

AUTOZONE INC  
Form 10-Q  
March 07, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

☒ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the quarterly period ended February 9, 2013, or

☐ **Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-10714

**AUTOZONE, INC.**

(Exact name of registrant as specified in its charter)

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**Nevada**  
(State or other jurisdiction of  
incorporation or organization)

**62-1482048**  
(I.R.S. Employer  
Identification No.)

**123 South Front Street, Memphis, Tennessee**  
(Address of principal executive offices)

**38103**  
(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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

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

Large accelerated filer ☒

Accelerated filer ☐

Non-accelerated filer ☐

Smaller reporting company ☐

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

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 36,080,610 shares outstanding as of March 4, 2013.

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**Table of Contents****PART I. FINANCIAL INFORMATION****Item 1. Financial Statements.****AUTOZONE, INC.****CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)

| <i>(in thousands)</i>                                                                                                                                                                                                   | <b>February 9,<br/>2013</b> | <b>August 25,<br/>2012</b> |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|
| <b>Assets</b>                                                                                                                                                                                                           |                             |                            |
| Current assets:                                                                                                                                                                                                         |                             |                            |
| Cash and cash equivalents                                                                                                                                                                                               | \$ 115,548                  | \$ 103,093                 |
| Accounts receivable                                                                                                                                                                                                     | 160,420                     | 161,375                    |
| Merchandise inventories                                                                                                                                                                                                 | 2,758,543                   | 2,627,983                  |
| Other current assets                                                                                                                                                                                                    | 87,789                      | 85,649                     |
| Deferred income taxes                                                                                                                                                                                                   | 1,068                       | 846                        |
| Total current assets                                                                                                                                                                                                    | 3,123,368                   | 2,978,946                  |
| Property and equipment:                                                                                                                                                                                                 |                             |                            |
| Property and equipment                                                                                                                                                                                                  | 4,839,902                   | 4,659,761                  |
| Less: Accumulated depreciation and amortization                                                                                                                                                                         | (1,895,353)                 | (1,803,833)                |
|                                                                                                                                                                                                                         | 2,944,549                   | 2,855,928                  |
| Goodwill                                                                                                                                                                                                                | 385,985                     | 302,645                    |
| Deferred income taxes                                                                                                                                                                                                   | 40,579                      | 33,796                     |
| Other long-term assets                                                                                                                                                                                                  | 167,707                     | 94,324                     |
|                                                                                                                                                                                                                         | 594,271                     | 430,765                    |
|                                                                                                                                                                                                                         | <b>\$ 6,662,188</b>         | <b>\$ 6,265,639</b>        |
| <b>Liabilities and Stockholders' Deficit</b>                                                                                                                                                                            |                             |                            |
| Current liabilities:                                                                                                                                                                                                    |                             |                            |
| Accounts payable                                                                                                                                                                                                        | \$ 3,034,017                | \$ 2,926,740               |
| Accrued expenses and other                                                                                                                                                                                              | 462,858                     | 478,085                    |
| Income taxes payable                                                                                                                                                                                                    | 69,063                      | 17,053                     |
| Deferred income taxes                                                                                                                                                                                                   | 181,337                     | 183,833                    |
| Short-term borrowings                                                                                                                                                                                                   | 484,533                     | 49,881                     |
| Total current liabilities                                                                                                                                                                                               | 4,231,808                   | 3,655,592                  |
| Long-term debt                                                                                                                                                                                                          | 3,513,273                   | 3,718,302                  |
| Other long-term liabilities                                                                                                                                                                                             | 467,216                     | 439,770                    |
| Commitments and contingencies                                                                                                                                                                                           |                             |                            |
| Stockholders' deficit:                                                                                                                                                                                                  |                             |                            |
| Preferred stock, authorized 1,000 shares; no shares issued                                                                                                                                                              |                             |                            |
| Common stock, par value \$.01 per share, authorized 200,000 shares; 36,410 shares issued and 36,079 shares outstanding as of February 9, 2013; 39,869 shares issued and 37,028 shares outstanding as of August 25, 2012 | 364                         | 399                        |
| Additional paid-in capital                                                                                                                                                                                              | 717,605                     | 689,890                    |

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|                                      |              |              |
|--------------------------------------|--------------|--------------|
| Retained deficit                     | (2,015,717)  | (1,033,197)  |
| Accumulated other comprehensive loss | (134,908)    | (152,013)    |
| Treasury stock, at cost              | (117,453)    | (1,053,104)  |
| Total stockholders' deficit          | (1,550,109)  | (1,548,025)  |
|                                      | \$ 6,662,188 | \$ 6,265,639 |

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****AUTOZONE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(Unaudited)

|                                                                 | Twelve Weeks Ended  |                      | Twenty-Four Weeks Ended |                      |
|-----------------------------------------------------------------|---------------------|----------------------|-------------------------|----------------------|
|                                                                 | February 9,<br>2013 | February 11,<br>2012 | February 9,<br>2013     | February 11,<br>2012 |
| <i>(in thousands, except per share data)</i>                    |                     |                      |                         |                      |
| Net sales                                                       | \$ 1,855,198        | \$ 1,804,069         | \$ 3,846,238            | \$ 3,728,411         |
| Cost of sales, including warehouse and delivery expenses        | 893,217             | 877,854              | 1,852,391               | 1,818,569            |
| Gross profit                                                    | 961,981             | 926,215              | 1,993,847               | 1,909,842            |
| Operating, selling, general and administrative expenses         | 644,410             | 625,564              | 1,312,999               | 1,268,257            |
| Operating profit                                                | 317,571             | 300,651              | 680,848                 | 641,585              |
| Interest expense, net                                           | 41,323              | 38,923               | 82,428                  | 78,017               |
| Income before income taxes                                      | 276,248             | 261,728              | 598,420                 | 563,568              |
| Income taxes                                                    | 100,001             | 94,798               | 218,722                 | 205,513              |
| Net income                                                      | \$ 176,247          | \$ 166,930           | \$ 379,698              | \$ 358,055           |
| Weighted average shares for basic earnings per share            | 36,258              | 39,281               | 36,552                  | 39,573               |
| Effect of dilutive stock equivalents                            | 646                 | 956                  | 694                     | 978                  |
| Adjusted weighted average shares for diluted earnings per share | 36,904              | 40,237               | 37,246                  | 40,551               |
| Basic earnings per share                                        | \$ 4.86             | \$ 4.25              | \$ 10.39                | \$ 9.05              |
| Diluted earnings per share                                      | \$ 4.78             | \$ 4.15              | \$ 10.19                | \$ 8.83              |

**See Notes to Condensed Consolidated Financial Statements.****AUTOZONE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

|                                                                                 | Twelve Weeks Ended  |                      | Twenty-Four Weeks Ended |                      |
|---------------------------------------------------------------------------------|---------------------|----------------------|-------------------------|----------------------|
|                                                                                 | February 9,<br>2013 | February 11,<br>2012 | February 9,<br>2013     | February 11,<br>2012 |
| <i>(in thousands)</i>                                                           |                     |                      |                         |                      |
| Net income                                                                      | \$ 176,247          | \$ 166,930           | \$ 379,698              | \$ 358,055           |
| Other comprehensive loss (income):                                              |                     |                      |                         |                      |
| Pension liability adjustments, net of taxes <sup>(1)</sup>                      | 2,038               | 3,378                | 3,473                   | 13,797               |
| Foreign currency translation adjustments                                        | 15,320              | 20,726               | 13,261                  | (3,261)              |
| Unrealized (gains) losses on marketable securities, net of taxes <sup>(2)</sup> | (67)                | 150                  | (57)                    | (111)                |
| Net derivative activities, net of taxes <sup>(3)</sup>                          | 263                 | 255                  | 428                     | 3,132                |

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|                                |            |            |            |            |
|--------------------------------|------------|------------|------------|------------|
| Total other comprehensive loss | 17,554     | 24,509     | 17,105     | 13,557     |
| Comprehensive income           | \$ 193,801 | \$ 191,439 | \$ 396,803 | \$ 371,612 |

- (1) Pension liability adjustments are presented net of taxes of \$1,295 in fiscal 2013 and \$1,117 in fiscal 2012 for the twelve weeks ended and \$3,193 in fiscal 2013 and \$9,276 in fiscal 2012 for the twenty-four weeks ended
- (2) Unrealized (gains) losses on marketable securities are presented net of taxes of \$36 in fiscal 2013 and \$81 in fiscal 2012 for the twelve weeks ended and \$31 in fiscal 2013 and \$60 in fiscal 2012 for the twenty-four weeks ended
- (3) Net derivative activities are presented net of taxes of \$155 in fiscal 2013 and \$150 in fiscal 2012 for the twelve weeks ended and \$258 in fiscal 2013 and \$2,320 in fiscal 2012 for the twenty-four weeks ended

**See Notes to Condensed Consolidated Financial Statements.**

**Table of Contents****AUTOZONE, INC.****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

|                                                                                   | <b>Twenty-Four Weeks Ended</b> |                              |
|-----------------------------------------------------------------------------------|--------------------------------|------------------------------|
|                                                                                   | <b>February 9,<br/>2013</b>    | <b>February 11,<br/>2012</b> |
| <i>(in thousands)</i>                                                             |                                |                              |
| Cash flows from operating activities:                                             |                                |                              |
| Net income                                                                        | \$ 379,698                     | \$ 358,055                   |
| Adjustments to reconcile net income to net cash provided by operating activities: |                                |                              |
| Depreciation and amortization                                                     | 103,044                        | 96,170                       |
| Amortization of debt origination fees                                             | 3,905                          | 3,573                        |
| Income tax benefit from exercise of stock options                                 | (33,706)                       | (21,793)                     |
| Deferred income taxes                                                             | (12,911)                       | 5,956                        |
| Share-based compensation expense                                                  | 16,616                         | 15,045                       |
| Changes in operating assets and liabilities:                                      |                                |                              |
| Accounts receivable                                                               | 4,369                          | (3,796)                      |
| Merchandise inventories                                                           | (123,177)                      | (113,450)                    |
| Accounts payable and accrued expenses                                             | 69,441                         | 49,095                       |
| Income taxes payable                                                              | 85,512                         | 58,511                       |
| Other, net                                                                        | 18,052                         | 13,848                       |
| Net cash provided by operating activities                                         | 510,843                        | 461,214                      |
| Cash flows from investing activities:                                             |                                |                              |
| Capital expenditures                                                              | (169,613)                      | (132,430)                    |
| Acquisition of business                                                           | (115,000)                      |                              |
| Purchase of marketable securities                                                 | (22,288)                       | (18,970)                     |
| Proceeds from sale of marketable securities                                       | 16,212                         | 16,403                       |
| Disposal of capital assets and other, net                                         | 908                            | 5,803                        |
| Net cash used in investing activities                                             | (289,781)                      | (129,194)                    |
| Cash flows from financing activities:                                             |                                |                              |
| Net proceeds from commercial paper                                                | 234,400                        | 117,200                      |
| Net payments of short-term borrowings                                             | (4,883)                        | (3,548)                      |
| Proceeds from issuance of debt                                                    | 300,000                        |                              |
| Repayment of debt                                                                 | (300,000)                      |                              |
| Net proceeds from sale of common stock                                            | 53,423                         | 33,050                       |
| Purchase of treasury stock                                                        | (502,348)                      | (482,270)                    |
| Income tax benefit from exercise of stock options                                 | 33,706                         | 21,793                       |
| Payments of capital lease obligations                                             | (14,728)                       | (12,485)                     |
| Other, net                                                                        | (8,637)                        |                              |
| Net cash used in financing activities                                             | (209,067)                      | (326,260)                    |
| Effect of exchange rate changes on cash                                           | 460                            | (159)                        |
| Net increase in cash and cash equivalents                                         | 12,455                         | 5,601                        |
| Cash and cash equivalents at beginning of period                                  | 103,093                        | 97,606                       |
| Cash and cash equivalents at end of period                                        | \$ 115,548                     | \$ 103,207                   |



**See Notes to Condensed Consolidated Financial Statements.**

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**AUTOZONE, INC.**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note A General**

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 of the Securities and Exchange Commission's (the "SEC") rules and regulations. 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. For further information, refer to the consolidated financial statements and related notes included in the AutoZone, Inc. ( "AutoZone" or the "Company" ) Annual Report on Form 10-K for the year ended August 25, 2012.

Operating results for the twelve and twenty-four weeks ended February 9, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2013. 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 2013 has 17 weeks and for fiscal 2012 had 16 weeks. Additionally, the Company's business is somewhat seasonal in nature, with the highest sales generally occurring during the months of February through September and the lowest sales generally occurring in the months of December and January.

**Recently Issued Accounting Pronouncements:** In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update ( "ASU" ) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. The Company does not expect the provision of ASU 2013-02 to have a material impact on its consolidated financial statements. This update will be effective for the Company at the beginning of its fiscal 2014 year.

**Note B Share-Based Payments**

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, restricted stock grants, restricted stock unit grants and the discount on shares sold to employees under share purchase plans. Additionally, directors' fees are paid in restricted stock units with value equivalent to the value of shares of common stock as of the grant date. The change in fair value of liability-based stock awards is also recognized in share-based compensation expense.

Total share-based compensation expense (a component of Operating, selling, general and administrative expenses) was \$8.5 million for the twelve week period ended February 9, 2013, and was \$7.5 million for the comparable prior year period. Share-based compensation expense was \$16.6 million for the twenty-four week period ended February 9, 2013, and was \$15.0 million for the comparable prior year period.

During the twenty-four week period ended February 9, 2013, 413,485 shares of stock options were exercised at a weighted average exercise price of \$129.00. In the comparable prior year period, 294,387 shares of stock options were exercised at a weighted average exercise price of \$113.18.

The Company made stock option grants of 355,560 shares during the twenty-four week period ended February 9, 2013, and granted options to purchase 377,130 shares during the comparable prior year period. The weighted average fair value of the stock option awards granted during the twenty-four week periods ended February 9, 2013, and February 11, 2012, using the Black-Scholes-Merton multiple-option pricing valuation model, was \$98.09 and \$93.42 per share, respectively, using the following weighted average key assumptions:

**Twenty-Four Weeks Ended**

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|                                            | February 9,<br>2013 | February 11,<br>2012 |
|--------------------------------------------|---------------------|----------------------|
| Expected price volatility                  | 29%                 | 31%                  |
| Risk-free interest rate                    | 0.5%                | 0.7%                 |
| Weighted average expected lives (in years) | 5.2                 | 5.3                  |
| Forfeiture rate                            | 10%                 | 10%                  |
| Dividend yield                             | 0%                  | 0%                   |

See AutoZone's Annual Report on Form 10-K for the year ended August 25, 2012, for a discussion regarding the methodology used in developing AutoZone's assumptions to determine the fair value of the option awards and a description of AutoZone's 2011 Equity Incentive Award Plan and the 2011 Director Compensation Program.

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For the twelve week period ended February 9, 2013, 375,980 stock options were excluded from the diluted earnings per share computation because they would have been anti-dilutive. For the comparable prior year period, 1,500 anti-dilutive shares were excluded from the dilutive earnings per share computation. There were 375,980 anti-dilutive shares excluded from the diluted earnings per share computation for the twenty-four week period ended February 9, 2013, and 1,500 anti-dilutive shares excluded for the comparable prior year period.

**Note C Fair Value Measurements**

The Company defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Company uses a hierarchy of valuation inputs to measure fair value.

The hierarchy prioritizes the inputs into three broad levels:

**Level 1 inputs** unadjusted quoted prices in active markets for identical assets or liabilities that the Company has the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occur with sufficient frequency and volume to provide ongoing pricing information.

**Level 2 inputs** inputs other than quoted market prices included in Level 1 that are observable, either directly or indirectly, for the asset or liability. Level 2 inputs include, but are not limited to, quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active and inputs other than quoted market prices that are observable for the asset or liability, such as interest rate curves and yield curves observable at commonly quoted intervals, volatilities, credit risk and default rates.

**Level 3 inputs** unobservable inputs for the asset or liability.

*Financial Assets & Liabilities Measured at Fair Value on a Recurring Basis*

The Company's assets and liabilities measured at fair value on a recurring basis were as follows:

| (in thousands)                   | February 9, 2013 |           |             |             |
|----------------------------------|------------------|-----------|-------------|-------------|
|                                  | Level 1          | Level 2   | Level 3     | Fair Value  |
| Short-term marketable securities | \$ 15,028        | \$        | \$          | \$ 15,028   |
| Long-term marketable securities  | 50,395           | 16,780    |             | 67,175      |
|                                  | \$ 65,423        | \$ 16,780 | \$          | \$ 82,203   |
| Contingent consideration         | \$               | \$        | \$ (23,005) | \$ (23,005) |

  

| (in thousands)                   | August 25, 2012 |            |         |            |
|----------------------------------|-----------------|------------|---------|------------|
|                                  | Level 1         | Level 2    | Level 3 | Fair Value |
| Short-term marketable securities | \$ 22,515       | \$         | \$      | \$ 22,515  |
| Long-term marketable securities  | 40,424          | 13,275     |         | 53,699     |
|                                  | \$ 62,939       | \$ 13,275  | \$      | \$ 76,214  |
| Derivative instruments           | \$              | \$ (4,915) | \$      | \$ (4,915) |

At February 9, 2013, the fair value measurement amounts for assets and liabilities recorded in the accompanying Condensed Consolidated Balance Sheet consisted of short-term marketable securities of \$15.0 million, which are included within Other current assets, and long-term marketable securities of \$67.2 million, which are included in Other long-term assets. The Company's marketable securities are typically valued at the closing price in the principal active market as of the last business day of the quarter or through the use of other market inputs relating to the securities, including benchmark yields and reported trades. The fair values of the marketable securities, by asset class, are described in Note D Marketable Securities.

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Effective December 19, 2012, the Company acquired certain assets and liabilities of AutoAnything, an online retailer of specialized automotive products for up to \$150 million, including an initial cash payment of \$115 million, a \$5 million holdback payment for working capital true-ups, and contingent payments totaling up to \$30 million. The contingent consideration is based on the performance of AutoAnything, and is not subject to continued employment by the selling stockholders. Based on specific operating income targets for each year, the sellers can receive up to \$10 million in the first year, and up to \$30 million in the second year, with contingent consideration not exceeding \$30 million in the aggregate. As these performance-based contingent consideration payments are not subject to continued employment by the selling stockholders, the estimated fair value of the performance-based contingent consideration of \$22.7 million was included as part of the purchase price allocation at the time of acquisition. The Company determined the fair value of the contingent consideration based on a probability-weighted discounted cash flow analysis. The fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in the fair value hierarchy. In each period, the Company reassesses its current estimates of performance relative to the stated targets and adjusts the liability to fair value. As of February 9, 2013, the contingent liability is reflected as a current liability of \$7.6 million in Accrued expenses and other and a non-current liability of \$15.4 million in Other long-term liabilities in the accompanying Condensed Consolidated Balance Sheet. A discussion of the acquisition is included in Note K Acquisition .

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The change in the contingent consideration liability, which is a Level 3 liability measured at fair value on a recurring basis, is summarized as follows:

| <i>(in thousands)</i>                                           | <b>Twelve<br/>Weeks<br/>Ended<br/>February 9,<br/>2013</b> | <b>Twenty-Four<br/>Weeks Ended<br/>February 9,<br/>2013</b> |
|-----------------------------------------------------------------|------------------------------------------------------------|-------------------------------------------------------------|
| Fair value beginning of period                                  | \$                                                         | \$                                                          |
| Fair value of contingent consideration issued during the period | (22,678)                                                   | (22,678)                                                    |
| Change in fair value                                            | (327)                                                      | (327)                                                       |
| Fair value end of period                                        | \$ (23,005)                                                | \$ (23,005)                                                 |

*Non-Financial Assets measured at Fair Value on a Non-Recurring Basis*

Non-financial assets could be required to be measured at fair value on a non-recurring basis in certain circumstances, including the event of impairment. The assets could include assets acquired in an acquisition as well as property, plant and equipment that are determined to be impaired. During the twenty-four week periods ended February 9, 2013 and February 11, 2012, the Company did not have any significant non-financial assets measured at fair value on a non-recurring basis in periods subsequent to initial recognition.

*Financial Instruments not Recognized at Fair Value*

The Company has financial instruments, including cash and cash equivalents, accounts receivable, other current assets and accounts payable. The carrying amounts of these financial instruments approximate fair value because of their short maturities. A discussion of the carrying values and fair values of the Company's debt is included in Note H Financing.

**Note D Marketable Securities**

The Company's basis for determining the cost of a security sold is the Specific Identification Model. Unrealized gains (losses) on marketable securities are recorded in Accumulated other comprehensive loss. The Company's available-for-sale marketable securities consisted of the following:

| <i>(in thousands)</i>             | <b>Amortized<br/>Cost<br/>Basis</b> | <b>February 9, 2013</b>               |                                        | <b>Fair Value</b> |
|-----------------------------------|-------------------------------------|---------------------------------------|----------------------------------------|-------------------|
|                                   |                                     | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |                   |
| Corporate securities              | \$ 29,624                           | \$ 290                                | \$ (3)                                 | \$ 29,911         |
| Government bonds                  | 21,575                              | 58                                    | (1)                                    | 21,632            |
| Mortgage-backed securities        | 8,453                               | 23                                    | (33)                                   | 8,443             |
| Asset-backed securities and other | 22,097                              | 120                                   |                                        | 22,217            |
|                                   | \$ 81,749                           | \$ 491                                | \$ (37)                                | \$ 82,203         |

| <i>(in thousands)</i> | <b>Amortized<br/>Cost<br/>Basis</b> | <b>August 25, 2012</b>                |                                        | <b>Fair Value</b> |
|-----------------------|-------------------------------------|---------------------------------------|----------------------------------------|-------------------|
|                       |                                     | <b>Gross<br/>Unrealized<br/>Gains</b> | <b>Gross<br/>Unrealized<br/>Losses</b> |                   |
| Corporate securities  | \$ 26,215                           | \$ 307                                | \$                                     | \$ 26,522         |

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|                                   |           |        |         |           |
|-----------------------------------|-----------|--------|---------|-----------|
| Government bonds                  | 20,790    | 117    | (1)     | 20,906    |
| Mortgage-backed securities        | 4,369     | 17     | (19)    | 4,367     |
| Asset-backed securities and other | 24,299    | 120    |         | 24,419    |
|                                   | \$ 75,673 | \$ 561 | \$ (20) | \$ 76,214 |

The debt securities held at February 9, 2013, had effective maturities ranging from less than one year to approximately 3 years. The Company did not realize any material gains or losses on its marketable securities during the twenty-four week period ended February 9, 2013.

The Company holds twelve securities that are in an unrealized loss position of approximately \$37 thousand at February 9, 2013. The Company has the intent and ability to hold these investments until recovery of fair value or maturity, and does not deem the investments to be impaired on an other than temporary basis. In evaluating whether the securities are deemed to be impaired on an other than temporary basis, the Company considers factors such as the duration and severity of the loss position, the credit worthiness of the investee, the term to maturity and the intent and ability to hold the investments until maturity or until recovery of fair value.

**Table of Contents****Note E Derivative Financial Instruments**

During the fourth quarter of fiscal 2012, the Company entered into two treasury rate locks, each with a notional amount of \$100 million. These agreements were cash flow hedges used to hedge the exposure to variability in future cash flows resulting from changes in variable interest rates related to the \$300 million Senior Note debt issuance in November 2012. The fixed rates of the hedges were 2.07% and 1.92% and were benchmarked based on the 10-year U.S. treasury notes. These locks expired on November 1, 2012 and resulted in a loss of \$5.1 million, which has been deferred in Accumulated other comprehensive loss and will be reclassified to Interest expense over the life of the underlying debt. The hedges remained highly effective until they expired, and no ineffectiveness was recognized in earnings.

During the third quarter of fiscal 2012, the Company entered into two treasury rate locks. These agreements were designated as cash flow hedges and were used to hedge the exposure to variability in future cash flows resulting from changes in variable interest rates related to the \$500 million Senior Note debt issuance in April 2012. The treasury rate locks had notional amounts of \$300 million and \$100 million with associated fixed rates of 2.09% and 2.07% respectively. The locks were benchmarked based on the 10-year U.S. treasury notes. These locks expired on April 20, 2012 and resulted in a loss of \$2.8 million, which has been deferred in Accumulated other comprehensive loss and will be reclassified to Interest expense over the life of the underlying debt. The hedges remained highly effective until they expired, and no ineffectiveness was recognized in earnings.

At February 9, 2013, the Company had \$12.2 million recorded in Accumulated other comprehensive loss related to realized losses associated with terminated interest rate swap and treasury rate lock derivatives which were designated as hedging instruments. Net losses are amortized into Interest expense over the remaining life of the associated debt. During the twenty-four week period ended February 9, 2013, the Company reclassified \$831 thousand of net losses from Accumulated other comprehensive loss to Interest expense. In the comparable prior year period, the Company reclassified \$813 thousand of net losses from Accumulated other comprehensive loss to Interest expense. The Company expects to reclassify \$545 thousand of net losses from Accumulated other comprehensive loss to Interest expense over the next 12 months.

**Note F Merchandise Inventories**

Inventories are stated at the lower of cost or market using the last-in, first-out ( LIFO ) method for domestic inventories and the first-in, first-out ( FIFO ) method for Mexico inventories. Included in inventories are related purchasing, storage and handling costs. Due to price deflation on the Company's merchandise purchases, the Company's domestic inventory balances are effectively maintained under the FIFO method. The Company's policy is not to write up inventory in excess of replacement cost. The cumulative balance of this unrecorded adjustment, which will be reduced upon experiencing price inflation on the Company's merchandise purchases, was \$280.7 million at February 9, 2013, and \$270.4 million at August 25, 2012.

**Note G Pension and Savings Plans**

The components of net periodic pension expense related to the Company's pension plans consisted of the following:

|                                | Twelve Weeks Ended |          | Twenty-Four Weeks Ended |          |
|--------------------------------|--------------------|----------|-------------------------|----------|
|                                | February           | February | February                | February |
|                                | 9,                 | 11,      | 9,                      | 11,      |
| (in thousands)                 | 2013               | 2012     | 2013                    | 2012     |
| Interest cost                  | \$ 2,659           | \$ 2,819 | \$ 5,318                | \$ 5,637 |
| Expected return on plan assets | (3,083)            | (2,704)  | (6,166)                 | (5,408)  |
| Amortization of net loss       | 3,333              | 2,260    | 6,666                   | 4,521    |
| Net periodic pension expense   | \$ 2,909           | \$ 2,375 | \$ 5,818                | \$ 4,750 |

The Company makes contributions in amounts at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974, as amended by the Pension Protection Act of 2006. During the twenty-four week period ended February 9, 2013, the Company made contributions to its funded plan in the amount of \$4.1 million. The Company expects to contribute approximately \$13.7 million to the plan during the remainder of fiscal 2013; however, a change to the expected cash funding may be impacted by a change in interest rates or a change in the actual or expected return on plan assets.





**Table of Contents****Note H Financing**

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

| <i>(in thousands)</i>                                                                                                     | <b>February 9,<br/>2013</b> | <b>August 25,<br/>2012</b> |
|---------------------------------------------------------------------------------------------------------------------------|-----------------------------|----------------------------|
| 5.875% Senior Notes due October 2012, effective interest rate of 6.33%                                                    | \$ 300,000                  | \$ 300,000                 |
| 4.375% Senior Notes due June 2013, effective interest rate of 5.65%                                                       | 200,000                     | 200,000                    |
| 6.500% Senior Notes due January 2014, effective interest rate of 6.63%                                                    | 500,000                     | 500,000                    |
| 5.750% Senior Notes due January 2015, effective interest rate of 5.89%                                                    | 500,000                     | 500,000                    |
| 5.500% Senior Notes due November 2015, effective interest rate of 4.86%                                                   | 300,000                     | 300,000                    |
| 6.950% Senior Notes due June 2016, effective interest rate of 7.09%                                                       | 200,000                     | 200,000                    |
| 7.125% Senior Notes due August 2018, effective interest rate of 7.28%                                                     | 250,000                     | 250,000                    |
| 4.000% Senior Notes due November 2020, effective interest rate of 4.43%                                                   | 500,000                     | 500,000                    |
| 3.700% Senior Notes due April 2022, effective interest rate of 3.85%                                                      | 500,000                     | 500,000                    |
| 2.875% Senior Notes due January 2023, effective interest rate of 3.21%                                                    | 300,000                     |                            |
| Commercial paper, weighted average interest rate of 0.38% and 0.42% at February 9, 2013 and August 25, 2012, respectively | 747,806                     | 513,402                    |
| Unsecured, peso denominated borrowings, weighted average interest rate of 4.57% at August 25, 2012                        |                             | 4,781                      |
| <b>Total debt</b>                                                                                                         | <b>3,997,806</b>            | <b>3,768,183</b>           |
| <b>Less: Short-term borrowings</b>                                                                                        | <b>(484,533)</b>            | <b>(49,881)</b>            |
| <b>Long-term debt</b>                                                                                                     | <b>\$ 3,513,273</b>         | <b>\$ 3,718,302</b>        |

As of February 9, 2013, \$263.3 million of the commercial paper borrowings, the 4.375% Senior Notes due June 2013, and the 6.500% Senior Notes due January 2014, mature in the next twelve months, but 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. Specifically, excluding the effect of commercial paper borrowings, the Company had \$996.3 million of availability under its \$1.0 billion revolving credit facility, expiring in September 2016, which would allow it to replace these short-term obligations with long-term financing.

As of February 9, 2013, the Company had \$484.5 million of short-term borrowings that are scheduled to mature in the next twelve months. At August 25, 2012, the Company had \$49.9 million of short-term borrowings that included \$45.1 million of commercial paper borrowings and \$4.8 million of unsecured, peso denominated borrowings.

On November 13, 2012, the Company issued \$300 million in 2.875% Senior Notes due January 2023 under its shelf registration statement filed with the SEC on April 17, 2012 (the "Shelf Registration"). The Shelf Registration allows us to sell an indeterminate amount in debt securities to fund general corporate purposes, including repaying, redeeming or repurchasing outstanding debt and for working capital, capital expenditures, new store openings, stock repurchases and acquisitions. Proceeds from the debt issuance on November 13, 2012, were used to repay a portion of the outstanding commercial paper borrowings, and for general corporate purposes.

In September 2011, the Company amended and restated its revolving credit facility, increasing the capacity under the revolving credit facility to \$1.0 billion. This credit facility is available to primarily support commercial paper borrowings, letters of credit and other short-term unsecured bank loans. The capacity of the credit facility may be increased to \$1.250 billion prior to the maturity date at the Company's election and subject to bank credit capacity and approval, may include up to \$200 million in letters of credit, and may include up to \$175 million in capital leases each fiscal year. Under the revolving credit facility, the Company may borrow funds consisting of Eurodollar loans or base rate loans. Interest accrues on Eurodollar loans at a defined Eurodollar rate, defined as LIBOR plus the applicable percentage, as defined in the revolving credit facility, depending upon the Company's senior, unsecured, (non-credit enhanced) long-term debt rating. Interest accrues on base rate loans as defined in the credit facility. The Company also has the option to borrow funds under the terms of a swingline loan subfacility. The revolving credit facility expires in September 2016.

The fair value of the Company's debt was estimated at \$4.242 billion as of February 9, 2013, and \$4.055 billion as of August 25, 2012, based on the quoted market prices for the same or similar issues or on the current rates available to the Company for debt of the same terms (Level 2).

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Such fair value is greater than the carrying value of debt by \$244.4 million at February 9, 2013, and \$286.6 million at August 25, 2012.

### **Note I Stock Repurchase Program**

From January 1, 1998 to February 9, 2013, the Company has repurchased a total of 132.5 million shares at an aggregate cost of \$12.0 billion, including 1,367,832 shares of its common stock at an aggregate cost of \$502.3 million during the twenty-four week period ended February 9, 2013. On September 28, 2012, the Board voted to increase the authorization by \$750 million to raise the cumulative share repurchase authorization from \$11.90 billion to \$12.65 billion. Considering the cumulative repurchases as of February 9, 2013, the Company had \$603.4 million remaining under the Board's authorization to repurchase its common stock. The Company did not repurchase shares of its common stock subsequent to February 9, 2013.

During the twenty-four week period ended February 9, 2013, the Company retired 3.9 million shares of treasury stock which had previously been repurchased under the Company's share repurchase program. The retirement increased Retained deficit by \$1,362.2 million and decreased Additional paid-in capital by \$75.7 million. During the comparable prior year period, the Company retired 4.9 million shares of treasury stock, which increased Retained deficit by \$1,319.6 million and decreased Additional paid-in capital by \$72.5 million.

**Table of Contents****Note J Accumulated Other Comprehensive Loss**

Accumulated other comprehensive loss includes certain adjustments to pension liabilities, foreign currency translation adjustments, certain activity for interest rate swaps and treasury rate locks that qualify as cash flow hedges and unrealized gains (losses) on available-for-sale securities. Changes in Accumulated other comprehensive loss consisted of the following:

| <i>(in thousands)</i>             | <b>Pension<br/>Liability</b> | <b>Foreign<br/>Currency<br/>(1)</b> | <b>Net<br/>Unrealized<br/>Gain on<br/>Securities</b> | <b>Derivatives</b> | <b>Total</b> |
|-----------------------------------|------------------------------|-------------------------------------|------------------------------------------------------|--------------------|--------------|
| Balance at August 25, 2012        | \$ (93,967)                  | \$ (50,267)                         | \$ 351                                               | \$ (8,130)         | \$ (152,013) |
| Other comprehensive loss (income) | 3,473                        | 13,261                              | (57)                                                 | 428                | 17,105       |
| Balance at February 9, 2013       | \$ (90,494)                  | \$ (37,006)                         | \$ 294                                               | \$ (7,702)         | \$ (134,908) |

(1) Foreign currency is not shown net of tax as earnings of non-U.S. subsidiaries are intended to be permanently reinvested.

**Note K Acquisition**

Effective December 19, 2012, the Company acquired certain assets and liabilities of AutoAnything, an online retailer of specialized automotive products for up to \$150 million, including an initial cash payment of \$115 million, a \$5 million holdback payment for working capital true-ups, and contingent payments not to exceed \$30 million. With this acquisition, the Company expects to bolster its online presence in the high-end, automotive accessory and performance markets. The results of operations from AutoAnything have been included in the Company's Other business activities since the date of acquisition. Pro forma results of operations related to the acquisition of AutoAnything are not presented as AutoAnything's results are not material to the Company's condensed consolidated statements of operations. The purchase price allocation resulted in goodwill of \$83.3 million and intangible assets totaling \$58.8 million. Goodwill generated from the acquisition is tax deductible and is primarily attributable to expected synergies and the assembled workforce. The contingent consideration is based on the achievement of certain performance metrics through calendar year 2014 with any earned payments due during the first calendar quarter of 2014 and 2015. The fair value of the contingent consideration as of the acquisition date was \$22.7 million.

**Note L Goodwill and Intangibles**

The changes in the carrying amount of goodwill are as follows:

| <i>(in thousands)</i>                             | <b>Auto<br/>Parts<br/>Stores</b> | <b>Other</b> | <b>Total</b> |
|---------------------------------------------------|----------------------------------|--------------|--------------|
| Net balance as of August 26, 2012                 | \$ 302,645                       | \$           | \$ 302,645   |
| Goodwill added through acquisition <sup>(1)</sup> |                                  | 83,340       | 83,340       |
| Goodwill adjustments                              |                                  |              |              |
| Net balance as of February 9, 2013                | \$ 302,645                       | \$ 83,340    | \$ 385,985   |

(1) See Note K for discussion of the acquisition completed during the twenty-four weeks ended February 9, 2013

The carrying amounts of intangible assets, which are included in Other long-term assets, are as follows:

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| <i>(in thousands)</i>  | <b>Estimated<br/>Useful Life</b> | <b>February 9, 2013</b>          |                                     | <b>Net Carrying<br/>Amount</b> |
|------------------------|----------------------------------|----------------------------------|-------------------------------------|--------------------------------|
|                        |                                  | <b>Gross Carrying<br/>Amount</b> | <b>Accumulated<br/>Amortization</b> |                                |
| Technology             | 5 years                          | \$ 9,800                         | \$ (285)                            | \$ 9,515                       |
| Noncompete agreement   | 5 years                          | 1,300                            | (38)                                | 1,262                          |
| Customer relationships | 10 years                         | 19,000                           | (277)                               | 18,723                         |
| Tradename              | Indefinite                       | 28,700                           |                                     | 28,700                         |
|                        |                                  | \$ 58,800                        | \$ (600)                            | \$ 58,200                      |

Amortization expense of intangible assets for the twelve and twenty-four weeks ended February 9, 2013, was \$0.6 million.

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Total future amortization expense for intangible assets that have finite lives, based on the existing intangible assets and their current estimated useful lives as of February 9, 2013, is estimated as follows:

| <i>(in thousands)</i> | <b>Total</b>     |
|-----------------------|------------------|
| Remainder of 2013     | \$ 2,298         |
| 2014                  | 4,120            |
| 2015                  | 4,120            |
| 2016                  | 4,120            |
| 2017                  | 4,120            |
| Thereafter            | 10,722           |
|                       | <b>\$ 29,500</b> |

**Note M Litigation**

In 2004, the Company acquired a store site in Mount Ephraim, New Jersey that had previously been the site of a gasoline service station and contained evidence of groundwater contamination. Upon acquisition, the Company voluntarily reported the groundwater contamination issue to the New Jersey Department of Environmental Protection and entered into a Voluntary Remediation Agreement providing for the remediation of the contamination associated with the property. The Company has conducted and paid for (at an immaterial cost to the Company) remediation of contamination on the property. The Company is also investigating, and will be addressing, potential vapor intrusion impacts in downgradient residences and businesses. The New Jersey Department of Environmental Protection has asserted, in a Directive and Notice to Insurers dated February 19, 2013 ( Directive ), that the Company is liable for the downgradient impacts under a joint and severable liability theory, and the Company intends to contest these assertions due to the existence of other entities/sources of contamination, some of which are also named in the Directive, in the area of the property. Pursuant to the Voluntary Remediation Agreement, upon completion of all remediation required by the agreement, the Company believes it should be eligible to be reimbursed up to 75 percent of qualified remediation costs by the State of New Jersey. The Company has asked the state for clarification that the agreement applies to off-site work, and the state is considering the request. Although the aggregate amount of additional costs that the Company may incur pursuant to the remediation cannot currently be ascertained, the Company does not currently believe that fulfillment of its obligations under the agreement or otherwise will result in costs that are material to its financial condition, results of operations or cash flow.

The Company is involved in various other legal proceedings incidental to the conduct of its business, including several lawsuits containing class-action allegations in which the plaintiffs are current and former hourly and salaried employees who allege various wage and hour violations and unlawful termination practices. The Company does not currently believe that, either individually or in the aggregate, these matters will result in liabilities material to the Company's financial condition, results of operations or cash flows.

**Note N Segment Reporting**

Three of the Company's operating segments (Domestic Auto Parts, Mexico, and Brazil) are aggregated as one reportable segment: Auto Parts Stores. The criteria the Company used to identify the reportable segment are primarily the nature of the products the Company sells and the operating results that are regularly reviewed by the Company's chief operating decision maker to make decisions about the resources to be allocated to the business units and to assess performance. The accounting policies of the Company's reportable segment are the same as those described in Note A in its Annual Report on Form 10-K for the year ended August 25, 2012.

The Auto Parts Stores segment is a retailer and distributor of automotive parts and accessories through the Company's 5,070 stores in the United States, Puerto Rico, Mexico, and Brazil. Each store carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products.

The Other category reflects business activities of three operating segments that are not separately reportable due to the materiality of these operating segments, including ALLDATA, which produces, sells and maintains diagnostic and repair information software used in the automotive repair industry, E-commerce, which includes direct sales to customers through [www.autozone.com](http://www.autozone.com), and AutoAnything, which includes direct sales to customers through [www.autoanything.com](http://www.autoanything.com).



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The Company evaluates its reportable segment primarily on the basis of net sales and segment profit, which is defined as gross profit. Segment results for the periods presented were as follows:

|                                                         | Twelve Weeks Ended |              | Twenty-Four Weeks Ended |              |
|---------------------------------------------------------|--------------------|--------------|-------------------------|--------------|
|                                                         | February 9,        | February 11, | February 9,             | February 11, |
| (in thousands)                                          | 2013               | 2012         | 2013                    | 2012         |
| <b>Net Sales</b>                                        |                    |              |                         |              |
| Auto Parts Stores                                       | \$ 1,796,280       | \$ 1,762,903 | \$ 3,745,003            | \$ 3,647,041 |
| Other                                                   | 58,918             | 41,166       | 101,235                 | 81,370       |
| Total                                                   | \$ 1,855,198       | \$ 1,804,069 | \$ 3,846,238            | \$ 3,728,411 |
| <b>Segment Profit</b>                                   |                    |              |                         |              |
| Auto Parts Stores                                       | \$ 924,704         | \$ 894,493   | \$ 1,924,039            | \$ 1,846,850 |
| Other                                                   | 37,277             | 31,722       | 69,808                  | 62,992       |
| Gross profit                                            | 961,981            | 926,215      | 1,993,847               | 1,909,842    |
| Operating, selling, general and administrative expenses | (644,410)          | (625,564)    | (1,312,999)             | (1,268,257)  |
| Interest expense, net                                   | (41,323)           | (38,923)     | (82,428)                | (78,017)     |
| Income before income taxes                              | \$ 276,248         | \$ 261,728   | \$ 598,420              | \$ 563,568   |



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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 February 9, 2013, the related condensed consolidated statements of income for the twelve and twenty-four week periods ended February 9, 2013 and February 11, 2012, the condensed consolidated statements of comprehensive income for the twelve and twenty-four week periods ended February 9, 2013 and February 11, 2012, and the condensed consolidated statements of cash flows for the twenty-four week periods ended February 9, 2013 and February 11, 2012. 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, 2012, and the related consolidated statements of income, comprehensive income, stockholders' deficit, and cash flows for the year then ended, not presented herein, and, in our report dated October 22, 2012, 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, 2012, 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

March 7, 2013

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### **Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations. Overview**

We are the nation's leading retailer, and a leading distributor, of automotive replacement parts and accessories in the United States. We began operations in 1979 and at February 9, 2013, operated 4,735 stores in the United States, including Puerto Rico; 334 in Mexico; and one in Brazil. Each of our stores carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products. At February 9, 2013, in 3,146 of our domestic stores, we also have a commercial sales program that provides commercial credit and prompt delivery of parts and other products to local, regional and national repair garages, dealers, service stations and public sector accounts. We have commercial programs in select stores in Mexico as well. We also sell the ALLDATA brand automotive diagnostic and repair software through [www.alldata.com](http://www.alldata.com) and [www.alldatadiy.com](http://www.alldatadiy.com). Additionally, we sell automotive hard parts, maintenance items, accessories, and non-automotive products through [www.autozone.com](http://www.autozone.com) and [www.autoanything.com](http://www.autoanything.com), and our commercial customers can make purchases through [www.autozonepro.com](http://www.autozonepro.com). We do not derive revenue from automotive repair or installation services.

Operating results for the twelve and twenty-four weeks ended February 9, 2013, are not necessarily indicative of the results that may be expected for the fiscal year ending August 31, 2013. Each of the first three quarters of our fiscal year consists of 12 weeks, and the fourth quarter consists of 16 or 17 weeks. The fourth quarter for fiscal 2012 had 16 weeks and for fiscal 2013 has 17 weeks. Our business is somewhat seasonal in nature, with the highest sales generally occurring during the months of February through September and the lowest sales generally occurring in the months of December and January.

### **Executive Summary**

Net sales were up 2.8% for the quarter, driven by new store growth and increased number of commercial programs, partially offset by the domestic same store sales decrease of 1.8%. Earnings per share increased 15.1% for the quarter.

Over the past several years, various factors have occurred within the economy that affect both our consumer and our industry, including the impact of the recession, continued high unemployment and other challenging economic conditions. Although we have seen a recent increase in new vehicle sales, we believe our consumers' cash flows continue to decrease due to these factors. Given the nature of these macroeconomic factors, we cannot predict whether or for how long these trends will continue, nor can we predict to what degree these trends will impact us in the future.

We believe other macroeconomic factors have adversely impacted both our consumer and our industry. During the second quarter of fiscal 2013, the price per gallon of unleaded gasoline in the United States began the quarter at \$3.43 per gallon and ended the quarter at \$3.61 per gallon, an \$0.18 increase. During the comparable prior year period, gas prices increased by \$0.15 per gallon during the second quarter, beginning at \$3.37 per gallon and ending at \$3.52 per gallon. With gas prices remaining at these overall higher levels, we continue to believe gas prices have an impact on our customers' abilities to maintain their vehicles, allowing us to communicate through our marketing messages the steps needed to improve their gas mileage. Given the unpredictability of gas prices, we cannot predict whether gas prices will increase or decrease, nor can we predict how any future changes in gas prices will impact our sales in future periods.

Additional key macroeconomic factors facing our customers during the second quarter of fiscal 2013 were the delayed processing of income tax refunds and the reinstitution of payroll taxes back to historic levels. We believe a factor that impacted sales during the second quarter of fiscal 2013 was the delay in the processing of income tax refunds. Historically, our sales have increased in the last two weeks of our fiscal second quarter. Conversely, domestic same store sales decreased 8% in the last two weeks of the second quarter of fiscal 2013. We expect a similar amount of dollars in total will be refunded this year as compared to last year and that we will see more normalized sales volumes during the third quarter. The reduction in our customers' take home pay as a result of the recent increase in payroll taxes was effective at the beginning of the 2013 calendar year and, at this point, we cannot predict the impact this change will have on our sales in future periods.

Our primary responses to fluctuations in the demand for the products we sell are to adjust our inventory levels, store staffing, and advertising level and messages. We continue to believe we are well positioned to help our customers save money and meet their needs in a challenging macro environment.

Historically, the two statistics that we believed had the closest correlation to our market growth over the long-term were miles driven and the number of seven year old or older vehicles on the road. While over the long-term, we have seen a close correlation between our net sales and the number of miles driven, we have also seen certain time frames of minimal correlation in sales performance and miles driven. During the periods of minimal correlation between net sales and miles driven, we believe net sales have been positively impacted by other factors, including the number of seven year old or older vehicles on the road. From January 2012 through November 2012, miles driven have increased by 0.6% over

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last year. The average age of the U.S. light vehicle fleet continues to trend in our industry's favor. We believe that annual miles driven will improve to a low single digit growth rate over time and that the number of seven year old or older vehicles will continue to increase; however, we are unable to predict the impact, if any, these indicators will have on future results.

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During the second quarter of fiscal 2013, failure and maintenance related categories represented the largest portion of our sales mix, at approximately 84% of total sales, with failure related categories continuing to be our strongest performers. While we have not experienced any fundamental shifts in our category sales mix as compared to previous years, we did experience a slight decline in mix of sales of the maintenance category. We believe the slowdown in maintenance related products continues to be largely due to weather related impacts in various regions of the U.S. Because of the unusually mild winter last year across parts of the U.S., we saw a reduced benefit from sales of maintenance related products compared to the prior fiscal year. We believe that we will see improvement in sales once we annualize the effects of the mild winter, however, we remain focused on refining and expanding our product assortment to ensure that we have the best merchandise at the right price in each of our categories.

Effective December 2012, we acquired certain assets and liabilities of AutoAnything, an online retailer of specialized automotive products for up to \$150 million, including an initial cash payment of \$115 million, a \$5 million holdback payment for working capital true-ups, and contingent payments not to exceed \$30 million. With this acquisition, we expect to bolster our online presence in the high-end, automotive accessory and performance markets. The results of operations from AutoAnything have been included in our Other business activities since the date of acquisition. The purchase price allocation resulted in goodwill of \$83.3 million and intangible assets totaling \$58.8 million. Goodwill generated from the acquisition is tax deductible and is primarily attributable to expected synergies and the assembled workforce. The contingent consideration is based on the achievement of certain performance metrics through calendar year 2014 with any earned payments due during the first calendar quarter of 2014 and 2015. The fair value of the contingent consideration as of the acquisition date was \$22.7 million.

### **Twelve Weeks Ended February 9, 2013,**

#### **Compared with Twelve Weeks Ended February 11, 2012**

Net sales for the twelve weeks ended February 9, 2013, increased \$51.1 million to \$1.855 billion, or 2.8%, over net sales of \$1.804 billion for the comparable prior year period. Total auto parts sales increased by 1.9%, primarily driven by net sales of \$49.1 million from new stores and increased number of commercial programs, partially offset by domestic same store sales decrease of 1.8%.

Gross profit for the twelve weeks ended February 9, 2013, was \$962.0 million, or 51.9% of net sales, compared with \$926.2 million, or 51.3% of net sales, during the comparable prior year period. The improvement in gross margin was primarily driven by lower acquisition costs.

Operating, selling, general and administrative expenses for the twelve weeks ended February 9, 2013, were \$644.4 million, or 34.7% of net sales, compared with \$625.6 million, or 34.7% of net sales, during the comparable prior year period. Operating expenses, as a percentage of sales, increased slightly due to the lower sales growth rates, partially offset by lower incentive compensation (47 basis points).

Net interest expense for the twelve weeks ended February 9, 2013, was \$41.3 million compared with \$38.9 million during the comparable prior year period. The increase was primarily due to an increase in debt, partially offset by a decrease in borrowing rates over the comparable prior year period. Average borrowings for the twelve weeks ended February 9, 2013, were \$3.948 billion, compared with \$3.428 billion for the comparable prior year period. Weighted average borrowing rates were 4.3% for the twelve weeks ended February 9, 2013, and 4.7% for the twelve weeks ended February 11, 2012.

Our effective income tax rate was 36.2% of pretax income for the twelve weeks ended February 9, 2013 and for the comparable prior year period.

Net income for the twelve week period ended February 9, 2013, increased by \$9.3 million to \$176.2 million, and diluted earnings per share increased by 15.1% to \$4.78 from \$4.15 in the comparable prior year period. The impact on current quarter diluted earnings per share from stock repurchases since the end of the comparable prior year period was an increase of \$0.39.

### **Twenty-Four Weeks Ended February 9, 2013,**

#### **Compared with Twenty-Four Weeks Ended February 11, 2012**

Net sales for the twenty-four weeks ended February 9, 2013, increased \$117.8 million to \$3.846 billion, or 3.2%, over net sales of \$3.728 billion for the comparable prior year period. Total auto parts sales increased by 2.7%, primarily driven by net sales of \$98.9 million from new stores, increased number of commercial programs, partially offset by a domestic same store sales (sales for stores open at least one year) decrease of 0.7%.

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Gross profit for the twenty-four weeks ended February 9, 2013, was \$1.994 billion, or 51.8% of net sales, compared with \$1.910 billion, or 51.2% of net sales, during the comparable prior year period. The improvement in gross margin was due to favorable merchandise margins (50 basis points) primarily driven by lower acquisition costs and lower shrink expense (11 basis points).

Operating, selling, general and administrative expenses for the twenty-four weeks ended February 9, 2013, were \$1.313 billion, or 34.1% of net sales, compared with \$1.268 billion, or 34.0% of net sales, during the comparable prior year period. Operating expenses, as a percentage of sales, increased due to the lower sales growth rates, partially offset by lower incentive compensation (31 basis points).

Net interest expense for the twenty-four weeks ended February 9, 2013, was \$82.4 million compared with \$78.0 million during the comparable prior year period. The increase was primarily due to an increase in debt, partially offset by a decrease in borrowing rates over the comparable prior year period. Average borrowings for the twenty-four weeks ended February 9, 2013, were \$3.845 billion, compared with \$3.357 billion for the comparable prior year period. Weighted average borrowing rates were 4.4% for the twenty-four weeks ended February 9, 2013, and 4.8% for the twenty-four weeks ended February 11, 2012.

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Our effective income tax rate was 36.5% of pretax income for the twenty-four weeks ended February 9, 2013 and for the comparable prior year period.

Net income for the twenty-four week period ended February 9, 2013, increased by \$21.6 million to \$379.7 million, and diluted earnings per share increased by 15.5% to \$10.19 from \$8.83 in the comparable prior year period. The impact on year to date diluted earnings per share from stock repurchases since the end of the comparable prior year period was an increase of \$0.75.

### **Liquidity and Capital Resources**

The primary source of our liquidity is our cash flows realized through the sale of automotive parts, products and accessories. For the twenty-four weeks ended February 9, 2013, our net cash flows from operating activities provided \$510.8 million as compared with \$461.2 million provided during the comparable prior year period. The increase is primarily due to the timing of tax payments, increased net income, and the change in inventories, net of payables.

Our net cash flows from investing activities for the twenty-four weeks ended February 9, 2013, used \$289.8 million as compared with \$129.2 million used in the comparable prior year period. Capital expenditures for the twenty-four weeks ended February 9, 2013, were \$169.6 million compared to \$132.4 million for the comparable prior year period. The increase is primarily driven by an increase in the number of purchased stores as compared to leased stores, the timing of new store openings, and spend for future store openings. During the twenty-four week period ended February 9, 2013, we opened 64 net new stores. In the comparable prior year period, we opened 54 net new stores. Cash flows used in the acquisition of AutoAnything were \$115 million during the twenty-four week period ended February 9, 2013. Investing cash flows were also impacted by our wholly owned insurance captive, which purchased \$22.3 million and sold \$16.2 million in marketable securities during the twenty-four weeks ended February 9, 2013. During the comparable prior year period, the captive purchased \$19.0 million in marketable securities and sold \$16.4 million in marketable securities. Capital asset disposals and other provided \$0.9 million during the twenty-four week period ended February 9, 2013, and \$5.8 million in the comparable prior year period.

Our net cash flows from financing activities for the twenty-four weeks ended February 9, 2013, used \$209.1 million compared to \$326.3 million used in the comparable prior year period. During the twenty-four weeks ended February 9, 2013, we received \$300.0 million in proceeds from the issuance of debt; there were no proceeds from the issuance of debt during the comparable prior year period. The proceeds in the first quarter of fiscal 2013 were used for the repayment of a portion of commercial paper borrowings and general corporate purposes. During the twenty-four weeks ended February 9, 2013, we repaid our \$300 million Senior Note due in October 2012 using commercial paper borrowings. There were no repayments of debt in the comparable prior year period. For the twenty-four weeks ended February 9, 2013, net proceeds from commercial paper and short-term borrowings were \$229.5 million, as compared to proceeds from net borrowings of \$113.7 million in the comparable prior year period. Stock repurchases were \$502.3 million in the current twenty-four week period as compared with \$482.3 million in the comparable prior year period. For the twenty-four weeks ended February 9, 2013, proceeds from the sale of common stock and exercises of stock options provided \$87.1 million, including \$33.7 million in related tax benefits. In the comparable prior year period, proceeds from the sale of common stock and exercises of stock options provided \$54.8 million, including \$21.8 million in related tax benefits.

During fiscal 2013, we expect to invest in our business at an increased rate as compared to fiscal 2012. Our investment is expected to be directed primarily to our new-store development program, enhancements to existing stores and infrastructure, and our acquisition of AutoAnything. The amount of our investments in our new-store program is impacted by different factors, including such factors as whether the building and land are purchased (requiring higher investment) or leased (generally lower investment), located in the United States, Puerto Rico, Mexico, or Brazil, or located in urban or rural areas. During fiscal 2012 and fiscal 2011, our capital expenditures increased by approximately 18% and 2%, respectively, as compared to the prior year, and we expect our capital expenditures for fiscal 2013 to increase by 10% to 15% as compared to fiscal 2012. Our mix of store openings has moved away from build-to-suit leases (lower initial capital investment) to ground leases and land purchases (higher initial capital investment), resulting in increased capital expenditures per store during recent years. We expect this trend to continue during the remainder of the fiscal year ending August 31, 2013.

In addition to the building and land costs, our new-store development program requires working capital, predominantly for inventories. Historically, we have negotiated extended payment terms from suppliers, reducing the working capital required and resulting in a high accounts payable to inventory ratio. Accounts payable, as a percent of gross inventory, was 110.0% compared to 109.6% last year. We plan to continue leveraging our inventory purchases; however, our ability to do so may be limited by our vendors' capacity to factor their receivables from us. Certain vendors participate in financing arrangements with financial institutions whereby they factor their receivables from us, allowing them to receive payment on our invoices at a discounted rate.

Depending on the timing and magnitude of our future investments (either in the form of leased or purchased properties or acquisitions), we anticipate that we will rely primarily on internally generated funds and available borrowing capacity to support a majority of our capital expenditures, working capital requirements and stock repurchases. The balance may be funded through new borrowings. We anticipate that we

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will be able to obtain such financing in view of our current credit ratings and favorable experiences in the debt markets in the past.

For the trailing four quarters ended February 9, 2013, our after-tax return on invested capital ( ROIC ) was 32.4% as compared to 32.2% for the comparable prior year period. ROIC is calculated as after-tax operating profit (excluding rent charges) divided by average invested capital (which includes a factor to capitalize operating leases). ROIC increased primarily due to increased after-tax operating profit. We use ROIC to evaluate whether we are effectively using our capital resources and believe it is an important indicator of our overall operating performance.

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### *Debt Facilities*

In September 2011, we amended and restated our revolving credit facility, increasing the capacity under the revolving credit facility to \$1.0 billion. This credit facility is available to primarily support commercial paper borrowings, letters of credit and other short-term, unsecured bank loans. The capacity of the credit facility may be increased to \$1.250 billion prior to the maturity date at our election and subject to bank credit capacity and approval, may include up to \$200 million in letters of credit, and may include up to \$175 million in capital leases each fiscal year. Under the revolving credit facility, we may borrow funds consisting of Eurodollar loans or base rate loans. Interest accrues on Eurodollar loans at a defined Eurodollar rate, defined as the London InterBank Offered Rate ( LIBOR ) plus the applicable percentage, as defined in the revolving credit facility, depending upon our senior, unsecured, (non-credit enhanced) long-term debt rating. Interest accrues on base rate loans as defined in the revolving credit facility. We also have the option to borrow funds under the terms of a swingline loan subfacility. The revolving credit facility expires in September 2016.

As the available balance is reduced by commercial paper borrowings and certain outstanding letters of credit, we had \$215.5 million in available capacity under our \$1.0 billion credit facility at February 9, 2013. As of February 9, 2013, we have \$3.7 million in letters of credit outstanding under the revolving credit facility.

We also maintain a letter of credit facility that allows us to request the participating bank to issue letters of credit on our behalf up to an aggregate amount of \$100 million. The letter of credit facility is in addition to the letters of credit that may be issued under the revolving credit facility. As of February 9, 2013, we have \$99.8 million in letters of credit outstanding under the letter of credit facility, which expires in June 2013.

In addition to the outstanding letters of credit issued under the committed facilities discussed above, we had \$41.7 million in letters of credit outstanding as of February 9, 2013. These letters of credit have various maturity dates and were issued on an uncommitted basis.

On November 13, 2012, we issued \$300 million in 2.875% Senior Notes due January 2023 under our shelf registration statement filed with the Securities and Exchange Commission on April 17, 2012 (the Shelf Registration ). The Shelf Registration allows us to sell an indeterminate amount in debt securities to fund general corporate purposes, including repaying, redeeming or repurchasing outstanding debt and for working capital, capital expenditures, new store openings, stock repurchases and acquisitions. Proceeds from the debt issuance on November 13, 2012, were used to repay a portion of the outstanding commercial paper borrowings, which were used to repay the \$300 million in 5.875% Senior Notes due in October 2012, and for general corporate purposes.

The 6.500% and 7.125% Senior Notes issued during August 2008, and the 5.750% Senior Notes issued in July 2009, are subject to an interest rate adjustment if the debt ratings assigned to the notes are downgraded. These notes, along with the 2.875% Senior Notes issued in November 2012, the 3.700% Senior Notes issued in April 2012 and the 4.000% Senior Notes issued in November 2010, also contain a provision that repayment of the notes may be accelerated if AutoZone experiences a change in control (as defined in the agreements). Our borrowings under our other senior notes contain minimal covenants, primarily restrictions on liens. Under our other borrowing arrangements, covenants include limitations on total indebtedness, restrictions on liens, a minimum fixed charge coverage ratio and a change of control provision that may require acceleration of the repayment obligations under certain circumstances. All of the repayment obligations under our borrowing arrangements may be accelerated and come due prior to the scheduled payment date if covenants are breached or an event of default occurs. As of February 9, 2013, we were in compliance with all covenants and expect to remain in compliance with all covenants.

Our adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and share-based expense ( EBITDAR ) ratio was 2.6:1 as of February 9, 2013, and was 2.4:1 as of February 11, 2012. We calculate adjusted debt as the sum of total debt, capital lease obligations and rent times six; and we calculate EBITDAR by adding interest, taxes, depreciation, amortization, rent and share-based expenses to net income. Adjusted debt to EBITDAR is calculated on a trailing four quarter basis. We target our debt levels to a ratio of adjusted debt to EBITDAR in order to maintain our investment grade credit ratings. We believe this is important information for the management of our debt levels.

### *Stock Repurchases*

From January 1, 1998 to February 9, 2013, we have repurchased a total of 132.5 million shares at an aggregate cost of \$12.0 billion, including 1,367,832 shares of our common stock at an aggregate cost of \$502.3 million during the twenty-four week period ended February 9, 2013. On September 28, 2012, the Board voted to increase the authorization by \$750 million to raise the cumulative share repurchase authorization from \$11.90 billion to \$12.65 billion. Considering cumulative repurchases as of February 9, 2013, we have \$603.4 million remaining under the Board's authorization to repurchase our common stock. We did not repurchase shares of our common stock subsequent to February 9, 2013.





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### **Off-Balance Sheet Arrangements**

Since our fiscal year end, we have cancelled, issued and modified stand-by letters of credit that are primarily renewed on an annual basis to cover deductible payments to our casualty insurance carriers. Our total stand-by letters of credit commitment at February 9, 2013, was \$145.5 million compared with \$102.3 million at August 25, 2012, and our total surety bonds commitment at February 9, 2013, was \$32.6 million compared with \$33.1 million at August 25, 2012.

### **Financial Commitments**

As of February 9, 2013, there were no significant changes to our contractual obligations as described in our Annual Report on Form 10-K for the year ended August 25, 2012.

### **Reconciliation of Non-GAAP Financial Measures**

Management's Discussion and Analysis of Financial Condition and Results of Operations include certain financial measures not derived in accordance with U.S. generally accepted accounting principles (GAAP). These non-GAAP financial measures provide additional information for determining our optimum capital structure and are used to assist management in evaluating performance and in making appropriate business decisions to maximize stockholders' value.

Non-GAAP financial measures should not be used as a substitute for GAAP financial measures, or considered in isolation, for the purpose of analyzing our operating performance, financial position or cash flows. However, we have presented the non-GAAP financial measures, as we believe they provide additional information that is useful to investors. Furthermore, our management and the Compensation Committee of the Board use the abovementioned non-GAAP financial measures to analyze and compare our underlying operating results and uses select measurements to determine payments of performance-based compensation. We have included a reconciliation of this information to the most comparable GAAP measures in the following reconciliation tables.

**Table of Contents***Reconciliation of Non-GAAP Financial Measure: After-Tax Return on Invested Capital ROIC*

The following tables calculate the percentages of ROIC for the trailing four quarters ended February 9, 2013 and February 11, 2012.

|                                                  | A            | B            | A-B=C        | D           | C+D           |
|--------------------------------------------------|--------------|--------------|--------------|-------------|---------------|
|                                                  | Fiscal Year  | Twenty-Four  | Twenty-Eight | Twenty-Four | Trailing Four |
|                                                  | Ended        | Weeks        | Weeks        | Weeks       | Quarters      |
|                                                  | August 25,   | Ended        | Ended        | Ended       | Ended         |
|                                                  | 2012         | February 11, | August 25,   | February 9, | February 9,   |
|                                                  | 2012         | 2012         | 2012         | 2013        | 2013          |
| <i>(in thousands, except percentage)</i>         |              |              |              |             |               |
| Net income                                       | \$ 930,373   | \$ 358,055   | \$ 572,318   | \$ 379,698  | \$ 952,016    |
| Adjustments:                                     |              |              |              |             |               |
| Interest expense                                 | 175,905      | 78,017       | 97,888       | 82,428      | 180,316       |
| Rent expense                                     | 229,417      | 103,721      | 125,696      | 109,915     | 235,611       |
| Tax effect <sup>(1)</sup>                        | (145,916)    | (65,426)     | (80,490)     | (69,243)    | (149,733)     |
| After-tax return                                 | \$ 1,189,779 | \$ 474,367   | \$ 715,412   | \$ 502,798  | \$ 1,218,210  |
| Average debt <sup>(2)</sup>                      |              |              |              |             | \$ 3,727,872  |
| Average deficit <sup>(3)</sup>                   |              |              |              |             | (1,480,371)   |
| Rent x 6 <sup>(4)</sup>                          |              |              |              |             | 1,413,666     |
| Average capital lease obligations <sup>(5)</sup> |              |              |              |             | 101,446       |
| Pre-tax invested capital                         |              |              |              |             | \$ 3,762,613  |
| ROIC                                             |              |              |              |             | 32.4%         |

|                                                  | A            | B            | A-B=C        | D            | C+D           |
|--------------------------------------------------|--------------|--------------|--------------|--------------|---------------|
|                                                  | Fiscal Year  | Twenty-Four  | Twenty-Eight | Twenty-Four  | Trailing Four |
|                                                  | Ended        | Weeks        | Weeks        | Weeks        | Quarters      |
|                                                  | August 27,   | Ended        | Ended        | Ended        | Ended         |
|                                                  | 2011         | February 12, | August 27,   | February 11, | February 11,  |
|                                                  | 2011         | 2011         | 2011         | 2012         | 2012          |
| <i>(in thousands, except percentage)</i>         |              |              |              |              |               |
| Net income                                       | \$ 848,974   | \$ 320,131   | \$ 528,843   | \$ 358,055   | \$ 886,898    |
| Adjustments:                                     |              |              |              |              |               |
| Interest expense                                 | 170,557      | 76,829       | 93,728       | 78,017       | 171,745       |
| Rent expense                                     | 213,846      | 96,692       | 117,154      | 103,721      | 220,875       |
| Tax effect <sup>(1)</sup>                        | (138,562)    | (62,548)     | (76,014)     | (65,509)     | (141,523)     |
| After-tax return                                 | \$ 1,094,815 | \$ 431,104   | \$ 663,711   | \$ 474,284   | \$ 1,137,995  |
| Average debt <sup>(2)</sup>                      |              |              |              |              | \$ 3,328,075  |
| Average deficit <sup>(3)</sup>                   |              |              |              |              | (1,210,962)   |
| Rent x 6 <sup>(4)</sup>                          |              |              |              |              | 1,325,250     |
| Average capital lease obligations <sup>(5)</sup> |              |              |              |              | 88,413        |
| Pre-tax invested capital                         |              |              |              |              | \$ 3,530,776  |
| ROIC                                             |              |              |              |              | 32.2%         |

- (1) *The effective tax rate was 36.0% over the trailing four quarters ended February 9, 2013 and February 11, 2012.*
- (2) *Average debt is equal to the average of our debt measured as of the previous five quarters.*
- (3) *Average equity is equal to the average of our stockholders' deficit measured as of the previous five quarters.*
- (4) *Rent is multiplied by a factor of six to capitalize operating leases in the determination of pre-tax invested capital.*
- (5) *Average capital lease obligations are equal to the average of our capital lease obligations measured as of the previous five quarters.*

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### Reconciliation of Non-GAAP Financial Measure: Adjusted Debt to Earnings before Interest, Taxes, Depreciation, Rent and Share-Based Expense EBITDAR

The following tables calculate the ratio of adjusted debt to EBITDAR for the trailing four quarters ended February 9, 2013 and

February 11, 2012.

|                              | A            | B            | A-B=C        | D           | C+D          |
|------------------------------|--------------|--------------|--------------|-------------|--------------|
|                              | Fiscal Year  | Twenty-Four  | Twenty-Eight | Twenty-Four | Trailing     |
|                              | Ended        | Weeks        | Weeks        | Weeks       | Four         |
|                              | August 25,   | Ended        | Ended        | Ended       | Quarters     |
|                              | 2012         | February 11, | August 25,   | February 9, | Ended        |
|                              | 2012         | 2012         | 2012         | 2013        | February 9,  |
|                              | 2012         | 2012         | 2012         | 2013        | 2013         |
| (in thousands, except ratio) |              |              |              |             |              |
| Net income                   | \$ 930,373   | \$ 358,055   | \$ 572,318   | \$ 379,698  | \$ 952,016   |
| Add: Interest expense        | 175,905      | 78,017       | 97,888       | 82,428      | 180,316      |
| Income tax expense           | 522,613      | 205,513      | 317,100      | 218,722     | 535,822      |
| EBIT                         | 1,628,891    | 641,585      | 987,306      | 680,848     | 1,668,154    |
| Add: Depreciation expense    | 211,831      | 96,170       | 115,661      | 103,044     | 218,705      |
| Rent expense                 | 229,417      | 103,721      | 125,696      | 109,915     | 235,611      |
| Share-based expense          | 33,363       | 15,045       | 18,318       | 16,616      | 34,934       |
| EBITDAR                      | \$ 2,103,502 | \$ 856,521   | \$ 1,246,981 | \$ 910,423  | \$ 2,157,404 |
| Debt                         |              |              |              |             | \$ 3,997,806 |
| Capital lease obligations    |              |              |              |             | 99,369       |
| Add: Rent x 6 <sup>(1)</sup> |              |              |              |             | 1,413,666    |
| Adjusted debt                |              |              |              |             | \$ 5,510,841 |
| Adjusted debt / EBITDAR      |              |              |              |             | 2.6          |

|                              | A            | B            | A-B=C        | D            | C+D          |
|------------------------------|--------------|--------------|--------------|--------------|--------------|
|                              | Fiscal Year  | Twenty-Four  | Twenty-Eight | Twenty-Four  | Trailing     |
|                              | Ended        | Weeks        | Weeks        | Weeks        | Four         |
|                              | August 27,   | Ended        | Ended        | Ended        | Quarters     |
|                              | 2011         | February 12, | August 27,   | February 11, | Ended        |
|                              | 2011         | 2011         | 2011         | 2012         | February 11, |
|                              | 2011         | 2011         | 2011         | 2012         | 2012         |
| (in thousands, except ratio) |              |              |              |              |              |
| Net income                   | \$ 848,974   | \$ 320,131   | \$ 528,843   | \$ 358,055   | \$ 886,898   |
| Add: Interest expense        | 170,557      | 76,829       | 93,728       | 78,017       | 171,745      |
| Income tax expense           | 475,272      | 180,908      | 294,364      | 205,513      | 499,877      |
| EBIT                         | 1,494,803    | 577,868      | 916,935      | 641,585      | 1,558,520    |
| Add: Depreciation expense    | 196,209      | 88,417       | 107,792      | 96,170       | 203,962      |
| Rent expense                 | 213,846      | 96,692       | 117,154      | 103,721      | 220,875      |
| Share-based expense          | 26,625       | 12,119       | 14,506       | 15,045       | 29,551       |
| EBITDAR                      | \$ 1,931,483 | \$ 775,096   | \$ 1,156,387 | \$ 856,521   | \$ 2,012,908 |

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|                              |              |
|------------------------------|--------------|
| Debt                         | \$ 3,464,360 |
| Capital lease obligations    | 103,774      |
| Add: Rent x 6 <sup>(1)</sup> | 1,325,250    |
| Adjusted debt                | \$ 4,893,384 |
| Adjusted debt / EBITDAR      | 2.4          |

(1) Rent is multiplied by a factor of six to capitalize operating leases in the determination of adjusted debt.

### Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board issued Accounting Standards Update ( ASU ) No. 2013-02, *Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*. Under ASU 2013-02, an entity is required to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the financial statements or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required to be reclassified in its entirety in the same reporting period. For amounts that are not required to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures that provide additional details about those amounts. ASU 2013-02 does not change the current requirements for reporting net income or other comprehensive income in the financial statements. We do not expect the provision of ASU 2013-02 to have a material impact on our consolidated financial statements. This update will be effective for us at the beginning of our fiscal 2014 year.

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### **Critical Accounting Policies**

Preparation of our consolidated financial statements requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements, reported amounts of revenues and expenses during the reporting period and related disclosures of contingent liabilities. Our policies are evaluated on an ongoing basis, and our significant judgments and estimates are drawn from historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ under different assumptions or conditions.

Our critical accounting policies are described in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended August 25, 2012. Our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended August 25, 2012.

### **Forward-Looking Statements**

Certain statements contained in this Quarterly Report on Form 10-Q are forward-looking statements. Forward-looking statements typically use words such as believe, anticipate, should, intend, plan, will, expect, estimate, project, positioned, strategy and similar expressions based on assumptions and assessments made by our management in light of experience and perception of historical trends, current conditions, expected future developments and other factors that we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including without limitation: credit market conditions; the impact of recessionary conditions; competition; product demand; the ability to hire and retain qualified employees; consumer debt levels; inflation; weather; raw material costs of our suppliers; energy prices; war and the prospect of war, including terrorist activity; construction delays; access to available and feasible financing; and changes in laws or regulations. Certain of these risks are discussed in more detail in the Risk Factors section contained in Item 1A under Part 1 of our Annual Report on Form 10-K for the year ended August 25, 2012, and these Risk Factors should be read carefully. Forward-looking statements are not guarantees of future performance and actual results; developments and business decisions may differ from those contemplated by such forward-looking statements, and events described above and in the Risk Factors could materially and adversely affect our business. Forward-looking statements speak only as of the date made. Except as required by applicable law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Actual results may materially differ from anticipated results.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk.**

At February 9, 2013, there have been no material changes to our instruments and positions that are sensitive to market risk since the disclosures in our Annual Report on Form 10-K for the year ended August 25, 2012, except as described below.

The fair value of our debt was estimated at \$4.242 billion as of February 9, 2013, and \$4.055 billion as of August 25, 2012, based on the quoted market prices for the same or similar debt issues or on the current rates available to AutoZone for debt of the same terms. Such fair value is greater than the carrying value of debt by \$244.4 million at February 9, 2013 and \$286.6 million at August 25, 2012. We had \$747.8 million of variable rate debt outstanding at February 9, 2013, and \$518.2 million of variable rate debt outstanding at August 25, 2012. At these borrowing levels for variable rate debt, a one percentage point increase in interest rates would have had an unfavorable annual impact on our pre-tax earnings and cash flows of \$7.5 million in fiscal 2013. The primary interest rate exposure on variable rate debt is based on LIBOR. We had outstanding fixed rate debt of \$3.250 billion at February 9, 2013, and \$3.250 billion at August 25, 2012. A one percentage point increase in interest rates would reduce the fair value of our fixed rate debt by \$141.0 million at February 9, 2013.

### **Item 4. Controls and Procedures.**

As of February 9, 2013, an evaluation was performed under the supervision and with the participation of our management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended. Based on that evaluation, our management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of February 9, 2013. During or subsequent to the quarter ended February 9, 2013, there were no changes in our internal controls that have materially affected or are reasonably likely to materially affect, internal controls over financial reporting.

**Item 4T. Controls and Procedures.**  
Not applicable.



**Table of Contents****PART II. OTHER INFORMATION****Item 1. Legal Proceedings.**

In 2004, we acquired a store site in Mount Ephraim, New Jersey that had previously been the site of a gasoline service station and contained evidence of groundwater contamination. Upon acquisition, we voluntarily reported the groundwater contamination issue to the New Jersey Department of Environmental Protection and entered into a Voluntary Remediation Agreement providing for the remediation of the contamination associated with the property. We have conducted and paid for (at an immaterial cost to us) remediation of contamination on the property. We are also investigating, and will be addressing, potential vapor intrusion impacts in downgradient residences and businesses. The New Jersey Department of Environmental Protection has asserted, in a Directive and Notice to Insurers dated February 19, 2013 ( Directive ), that we are liable for the downgradient impacts under a joint and severable liability theory, and we intend to contest these assertions due to the existence of other entities/sources of contamination, some of which are also named in the Directive, in the area of the property. Pursuant to the Voluntary Remediation Agreement, upon completion of all remediation required by the agreement, we believe we are eligible to be reimbursed up to 75 percent of qualified remediation costs by the State of New Jersey. We have asked the state for clarification that the agreement applies to off-site work, and the state is considering the request. Although the aggregate amount of additional costs that we may incur pursuant to the remediation cannot currently be ascertained, we do not currently believe that fulfillment of our obligations under the agreement or otherwise will result in costs that are material to our financial condition, results of operations or cash flow.

We are involved in various other legal proceedings incidental to the conduct of our business, including several lawsuits containing class-action allegations in which the plaintiffs are current and former hourly and salaried employees who allege various wage and hour violations and unlawful termination practices. We do not currently believe that, either individually or in the aggregate, these matters will result in liabilities material to our financial condition, results of operations or cash flows.

**Item 1A. Risk Factors.**

As of the date of this filing, there have been no material changes in our risk factors from those disclosed in Part I, Item 1A, of our Annual Report on Form 10-K for the fiscal year ended August 25, 2012.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.**

Shares of common stock repurchased by the Company during the quarter ended February 9, 2013, were as follows:

**Issuer Repurchases of Equity Securities**

| Period                                 | Total Number of Shares Purchased | Average Price Paid per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs | Maximum Dollar Value that May Yet Be Purchased Under the Plans or Programs |
|----------------------------------------|----------------------------------|------------------------------|----------------------------------------------------------------------------------|----------------------------------------------------------------------------|
| November 18, 2012 to December 15, 2012 | 153,489                          | \$ 375.72                    | 153,489                                                                          | \$ 730,757,484                                                             |
| December 16, 2012 to January 12, 2013  | 309,749                          | 354.67                       | 309,749                                                                          | 620,898,018                                                                |
| January 13, 2013 to February 9, 2013   | 49,926                           | 350.30                       | 49,926                                                                           | 603,408,864                                                                |
| Total                                  | 513,164                          | \$ 360.54                    | 513,164                                                                          | \$ 603,408,864                                                             |

During 1998, we announced a program permitting us to repurchase a portion of our outstanding shares not to exceed a dollar maximum established by our Board of Directors. The program was most recently amended on September 28, 2012, to increase the repurchase authorization to \$12.65 billion from \$11.90 billion and does not have an expiration date. All of the above repurchases were part of this program. We did not repurchase shares of our common stock subsequent to February 9, 2013.

**Item 3. Defaults Upon Senior Securities.**

Not applicable.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information.**

Not applicable.

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### **Item 6. Exhibits.**

The following exhibits are filed as part of this report:

- 3.1 Restated Articles of Incorporation of AutoZone, Inc. incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended February 13, 1999.
- 3.2 Fifth Amended and Restated By-laws of AutoZone, Inc. incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated September 28, 2011.
- 4.1 Officers Certificate dated November 13, 2012, pursuant to section 3.2 of the indenture dated August 8, 2003, setting forth the terms of the 2.875% Senior Notes due 2023. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated November 13, 2012.
- 4.2 Form of 2.875% Senior Notes due 2023. Incorporated by reference from the Form 8-K dated November 13, 2012.
- \*10.1 Third Amendment to the AutoZone, Inc. Executive Deferred Compensation Plan incorporated by reference to Exhibit 10.1 to the Form 8-K dated December 12, 2012.
- 12.1 Computation of Ratio of Earnings to Fixed Charges.
- 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.
- \*\*101.INS XBRL Instance Document
- \*\*101.SCH XBRL Taxonomy Extension Schema Document
- \*\*101.CAL XBRL Taxonomy Extension Calculation Document
- \*\*101.LAB XBRL Taxonomy Extension Labels Document
- \*\*101.PRE XBRL Taxonomy Extension Presentation Document
- \*\*101.DEF XBRL Taxonomy Extension Definition Document
- \* Management contract or compensatory plan or arrangement.
- \*\* In accordance with Regulation S-T, the Interactive Data Files in Exhibit 101 to the Quarterly Report on Form 10-Q shall be deemed furnished and not filed.

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**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 and Executive Vice President  
Finance, Information Technology and ALldata  
(Principal Financial Officer)

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

Dated: March 7, 2013

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| *         | Management contract or compensatory plan or arrangement.                                                                                                                                                                                                                      |
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