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

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x 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

o Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _______ to ________.

Commission file number 1-10714

AUTOZONE, INC.
(Exact name of registrant as specified in its charter)

Nevada	**62-1482048**
(State or other jurisdiction of incorporation or organization)	(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 x No o

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 x   Accelerated filer o   Non-accelerated filer o

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

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, 2007	August 25, 2007
ASSETS		
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
LIABILITIES AND STOCKHOLDERS' EQUITY		
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

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

	Twelve Weeks Ended			
	November 17, 2007		November 18, 2006	
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)

	Twelve Weeks Ended November 17, 2007	Twelve Weeks Ended November 18, 2006
Cash flows from operating activities		
Net income	$ 132,516	$ 123,889
Adjustments to reconcile net income to net cash provided by operating activities		
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
Changes in operating assets and liabilities		
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
Cash flows from investing activities		
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)
Cash flows from financing activities		
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:

	Options	Weighted Average Exercise Price
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:

	Twelve Weeks Ended	
(in thousands)	November 17, 2007	November 18, 2006
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.

Note F- Long-Term Debt

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

(in thousands)		November 17, 2007		August 25, 2007
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
	$	2,161,070	$	1,935,618

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:

	Twelve Weeks Ended			
(in thousands)		November 17, 2007		November 18, 2006
Net income, as reported	$	132,516	$	123,889

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

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.