | 59,876             |
| Merchandise inventories                         | 2,051,524            | 2,007,430          |
| Other current assets                            | 134,500              | 116,495            |
| Total current assets                            | 2,319,737            | 2,270,455          |
| Property and equipment                          |                      |                    |
| Property and equipment                          | 3,440,810            | 3,395,545          |
| Less: Accumulated depreciation and amortization | 1,252,275            | 1,217,703          |
|   | 2,188,535            | 2,177,842          |
| Other assets                                    |                      |                    |
| Goodwill, net of accumulated amortization       | 302,645              | 302,645            |
| Deferred income taxes                           | 36,280               | 21,331             |
| Other long-term assets                          | 27,020               | 32,436             |
|   | 365,945              | 356,412            |
|   | \$ 4,874,217         | \$ 4,804,709       |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>     |                      |                    |
| Current liabilities                             |                      |                    |
| Accounts payable                                | \$ 1,844,940         | \$ 1,870,668       |
| Accrued expenses and other                      | 326,129              | 307,633            |
| Income taxes payable                            | 78,368               | 25,442             |
| Deferred income taxes                           | 69,833               | 82,152             |
| Total current liabilities                       | 2,319,270            | 2,285,895          |
| Debt  |                      |                    |
|   | 2,161,070            | 1,935,618          |
| Other liabilities                               |                      |                    |
|   | 222,824              | 179,996            |
| Stockholders' equity                            |                      |                    |
|   | 171,053              | 403,200            |
|   | \$ 4,874,217         | \$ 4,804,709       |

See Notes to Condensed Consolidated Financial Statements

**AUTOZONE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**  
(Unaudited)  
(in thousands, except per share amounts)

|   | <b>Twelve Weeks Ended</b>    |                              |
|---|------------------------------|------------------------------|
|   | <b>November 17,<br/>2007</b> | <b>November 18,<br/>2006</b> |
| Net sales   | \$ 1,455,655                 | \$ 1,393,069                 |
| Cost of sales, including warehouse and delivery expenses        | 729,207                      | 707,774                      |
| Operating, selling, general and administrative expenses         | 489,073                      | 462,299                      |
| Operating profit  | 237,375                      | 222,996                      |
| Interest expense, net   | 28,062                       | 27,093                       |
| Income before income taxes                                      | 209,313                      | 195,903                      |
| Income taxes  | 76,797                       | 72,014                       |
| Net income  | \$ 132,516                   | \$ 123,889                   |
| Weighted average shares for basic earnings per share            | 64,855                       | 71,082                       |
| Effect of dilutive stock equivalents                            | 589                          | 731                          |
| Adjusted weighted average shares for diluted earnings per share | 65,444                       | 71,813                       |
| Basic earnings per share  | \$ 2.04                      | \$ 1.74                      |
| Diluted earnings per share                                      | \$ 2.02                      | \$ 1.73                      |

**See Notes to Condensed Consolidated Financial Statements**

**AUTOZONE, INC.**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
(Unaudited)  
(in thousands)

|   | <b>Twelve Weeks Ended</b>    |                              |
|---|------------------------------|------------------------------|
|   | <b>November 17,<br/>2007</b> | <b>November 18,<br/>2006</b> |
| <b>Cash flows from operating activities</b>   |                              |                              |
| Net income  | \$ 132,516                   | \$ 123,889                   |
| <b>Adjustments to reconcile net income to net cash provided by operating activities</b> |                              |                              |
| Depreciation and amortization of property and equipment                                 | 39,692                       | 35,554                       |
| Amortization of debt origination fees   | 415                          | 409                          |
| Income tax benefit from exercise of options   | (1,795)                      | (5,798)                      |
| Deferred income taxes   | (379)                        | (802)                        |
| Share-based compensation expense  | 4,182                        | 4,302                        |
| <b>Changes in operating assets and liabilities</b>                                      |                              |                              |
| Accounts receivable   | 5,976                        | 6,531                        |
| Merchandise inventories   | (44,094)                     | (36,698)                     |
| Accounts payable and accrued expenses   | (23,074)                     | (50,123)                     |
| Income taxes payable  | 54,721                       | 39,884                       |
| Other, net  | 2,885                        | (5,185)                      |
| Net cash provided by operating activities   | 171,045                      | 111,963                      |
| <b>Cash flows from investing activities</b>   |                              |                              |
| Capital expenditures  | (44,887)                     | (52,198)                     |
| Purchase of marketable securities   | (20,448)                     | (27,770)                     |
| Proceeds from sale of marketable securities   | 5,282                        | 8,790                        |
| Disposal of capital assets and other, net   | 392                          | 282                          |
| Net cash used in investing activities   | (59,661)                     | (70,896)                     |
| <b>Cash flows from financing activities</b>   |                              |                              |
| Net proceeds from commercial paper  | 264,370                      | 6,200                        |
| Repayment of debt   | (38,918)                     | (3,686)                      |
| Net proceeds from sale of common stock  | 8,766                        | 26,109                       |
| Purchase of treasury stock  | (349,990)                    | (90,767)                     |
| Income tax benefit from exercise of stock options                                       | 1,795                        | 5,798                        |
| Payment of capital lease obligations  | (3,874)                      | (2,270)                      |
| Other, net  | (374)                        | (650)                        |
| Net cash used in financing activities   | (118,225)                    | (59,266)                     |
| Net decrease in cash and cash equivalents   | (6,841)                      | (18,199)                     |
| Cash and cash equivalents at beginning of period  | 86,654                       | 91,558                       |
| Cash and cash equivalents at end of period  | \$ 79,813                    | \$ 73,359                    |

**See Notes to Condensed Consolidated Financial Statements**

**AUTOZONE, INC.**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
(Unaudited)

**Note A- Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial information and with instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments, including normal recurring accruals, considered necessary for a fair presentation have been included. Certain prior year amounts have been reclassified to conform to current year presentations. For further information, refer to the consolidated financial statements and footnotes included in the 2007 Annual Report to Shareholders for AutoZone, Inc. (“AutoZone” or the “Company”) for the year ended August 25, 2007.

Operating results for the twelve weeks ended November 17, 2007 are not necessarily indicative of the results that may be expected for the fiscal year ending August 30, 2008. Each of the first three quarters of AutoZone’s fiscal year consists of 12 weeks, and the fourth quarter consists of 16 or 17 weeks. The fourth quarter for fiscal 2007 had 16 weeks and for fiscal 2008 has 17 weeks. Additionally, the Company’s business is somewhat seasonal in nature, with the highest sales generally occurring in the spring and summer months of March through August and the lowest sales generally occurring in the winter months of December through February.

**Note B- Share-Based Payments**

Share-based compensation transactions are accounted for in accordance with the provisions of Statement of Financial Accounting Standards (“SFAS”) No. 123(R) “Share-Based Payment.” AutoZone recognizes compensation expense for share-based payments based on the fair value of the awards at the grant date. Share-based payments include stock option grants and the discount on shares sold to employees under various share purchase plans.

Total share-based expense (a component of operating, selling, general and administrative expenses) was \$4.2 million for the twelve week period ended November 17, 2007 and was \$4.3 million for the comparable prior year period.

AutoZone grants options to purchase common stock to some of its employees and directors under various plans at prices equal to the market value of the stock on the dates the options are granted. Options have a term of 10 years or 10 years and one day from grant date. Director options generally vest three years from the grant date. Employee options generally vest in equal annual installments on the first, second, third and fourth anniversaries of the grant date. Employees and directors generally have 30 days after the employment relationship ends, or one year after death, to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date. The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The application of this valuation model involves assumptions that are judgmental and highly sensitive in the determination of compensation expense. The weighted average key assumptions used in determining the fair value of options granted in the twelve week period ended November 17, 2007 are as follows:

|  |       |
|--|-------|
| Expected price volatility                | 24.4% |
| Risk-free interest rate                  | 4.1%  |
| Weighted average expected lives in years | 4.0   |
| Forfeiture rate                          | 10.0% |



|                |      |
|----------------|------|
| Dividend yield | 0.0% |
|----------------|------|

The Company generally issues new shares when options are exercised. A summary of stock option activity since our most recent fiscal year end is as follows:

|                               | <b>Options</b> | <b>Weighted Average<br/>Exercise Price</b> |
|-------------------------------|----------------|--|
| Outstanding August 25, 2007   | 2,956,765      | \$ 79.24                                   |
| Granted                       | 619,240        | 115.38                                     |
| Exercised                     | (115,213)      | 78.43                                      |
| Canceled                      | (22,044)       | 82.90                                      |
| Outstanding November 17, 2007 | 3,438,748      | \$ 85.75                                   |

There have been no modifications to the Company's share-based compensation plans during the twelve week period ended November 17, 2007.

**Note C- Income Taxes**

AutoZone adopted Financial Accounting Standards Board Interpretation No. 48, "Accounting for Uncertainty in Income Taxes," ("FIN 48") on August 26, 2007. FIN 48 prescribes a recognition threshold that a tax position is required to meet before being recognized in the financial statements and provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition issues. The adoption of FIN 48 resulted in a charge to the beginning balance of retained earnings of \$26.9 million at the date of adoption. Including this cumulative effect amount, total unrecognized tax benefits upon adoption were \$49.2 million. Of this total, \$23.8 million represents unrecognized tax benefits that, if recognized, would reduce the Company's effective tax rate.

The major jurisdictions where the Company files income tax returns are the United States and Mexico. Generally, returns filed for tax years 2003 through 2007 remain open and subject to examination by the relevant tax authorities. The Company is typically engaged in various tax examinations at any given time, both by U. S. federal and state taxing jurisdictions and Mexican tax authorities. As a result of tax audit closings, settlements, and the expiration of statutes to examine such returns in various jurisdictions over the next 12 months, the Company estimates that the amount of unrecognized tax benefits could be reduced by approximately \$30.5 million.

The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense. Upon adoption of FIN 48, the Company had approximately \$16.3 million of such accrued interest and penalties included in accrued liabilities associated with unrecognized tax benefits.

**Note D- Inventories**

Inventories are stated at the lower of cost or market using the last-in, first-out ("LIFO") method. Included in inventory are related purchasing, storage, delivery and handling costs. Due to price deflation on the Company's merchandise purchases, the Company's inventory balances are effectively maintained under the first-in first-out method. The Company's policy is not to write up inventory in excess of replacement cost, resulting in cost of sales being reflected at the higher amount. The cumulative balance of this unrecorded adjustment, which is reduced upon experiencing price inflation on our merchandise purchases, was \$226.4 million at November 17, 2007, and \$227.9 million at August 25, 2007.

**Note E- Pension Plans**

The (income) cost components of net periodic benefit income related to our pension plans for all periods presented are as follows:

|                                    | <b>Twelve Weeks Ended</b> |                      |
|------------------------------------|---------------------------|----------------------|
|                                    | November 17,<br>2007      | November 18,<br>2006 |
| <i>(in thousands)</i>              |                           |                      |
| Interest cost                      | \$ 2,299                  | \$ 2,214             |
| Expected return on plan assets     | (3,008)                   | (2,387)              |
| Amortization of prior service cost | 23                        | (12)                 |
| Amortization of net loss           | 22                        | 173                  |
| Net periodic benefit income        | \$ (664)                  | \$ (12)              |

The Company makes contributions in amounts at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974. During the twelve week period ended November 17, 2007, the Company

made \$1.3 million in contributions to the plan and expects to fund approximately \$2 million during the remainder of this fiscal year.

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**Note F- Long-Term Debt**

The Company's long-term debt consisted of the following:

| <i>(in thousands)</i>  | <b>November 17,<br/>2007</b> | <b>August 25,<br/>2007</b> |
|--|------------------------------|----------------------------|
| Bank Term Loan due December 2009, effective interest rate of 4.55%   | \$ 300,000                   | \$ 300,000                 |
| 5.875% Senior Notes due October 2012, effective interest rate of 6.33%                                     | 300,000                      | 300,000                    |
| 5.5% Senior Notes due November 2015, effective interest rate of 4.86%                                      | 300,000                      | 300,000                    |
| 4.75% Senior Notes due November 2010, effective interest rate of 4.17%                                     | 200,000                      | 200,000                    |
| 4.375% Senior Notes due June 2013, effective interest rate of 5.65%  | 200,000                      | 200,000                    |
| 6.95% Senior Notes due June 2016, effective interest rate of 7.09%   | 200,000                      | 200,000                    |
| 6.5% Senior Notes due July 2008  | 190,000                      | 190,000                    |
| Commercial paper, weighted average interest rate of 5.1% at November 17, 2007, and 6.1% at August 25, 2007 | 471,070                      | 206,700                    |
| Other  | -                            | 38,918                     |
|  | <b>\$ 2,161,070</b>          | <b>\$ 1,935,618</b>        |

Balances maturing in the next twelve months are classified as long-term in the accompanying condensed consolidated balance sheets as the Company has the ability and intent to refinance them on a long-term basis.

**Note G- Stock Repurchase Program**

On June 6, 2007, the Board of Directors increased the Company's cumulative share repurchase authorization limit from \$5.4 billion to \$5.9 billion. From January 1, 1998 to November 17, 2007, the Company has repurchased a total of 102.2 million shares at an aggregate cost of \$5.792 billion; including 2,897,744 shares of its common stock at an aggregate cost of \$350.0 million during the twelve week period ended November 17, 2007. Considering cumulative repurchases as of November 17, 2007, the Company has \$108.3 million remaining under this authorization to repurchase its common stock.

**Note H- Comprehensive Income**

Comprehensive income includes foreign currency translation adjustments; the impact from certain derivative financial instruments designated and effective as cash flow hedges, including changes in fair value, as applicable, and the reclassification of gains and/or losses from accumulated other comprehensive loss to net income to offset the earnings impact of the underlying items being hedged; and changes in the fair value of certain investments classified as available for sale. Comprehensive income for all periods presented is as follows:

| <i>(in thousands)</i>   | <b>Twelve Weeks Ended</b>    |                              |
|-------------------------|------------------------------|------------------------------|
|                         | <b>November 17,<br/>2007</b> | <b>November 18,<br/>2006</b> |
| Net income, as reported | \$ 132,516                   | \$ 123,889                   |

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|   |            |            |
|---|------------|------------|
| Foreign currency translation adjustment     | 812        | 630        |
| Net impact from derivative instruments      | (3,542)    | (1,715)    |
| Unrealized gains from marketable securities | 246        | 64         |
| Comprehensive income                        | \$ 130,032 | \$ 122,868 |

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Stockholders  
AutoZone, Inc.

We have reviewed the condensed consolidated balance sheet of AutoZone, Inc. as of November 17, 2007, the related condensed consolidated statements of income for the twelve week periods ended November 17, 2007 and November 18, 2006, and the condensed consolidated statements of cash flows for the twelve week periods ended November 17, 2007 and November 18, 2006. These financial statements are the responsibility of the Company's management.

We conducted our review in accordance with the standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our review, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of AutoZone, Inc. as of August 25, 2007, and the related consolidated statements of income, changes in stockholders' equity, and cash flows for the year then ended, not presented herein, and, in our report dated October 19, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of August 25, 2007 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP

Memphis, Tennessee  
December 11, 2007

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AUTOZONE, INC.

By: /s/ WILLIAM T. GILES  
William T. Giles  
Chief Financial Officer, Executive Vice  
President,  
Finance, Information Technology and  
Store Development  
(Principal Financial Officer)

By: /s/ CHARLIE PLEAS, III  
Charlie Pleas, III  
Senior Vice President, Controller  
(Principal Accounting Officer)

Dated: January 4, 2008

**EXHIBIT INDEX**

The following exhibits are filed as part of this report:

- 15.1 Letter Regarding Unaudited Interim Financial Statements.
- 31.1 Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.