

AUTOZONE INC
Form 10-Q
March 25, 2014
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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 15, 2014, or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the transition period from _____ to _____.

Commission file number 1-10714

AUTOZONE, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

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

123 South Front Street, Memphis, Tennessee
(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

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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 33,226,051 shares outstanding as of March 20, 2014.

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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> | February 15, 2014 | August 31, 2013 |
|---|------------------------------|----------------------------|
| Assets | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 139,755 | \$ 142,191 |
| Accounts receivable | 191,115 | 171,638 |
| Merchandise inventories | 3,089,245 | 2,861,014 |
| Other current assets | 112,452 | 101,443 |
| Deferred income taxes | 5,931 | 1,727 |
| Total current assets | 3,538,498 | 3,278,013 |
| Property and equipment: | | |
| Property and equipment | 5,225,310 | 5,058,525 |
| Less: Accumulated depreciation and amortization | (2,090,055) | (1,987,164) |
| | 3,135,255 | 3,071,361 |
| Goodwill | 367,829 | 367,829 |
| Deferred income taxes | 15,651 | 4,069 |
| Other long-term assets | 205,659 | 170,817 |
| | 589,139 | 542,715 |
| | \$ 7,262,892 | \$ 6,892,089 |
| Liabilities and Stockholders Deficit | | |
| Current liabilities: | | |
| Accounts payable | \$ 3,477,697 | \$ 3,307,535 |
| Accrued expenses and other | 459,227 | 467,831 |
| Income taxes payable | 104,628 | 17,129 |
| Deferred income taxes | 199,318 | 202,922 |
| Short-term borrowings | 158,440 | 173,733 |
| Total current liabilities | 4,399,310 | 4,169,150 |
| Long-term debt | 4,163,244 | 4,013,267 |
| Other long-term liabilities | 410,600 | 396,991 |

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; 33,759

shares issued and 33,355 shares outstanding as of February 15, 2014; 36,768

shares issued and 34,293 shares outstanding as of August 31, 2013

| | | |
|--------------------------------------|-----------------|-----------------|
| | 338 | 368 |
| Additional paid-in capital | 797,696 | 814,457 |
| Retained deficit | (2,187,950) | (1,378,936) |
| Accumulated other comprehensive loss | (120,346) | (120,788) |
| Treasury stock, at cost | (200,000) | (1,002,420) |
| Total stockholders' deficit | (1,710,262) | (1,687,319) |

| | | |
|--|--------------|--------------|
| | \$ 7,262,892 | \$ 6,892,089 |
|--|--------------|--------------|

See Notes to Condensed Consolidated Financial Statements.

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

(Unaudited)

| <i>(in thousands, except per share data)</i> | Twelve Weeks Ended | | Twenty-Four Weeks Ended | |
|--|---------------------------|-------------------------|--------------------------------|-------------------------|
| | February 15, 2014 | February 9, 2013 | February 15, 2014 | February 9, 2013 |
| Net sales | \$ 1,990,494 | \$ 1,855,198 | \$ 4,084,072 | \$ 3,846,238 |
| Cost of sales, including warehouse and delivery expenses | 953,459 | 893,217 | 1,961,339 | 1,852,391 |
| Gross profit | 1,037,035 | 961,981 | 2,122,733 | 1,993,847 |
| Operating, selling, general and administrative expenses | 699,691 | 644,410 | 1,401,663 | 1,312,999 |
| Operating profit | 337,344 | 317,571 | 721,070 | 680,848 |
| Interest expense, net | 39,490 | 41,323 | 81,921 | 82,428 |
| Income before income taxes | 297,854 | 276,248 | 639,149 | 598,420 |
| Income taxes | 105,024 | 100,001 | 228,232 | 218,722 |
| Net income | \$ 192,830 | \$ 176,247 | \$ 410,917 | \$ 379,698 |
| Weighted average shares for basic earnings per share | 33,647 | 36,258 | 33,879 | 36,552 |
| Effect of dilutive stock equivalents | 614 | 646 | 589 | 694 |
| Weighted average shares for diluted earnings per share | 34,261 | 36,904 | 34,468 | 37,246 |
| Basic earnings per share | \$ 5.73 | \$ 4.86 | \$ 12.13 | \$ 10.39 |
| Diluted earnings per share | \$ 5.63 | \$ 4.78 | \$ 11.92 | \$ 10.19 |

See Notes to Condensed Consolidated Financial Statements.

AUTOZONE, INC.**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

(Unaudited)

| | Twelve Weeks Ended | Twenty-Four Weeks Ended |
|--|---------------------------|--------------------------------|
|--|---------------------------|--------------------------------|

| <i>(in thousands)</i> | February 15, 2014 | February 9, 2013 | February 15, 2014 | February 9, 2013 |
|---|------------------------------|-----------------------------|------------------------------|-----------------------------|
| Net income | \$ 192,830 | \$ 176,247 | \$ 410,917 | \$ 379,698 |
| Other comprehensive (loss) income: | | | | |
| Pension liability adjustments, net of taxes ⁽¹⁾ | 955 | 2,038 | 1,907 | 3,473 |
| Foreign currency translation adjustments | (9,196) | 15,320 | (1,689) | 13,261 |
| Unrealized (losses) gains on marketable securities, net of taxes ⁽²⁾ | (45) | (67) | 171 | (57) |
| Net derivative activities, net of taxes ⁽³⁾ | 27 | 263 | 53 | 428 |
| Total other comprehensive (loss) income | (8,259) | 17,554 | 442 | 17,105 |
| Comprehensive income | \$ 184,571 | \$ 193,801 | \$ 411,359 | \$ 396,803 |

(1) Pension liability adjustments are presented net of taxes of \$632 in fiscal 2014 and \$1,295 in fiscal 2013 for the twelve weeks ended and \$1,268 in fiscal 2014 and \$3,193 in fiscal 2013 for the twenty-four weeks ended

(2) Unrealized (losses) gains on marketable securities are presented net of taxes of \$24 in fiscal 2014 and \$36 in fiscal 2013 for the twelve weeks ended and \$92 in fiscal 2014 and \$31 in fiscal 2013 for the twenty-four weeks ended

(3) Net derivative activities are presented net of taxes of \$15 in fiscal 2014 and \$155 in fiscal 2013 for the twelve weeks ended and \$31 in fiscal 2014 and \$258 in fiscal 2013 for the twenty-four weeks ended

See Notes to Condensed Consolidated Financial Statements.

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AUTOZONE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

| | Twenty-Four Weeks Ended | |
|---|------------------------------------|-----------------------------|
| | February 15, 2014 | February 9, 2013 |
| <i>(in thousands)</i> | | |
| Cash flows from operating activities: | | |
| Net income | \$ 410,917 | \$ 379,698 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization of property and equipment and intangibles | 114,154 | 103,044 |
| Amortization of debt origination fees | 3,258 | 3,905 |
| Income tax benefit from exercise of stock options | (11,146) | (33,706) |
| Deferred income taxes | (20,839) | (12,911) |
| Share-based compensation expense | 20,716 | 16,616 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (18,433) | 4,369 |
| Merchandise inventories | (228,664) | (123,177) |
| Accounts payable and accrued expenses | 135,094 | 69,441 |
| Income taxes payable | 98,683 | 85,512 |
| Other, net | 4,232 | 18,052 |
| Net cash provided by operating activities | 507,972 | 510,843 |
| Cash flows from investing activities: | | |
| Capital expenditures | (159,961) | (169,613) |
| Acquisition of business | | (115,000) |
| Purchase of intangibles | (11,112) | |
| Purchase of marketable securities | (21,091) | (22,288) |
| Proceeds from sale of marketable securities | 19,240 | 16,212 |
| Disposal of capital assets and other, net | (871) | 908 |
| Net cash used in investing activities | (173,795) | (289,781) |
| Cash flows from financing activities: | | |
| Net proceeds from commercial paper | 234,684 | 234,400 |
| Net payments of short-term borrowings | | (4,883) |
| Proceeds from issuance of debt | 400,000 | 300,000 |
| Repayment of debt | (500,000) | (300,000) |
| Net proceeds from sale of common stock | 27,601 | 53,423 |
| Purchase of treasury stock | (491,538) | (502,348) |
| Income tax benefit from exercise of stock options | 11,146 | 33,706 |
| Payments of capital lease obligations | (16,327) | (14,728) |

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| | | |
|--|------------|------------|
| Other, net | (2,294) | (8,637) |
| Net cash used in financing activities | (336,728) | (209,067) |
| Effect of exchange rate changes on cash | 115 | 460 |
| Net (decrease) increase in cash and cash equivalents | (2,436) | 12,455 |
| Cash and cash equivalents at beginning of period | 142,191 | 103,093 |
| Cash and cash equivalents at end of period | \$ 139,755 | \$ 115,548 |

See Notes to Condensed Consolidated Financial Statements.

Table of Contents**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 31, 2013.

Operating results for the twelve and twenty-four weeks ended February 15, 2014, are not necessarily indicative of the results that may be expected for the fiscal year ending August 30, 2014. 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 2014 has 16 weeks and for fiscal 2013 had 17 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 Adopted Accounting Pronouncements: In July 2012, the FASB issued ASU 2012-02, *Testing Indefinite-Lived Intangible Assets for Impairment*. The purpose of ASU 2012-02 is to simplify how an entity tests for impairment of indefinite-lived intangible assets. Entities will assess qualitative factors to determine whether it is more likely than not that a long-lived intangible asset's fair value is less than its carrying value. In instances where the fair value is determined to be less than the carrying value, entities will perform the two-step quantitative goodwill impairment test. The Company adopted this standard effective September 1, 2013, and it had no material impact on the consolidated financial statements.

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 accumulated other comprehensive income (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 adopted this standard effective September 1, 2013, and it had no material impact on the consolidated financial statements.

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 \$11.5 million for the twelve week period ended February 15, 2014, and was \$8.5 million for the comparable prior year period. Share-based compensation expense was \$20.7 million for the twenty-four week period ended February 15, 2014, and was \$16.6 million for the comparable prior year period.

During the twenty-four week period ended February 15, 2014, 142,816 shares of stock options were exercised at a weighted average exercise price of \$192.70. In the comparable prior year period, 413,485 shares of stock options were exercised at a weighted average exercise price of \$129.00.

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The Company made stock option grants of 347,615 shares during the twenty-four week period ended February 15, 2014, and granted options to purchase 355,560 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 15, 2014, and February 9, 2013, using the Black-Scholes-Merton multiple-option pricing valuation model, was \$96.92 and \$98.09 per share, respectively, using the following weighted average key assumptions:

| | Twenty-Four Weeks Ended | |
|--|------------------------------------|-----------------------------|
| | February 15, 2014 | February 9, 2013 |
| Expected price volatility | 23% | 29% |
| Risk-free interest rate | 1.0% | 0.5% |
| Weighted average expected lives (in years) | 5.2 | 5.2 |
| Forfeiture rate | 9% | 10% |
| Dividend yield | 0% | 0% |

See AutoZone's Annual Report on Form 10-K for the year ended August 31, 2013, 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.

For the twelve week period ended February 15, 2014, no stock options were excluded from the diluted earnings per share computation because they would have been anti-dilutive. For the comparable prior year period, 375,980 anti-dilutive shares were excluded from the dilutive earnings per share computation. There were 5,830 anti-dilutive shares excluded from the diluted earnings per share computation for the twenty-four week period ended February 15, 2014, and 375,980 anti-dilutive shares excluded for the comparable prior year period.

During the second quarter of fiscal 2014, the Company adopted the 2014 Director Compensation Program (the Program), which states that non-employee directors will receive their compensation in awards of restricted stock units under the 2011 Equity Incentive Award Plan, with an option for a certain portion of a director's compensation to be paid in cash at the non-employee director's election. The Program replaces the former 2011 Director Compensation Program. Under the Program, restricted stock units are granted January 1 of each year (the Grant Date). The number of restricted stock units is determined by dividing the amount of the annual retainer by the fair market value of the shares of common stock as of the Grant Date. The restricted stock units are fully vested on January 1 of each year and are paid in shares of the Company's common stock on the earlier to occur of the fifth anniversary of the Grant Date or the date the non-employee director ceases to be a member of the Board (Separation from Service). Non-employee directors may elect to defer receipt of the restricted stock units until their Separation from Service. The cash portion of the award, if elected, is paid ratably over the remaining calendar quarters.

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:

| <i>(in thousands)</i> | February 15, 2014 | | | Fair Value |
|--------------------------|--------------------------|----------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Other current assets | \$ 18,571 | \$ 463 | \$ | \$ 19,034 |
| Other long-term assets | 47,798 | 17,442 | | 65,240 |
| | \$ 66,369 | \$ 17,905 | \$ | \$ 84,274 |
| Contingent consideration | \$ | \$ | \$ (242) | \$ (242) |

| <i>(in thousands)</i> | August 31, 2013 | | | Fair Value |
|--------------------------|------------------------|----------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 | |
| Other current assets | \$ 16,386 | \$ 24 | \$ | \$ 16,410 |
| Other long-term assets | 49,011 | 16,740 | | 65,751 |
| | \$ 65,397 | \$ 16,764 | \$ | \$ 82,161 |
| Contingent consideration | \$ | \$ | \$ (242) | \$ (242) |

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At February 15, 2014, the fair value measurement amounts for assets and liabilities recorded in the accompanying Condensed Consolidated Balance Sheet consisted of short-term marketable securities of \$19.0 million, which are included within Other current assets, and long-term marketable securities of \$65.2 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.

The change in the fair value of the contingent consideration liability is summarized as follows:

| <i>(in thousands)</i> | Twelve Weeks Ended February 15, 2014 | Twenty-Four Weeks Ended February 15, 2014 |
|--------------------------------|---|--|
| Fair value beginning of period | \$ (242) | \$ (242) |
| Change in fair value | | |
| Fair value end of period | \$ (242) | \$ (242) |

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

Non-financial assets are 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 15, 2014 and February 9, 2013, 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> | Amortized Cost Basis | February 15, 2014 | | Fair Value |
|-----------------------|-------------------------------------|---------------------------------------|--|-------------------|
| | | Gross Unrealized Gains | Gross Unrealized Losses | |
| | | | | |

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|-----------------------------------|-----------|--------|----------|-----------|
| Corporate securities | \$ 29,075 | \$ 216 | \$ (5) | \$ 29,286 |
| Government bonds | 25,514 | 29 | (3) | 25,540 |
| Mortgage-backed securities | 6,409 | 28 | (101) | 6,336 |
| Asset-backed securities and other | 23,051 | 61 | | 23,112 |
| | \$ 84,049 | \$ 334 | \$ (109) | \$ 84,274 |

| <i>(in thousands)</i> | August 31, 2013 | | | Fair Value |
|-----------------------------------|----------------------------|------------------------------|-------------------------------|------------|
| | Amortized Cost Basis | Gross Unrealized Gains | Gross Unrealized Losses | |
| Corporate securities | \$ 27,803 | \$ 148 | \$ (67) | \$ 27,884 |
| Government bonds | 21,372 | 18 | (67) | 21,323 |
| Mortgage-backed securities | 7,198 | 24 | (138) | 7,084 |
| Asset-backed securities and other | 25,825 | 50 | (5) | 25,870 |
| | \$ 82,198 | \$ 240 | \$ (277) | \$ 82,161 |

The debt securities held at February 15, 2014, 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 15, 2014.

The Company holds 14 securities that are in an unrealized loss position of approximately \$109 thousand at February 15, 2014. 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.

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During the twelve week period ended February 15, 2014, the Company's insurance captive transferred \$28.2 million of its marketable securities to a trust account to secure its obligations to an insurance company related to future workers compensation and casualty losses. These securities held by the trust account are included above in total marketable securities.

Note E Derivative Financial Instruments

At February 15, 2014, the Company had \$11.7 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 15, 2014, the Company reclassified \$84 thousand of net losses from Accumulated other comprehensive loss to Interest expense. In the comparable prior year period, the Company reclassified \$831 thousand of net losses from Accumulated other comprehensive loss to Interest expense. The Company expects to reclassify \$182 thousand of net losses from Accumulated other comprehensive loss to Interest expense over the next twelve 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 \$296.2 million at February 15, 2014, and \$283.7 million at August 31, 2013.

Note G Pension and Savings Plans

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

| <i>(in thousands)</i> | Twelve Weeks Ended | | Twenty-Four Weeks Ended | |
|--------------------------------|---------------------------|-------------------------|--------------------------------|-------------------------|
| | February 15, 2014 | February 9, 2013 | February 15, 2014 | February 9, 2013 |
| Interest cost | \$ 3,016 | \$ 2,659 | \$ 6,032 | \$ 5,318 |
| Expected return on plan assets | (3,550) | (3,083) | (7,100) | (6,166) |
| Amortization of net loss | 1,587 | 3,333 | 3,174 | 6,666 |
| Net periodic pension expense | \$ 1,053 | \$ 2,909 | \$ 2,106 | \$ 5,818 |

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 15, 2014, the Company made contributions to its funded plan in the amount of \$1.7 million. The Company expects to contribute approximately \$18.4 million to the plan during the remainder of fiscal 2014; 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.

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

| <i>(in thousands)</i> | February 15, 2014 | August 31, 2013 |
|--|------------------------------|----------------------------|
| 6.500% Senior Notes due January 2014, effective interest rate of 6.63% | \$ | \$ 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 |
| 1.300% Senior Notes due January 2017, effective interest rate of 1.43% | 400,000 | |
| 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 | 300,000 |
| 3.125% Senior Notes due July 2023, effective interest rate of 3.26% | 500,000 | 500,000 |
| Commercial paper, weighted average interest rate of 0.25% and 0.29% at February 15, 2014 and August 31, 2013, respectively | 871,684 | 637,000 |
| Total debt | 4,321,684 | 4,187,000 |
| Less: Short-term borrowings | 158,440 | 173,733 |
| Long-term debt | \$ 4,163,244 | \$ 4,013,267 |

As of February 15, 2014, \$871.7 million of commercial paper borrowings and \$341.6 million of the 5.750% Senior Notes due January 2015 are classified as long-term in the accompanying Consolidated Balance Sheets as the Company has the ability and intent to refinance on a long-term basis through available capacity in its revolving credit facility. As of February 15, 2014, the Company had \$1.213 billion of availability under its \$1.25 billion revolving credit facility, expiring in September 2017, that would allow it to replace these short-term obligations with long-term financing.

On January 14, 2014, the Company issued \$400 million in 1.300% Senior Notes due January 2017 under its shelf registration statement filed with the SEC on April 17, 2012 (the "Shelf Registration"). The Shelf Registration allows the Company 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 January 14, 2014, were used to repay a portion of the \$500 million in 6.500% Senior Notes due January 2014. The Company used commercial paper borrowings to repay the remainder of the 6.500% Senior Notes.

On April 29, 2013, the Company issued \$500 million in 3.125% Senior Notes due July 2023 under its Shelf Registration. Proceeds from the debt issuance on April 29, 2013, were used to repay a portion of the outstanding commercial paper borrowings, which were used to repay the \$200 million in 4.375% Senior Notes due in June 2013, and for general corporate purposes.

On November 13, 2012, the Company issued \$300 million in 2.875% Senior Notes due January 2023 under its Shelf Registration. 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.

In December 2013, the Company amended and restated its revolving credit facility, increasing the capacity under the revolving credit facility to \$1.25 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 \$1.5 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 2017.

The fair value of the Company's debt was estimated at \$4.443 billion as of February 15, 2014, and \$ 4.259 billion as of August 31, 2013, 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). Such fair value is greater than the carrying value of debt by \$120.9 million at February 15, 2014, and \$72.2 million at August 31, 2013.

Note I Stock Repurchase Program

From January 1, 1998 to February 15, 2014, the Company has repurchased a total of 135.7 million shares at an aggregate cost of \$13.423 billion, including 1,082,135 shares of its common stock at an aggregate cost of \$491.5 million during twenty-four week period ended February 15, 2014. On December 17, 2013, the Board voted to increase the authorization by \$750 million to raise the cumulative share repurchase authorization from \$13.4 billion to \$14.15 billion. Considering the cumulative repurchases as of February 15, 2014, the Company had \$726.9 million remaining under the Board's authorization to repurchase its common stock. Subsequent to February 15, 2014, the Company has repurchased 252,845 shares of its common stock at an aggregate cost of \$136.0 million.

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During the twenty-four week period ended February 15, 2014, the Company retired 3.2 million shares of treasury stock which had previously been repurchased under the Company's share repurchase program. The retirement increased Retained deficit by \$1.220 billion and decreased Additional paid-in capital by \$74.0 million. During the comparable prior year period, the Company retired 3.9 million shares of treasury stock, which increased Retained deficit by \$1.362 billion and decreased Additional paid-in capital by \$75.7 million.

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 for the twelve week periods ended February 15, 2014 and February 9, 2013, consisted of the following:

| <i>(in thousands)</i> | Pension Liability | Foreign Currency ⁽³⁾ | Net Unrealized Gain on Securities | Derivatives | Total |
|---|------------------------------|--|--|--------------------|--------------|
| Balance at November 23, 2013 | \$ (49,909) | \$ (54,976) | \$ 191 | \$ (7,393) | \$ (112,087) |
| Other comprehensive (loss) income before reclassifications | | (9,196) | (25) | | (9,221) |
| Amounts reclassified from Accumulated other comprehensive loss ⁽¹⁾ | 955 ⁽²⁾ | | (20) ⁽⁴⁾ | 27 ⁽⁵⁾ | 962 |
| Balance at February 15, 2014 | \$ (48,954) | \$ (64,172) | \$ 146 | \$ (7,366) | \$ (120,346) |

| <i>(in thousands)</i> | Pension Liability | Foreign Currency ⁽³⁾ | Net Unrealized Gain on Securities | Derivatives | Total |
|---|------------------------------|--|--|--------------------|--------------|
| Balance at November 17, 2012 | \$ (92,532) | \$ (52,326) | \$ 361 | \$ (7,965) | \$ (152,462) |
| Other comprehensive income (loss) before reclassifications | | 15,320 | (40) | | 15,280 |
| Amounts reclassified from Accumulated other comprehensive loss ⁽¹⁾ | 2,038 ⁽²⁾ | | (27) ⁽⁴⁾ | 263 ⁽⁵⁾ | 2,274 |
| Balance at February 9, 2013 | \$ (90,494) | \$ (37,006) | \$ 294 | \$ (7,702) | \$ (134,908) |

(1) Amounts in parentheses indicate debits to Accumulated other comprehensive loss.

(2) Represents amortization of pension liability adjustments, net of taxes of \$0.6 million for the twelve weeks ended February 15, 2014 and \$1.3 million for the twelve weeks ended February 9, 2013, which is recorded in

Operating, selling, general and administrative expenses on the Condensed Consolidated Statements of Income. See Note G Pension and Savings Plans for further discussion.

- (3) Foreign currency is not shown net of tax as earnings of non-U.S. subsidiaries are intended to be permanently reinvested.*
- (4) Represents realized (losses) gains on marketable securities, net of taxes of \$11 thousand for the twelve weeks ended February 15, 2014 and \$14 thousand for the twelve weeks ended February 9, 2013, which is recorded in Operating, selling, general, and administrative expenses on the Condensed Consolidated Statements of Income. See Note D Marketable Securities for further discussion.*
- (5) Represents gains and losses on derivatives, net of taxes of \$15 thousand for the twelve weeks ended February 15, 2014 and \$155 thousand for the twelve weeks ended February 9, 2013, which is recorded in Interest expense, net, on the Condensed Consolidated Statements of Income. See Note E Derivative Financial Instruments for further discussion.*

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Changes in Accumulated other comprehensive loss for the twenty-four week periods ended February 15, 2014 and February 9, 2013, consisted of the following:

| <i>(in thousands)</i> | Pension Liability | Foreign Currency ⁽³⁾ | Net Unrealized Gain on Securities | Derivatives | Total |
|--|------------------------------|--|--|--------------------|--------------|
| Balance at August 31, 2013 | \$ (50,861) | \$ (62,483) | \$ (25) | \$ (7,419) | \$ (120,788) |
| Other comprehensive income (loss) before reclassifications | | (1,689) | 194 | | (1,495) |
| Amounts reclassified from Accumulated other comprehensive loss ⁽¹⁾ | 1,907 ⁽²⁾ | | (23) ⁽⁴⁾ | 53 ⁽⁵⁾ | 1,937 |
| Balance at February 15, 2014 | \$ (48,954) | \$ (64,172) | \$ 146 | \$ (7,366) | \$ (120,346) |

| <i>(in thousands)</i> | Pension Liability | Foreign Currency ⁽³⁾ | Net Unrealized Gain on Securities | Derivatives | Total |
|--|------------------------------|--|--|--------------------|--------------|
| Balance at August 25, 2012 | \$ (93,967) | \$ (50,267) | \$ 351 | \$ (8,130) | \$ (152,013) |
| Other comprehensive (loss) income before reclassifications | | 13,261 | (7) | | 13,254 |
| Amounts reclassified from Accumulated other comprehensive loss ⁽¹⁾ | 3,473 ⁽²⁾ | | (50) ⁽⁴⁾ | 428 ⁽⁵⁾ | 3,851 |
| Balance at February 9, 2013 | \$ (90,494) | \$ (37,006) | \$ 294 | \$ (7,702) | \$ (134,908) |

(1) Amounts in parentheses indicate debits to Accumulated other comprehensive loss.

(2) Represents amortization of pension liability adjustments, net of taxes of \$1.3 million in fiscal 2014 and \$3.2 million in fiscal 2013, which is recorded in Operating, selling, general and administrative expenses on the Condensed Consolidated Statements of Income. See Note G Pension and Savings Plans for further discussion.

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

(4) Represents realized (losses) gains on marketable securities, net of taxes of \$13 thousand in fiscal 2014 and \$27 thousand in fiscal 2013, which is recorded in Operating, selling, general, and administrative expenses on the Condensed Consolidated Statements of Income. See Note D Marketable Securities for further discussion.

(5) Represents gains and losses on derivatives, net of taxes of \$31 thousand in fiscal 2014 and \$258 thousand in fiscal 2013, which is recorded in Interest expense, net, on the Condensed Consolidated Statements of Income. See Note E Derivative Financial Instruments for further discussion.

Note K Goodwill and Intangibles

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

| <i>(in thousands)</i> | Auto Parts Stores | Other | Total |
|-------------------------------------|----------------------------------|--------------|--------------|
| Net balance as of August 31, 2013 | \$ 302,645 | \$ 65,184 | \$ 367,829 |
| Goodwill adjustments | | | |
| Net balance as of February 15, 2014 | \$ 302,645 | \$ 65,184 | \$ 367,829 |

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The Company recorded an increase to intangible assets of \$30.2 million during the twenty-four weeks ended February 15, 2014. During fiscal year 2014, the Company purchased the rights to certain customer relationships and technology assets relating to its ALLDATA operations. The carrying amounts of intangible assets are included in Other long-term assets as follows:

| <i>(in thousands)</i> | Estimated Useful Life | Gross Carrying Amount | Accumulated Amortization | Net Carrying Amount |
|---|--------------------------------------|--------------------------------------|-------------------------------------|------------------------------------|
| Amortizing intangible assets: | | | | |
| Technology | 3-5 years | \$ 10,570 | \$ (2,327) | \$ 8,243 |
| Noncompete agreements | 5 years | 1,300 | (303) | 997 |
| Customer relationships | 3-10 years | 48,376 | (2,707) | 45,669 |
| | | \$ 60,246 | \$ (5,337) | 54,909 |
| Non-amortizing intangible asset: | | | | |
| Trade name | | | | 24,600 |
| Total intangible assets other than goodwill | | | | \$ 79,509 |

Amortization expense of intangible assets for the twelve and twenty-four week period ended February, 15, 2014, was \$1.5 million and \$2.5 million, respectively. Amortization expense of intangible assets was \$0.6 million in the twelve and twenty-four week periods ended February 9, 2013.

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 15, 2014, is estimated as follows:

| <i>(in thousands)</i> | Total |
|--------------------------|------------------|
| Remainder of fiscal 2014 | \$ 4,641 |
| 2015 | 8,618 |
| 2016 | 8,618 |
| 2017 | 8,352 |
| 2018 | 6,725 |
| Thereafter | 17,955 |
| | \$ 54,909 |

Note L 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 and again in an Amended Directive and Notice to Insurers dated January 13, 2014 (collectively the Directives), that the Company is liable for the downgradient impacts under a joint and severable liability theory. The Company has contested any such assertions due to the existence of other entities/sources of contamination, some of which are named in the Directives, 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.

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The Company's three 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 31, 2013.

The Auto Parts Stores segment is a retailer and distributor of automotive parts and accessories through the Company's 5,242 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. The operating segments include 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; and AutoAnything, which includes direct sales to customers through www.autoanything.com.

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:

| <i>(in thousands)</i> | Twelve Weeks Ended | | Twenty-Four Weeks Ended | |
|---|------------------------------|-----------------------------|--------------------------------|-----------------------------|
| | February 15, 2014 | February 9, 2013 | February 15, 2014 | February 9, 2013 |
| Net Sales | | | | |
| Auto Parts Stores | \$ 1,913,591 | \$ 1,796,280 | \$ 3,933,161 | \$ 3,745,003 |
| Other | 76,903 | 58,918 | 150,911 | 101,235 |
| Total | \$ 1,990,494 | \$ 1,855,198 | \$ 4,084,072 | \$ 3,846,238 |
| Segment Profit | | | | |
| Auto Parts Stores | \$ 994,971 | \$ 924,704 | \$ 2,038,986 | \$ 1,924,039 |
| Other | 42,064 | 37,277 | 83,747 | 69,808 |
| Gross profit | 1,037,035 | 961,981 | 2,122,733 | 1,993,847 |
| Operating, selling, general and administrative expenses | (699,691) | (644,410) | (1,401,663) | (1,312,999) |
| Interest expense, net | (39,490) | (41,323) | (81,921) | (82,428) |
| Income before income taxes | \$ 297,854 | \$ 276,248 | \$ 639,149 | \$ 598,420 |

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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 15, 2014, the related condensed consolidated statements of income for the twelve and twenty-four week periods ended February 15, 2014 and February 9, 2013, the condensed consolidated statements of comprehensive income for the twelve and twenty-four week periods ended February 15, 2014 and February 9, 2013, and the condensed consolidated statements of cash flows for the twenty-four week periods ended February 15, 2014 and February 9, 2013. 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 31, 2013, 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 28, 2013, 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 31, 2013, 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 25, 2014

Table of Contents**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 15, 2014, operated 4,871 stores in the United States, including Puerto Rico; 367 in Mexico; and four 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 15, 2014, in 3,595 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 and Brazil as well. We also sell the ALLDATA brand automotive diagnostic and repair software through www.alldata.com and www.alldatadiy.com. Additionally, we sell automotive hard parts, maintenance items, accessories, and non-automotive products through www.autozone.com and www.autoanything.com, and our commercial customers can make purchases through 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 15, 2014, are not necessarily indicative of the results that may be expected for the fiscal year ending August 30, 2014. 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 2013 had 17 weeks and for fiscal 2014 has 16 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 7.3% for the quarter, driven by domestic same store sales (sales for stores open at least one year) growth of 4.3%, new store growth and increased number of commercial programs and, to a lesser extent, AutoAnything sales. Earnings per share increased 17.8% 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 new vehicle sales have increased over recent months, we believe our consumers' cash flows continue to be challenged 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 remain focused on refining and expanding our product assortment to ensure that we have the best merchandise at the right price in our stores. 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.

During the second quarter of fiscal 2014, the price per gallon of unleaded gasoline in the United States began the quarter at \$3.29 per gallon and ended the quarter at \$3.38 per gallon, a \$0.09 increase. During the comparable prior year period, gas prices increased by \$0.18 per gallon, beginning at \$3.43 per gallon and ending at \$3.61 per gallon. While the price per gallon has decreased over the comparable prior year quarter, gas prices remain at overall high 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.

During the second quarter of fiscal 2014, colder weather impacted much of the United States. This weather drove increased traffic in our stores, specifically, in our failure related categories. Failure and maintenance related categories represented the largest portion of our sales mix, at approximately 85% 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 increase in mix of sales of the failure related categories. We believe the increase in failure related products is largely due to weather related impacts in various regions of the U.S.

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 2013 through November 2013, miles driven have increased by 0.6% over 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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Twelve Weeks Ended February 15, 2014,

Compared with Twelve Weeks Ended February 9, 2013

Net sales for the twelve weeks ended February 15, 2014, increased \$135.3 million to \$1.990 billion, or 7.3%, over net sales of \$1.855 billion for the comparable prior year period. Total auto parts sales increased by 6.5%, primarily driven by domestic same store sales increase of 4.3%, net sales of \$42.9 million from new stores and increased commercial programs, and, to a lesser extent, AutoAnything sales.

Gross profit for the twelve weeks ended February 15, 2014, was \$1.037 billion, or 52.1% of net sales, compared with \$962.0 million, or 51.9% of net sales, during the comparable prior year period. The improvement in gross margin was attributable to higher merchandise margins and lower shrink expense, partially offset by the inclusion of the recent acquisition of AutoAnything (20 basis points).

Operating, selling, general and administrative expenses for the twelve weeks ended February 15, 2014, were \$699.7 million, or 35.2% of net sales, compared with \$644.4 million, or 34.7% of net sales, during the comparable prior year period. The increase in operating expenses, as a percentage of sales was primarily due to the timing of advertising costs (22 basis points).

Net interest expense for the twelve weeks ended February 15, 2014, was \$39.5 million compared with \$41.3 million during the comparable prior year period. The decrease was primarily due to a decrease in borrowing rates, partially offset by an increase in debt over the comparable prior year period. Average borrowings for the twelve weeks ended February 15, 2014, were \$4.275 billion, compared with \$3.948 billion for the comparable prior year period. Weighted average borrowing rates were 3.7% for the twelve weeks ended February 15, 2014, and 4.3% for the twelve weeks ended February 9, 2013.

Our effective income tax rate was 35.3% of pretax income for the twelve weeks ended February 15, 2014, and 36.2% for the comparable prior year period.

Net income for the twelve week period ended February 15, 2014, increased by \$16.6 million to \$192.8 million, and diluted earnings per share increased by 17.8% to \$5.63 from \$4.78 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 \$0.43.

Twenty-Four Weeks Ended February 15, 2014,

Compared with Twenty-Four Weeks Ended February 9, 2013

Net sales for the twenty-four weeks ended February 15, 2014, increased \$237.8 million to \$4.084 billion, or 6.2%, over net sales of \$3.846 billion for the comparable prior year period. Total auto parts sales increased by 5.0%, primarily driven by net sales of \$92.0 million from new stores and increased commercial programs, domestic same store sales increase of 2.5%, and, to a lesser extent, AutoAnything sales.

Gross profit for the twenty-four weeks ended February 15, 2014, was \$2.123 billion, or 52.0% of net sales, compared with \$1.994 billion, or 51.8% of net sales, during the comparable prior year period. The improvement in gross margin was attributable to lower acquisition costs and shrink expense, partially offset by the inclusion of the recent acquisition of AutoAnything (29 basis points).

Operating, selling, general and administrative expenses for the twenty-four weeks ended February 15, 2014, were \$1.402 billion, or 34.3% of net sales, compared with \$1.313 billion, or 34.1% of net sales, during the comparable prior year period. Operating expenses, as a percentage of sales, increased primarily due to store payroll and higher advertising costs.

Net interest expense for the twenty-four weeks ended February 15, 2014, was \$81.9 million compared with \$82.4 million during the comparable prior year period. The decrease was primarily due to a decrease in borrowing rates, partially offset by an increase in debt over the comparable prior year period. Average borrowings for the twenty-four weeks ended February 15, 2014, were \$4.206 billion, compared with \$3.845 billion for the comparable prior year period. Weighted average borrowing rates were 3.9% for the twenty-four weeks ended February 15, 2014, and 4.4% for the twenty-four weeks ended February 9, 2013.

Our effective income tax rate was 35.7% of pretax income for the twenty-four weeks ended February 15, 2014, and 36.5% for the comparable prior year period.

Net income for the twenty-four week period ended February 15, 2014, increased by \$31.2 million to \$410.9 million, and diluted earnings per share increased by 17.0% to \$11.92 from \$10.19 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 \$0.83.

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 15, 2014, our net cash flows from operating activities provided \$508.0 million as compared with \$510.8 million provided during the comparable prior year period.

Our net cash flows used in investing activities for the twenty-four weeks ended February 15, 2014, was \$173.8 million as compared with \$289.8 million in the comparable prior year period. Capital expenditures for the twenty-four weeks ended February 15, 2014, were \$160.0 million compared to \$169.6 million for the comparable prior year period. The decrease is primarily driven by the timing of new store openings. During the twenty-four week period ended February 15, 2014, we opened 41 net new stores. In the comparable prior year period,

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we opened 64 net new stores. Investing cash flows for the purchase of intangibles were \$11.1 million for the twenty-four weeks ended February 15, 2014, as compared with \$115.0 million used in the acquisition of AutoAnything in the comparable prior year period. Investing cash flows were also impacted by our wholly owned captive, which purchased \$21.1 million and sold \$19.2 million in marketable securities during the twenty-four weeks ended February 15, 2014. During the comparable prior year period, the captive purchased \$22.3 million in marketable securities and sold \$16.2 million in marketable securities. Capital asset disposals and other used \$0.9 million during the twenty-four week period ended February 15, 2014, and provided \$0.9 million in the comparable prior year period.

Our net cash flows used in financing activities for the twenty-four weeks ended February 15, 2014, was \$336.7 million compared to \$209.1 million in the comparable prior year period. During the twenty-four weeks ended February 15, 2014, we received \$400 million in proceeds from the issuance of debt compared to \$300 million in proceeds from the issuance of debt during the comparable prior year period. During the twenty-four weeks ended February 15, 2014, we repaid our \$500 million of Senior Notes due in January 2014 using proceeds from the \$400 million bond issuance in fiscal 2014 and commercial paper borrowings. During the comparable prior year period we repaid our \$300 million Senior Note due in October 2012 using commercial paper borrowings. For the twenty-four weeks ended February 15, 2014, there were \$234.7 million net proceeds from commercial paper, as compared to \$229.5 million net proceeds from commercial paper and short-term borrowings in the comparable prior year period. Stock repurchases were \$491.5 million in the current twenty-four week period as compared with \$502.3 million in the comparable prior year period. For the twenty-four weeks ended February 15, 2014, proceeds from the sale of common stock and exercises of stock options provided \$38.7 million, including \$11.1 million in related tax benefits. In the comparable prior year period, proceeds from the sale of common stock and exercises of stock options provided \$87.1 million, including \$33.7 million in related tax benefits.

During fiscal 2014, we expect to invest in our business at an increased rate as compared to fiscal 2013. Our investment is expected to be directed primarily to our new-store development program, enhancements to existing stores and infrastructure. 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. 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 30, 2014.

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 112.6% compared to 110.0% 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 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 15, 2014, our after-tax return on invested capital (ROIC) was 32.3% as compared to 32.4% 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.

Debt Facilities

In December 2013, we amended and restated our revolving credit facility, increasing the capacity under the revolving credit facility to \$1.25 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 \$1.5 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 2017.

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 15, 2014, we have \$100.0 million in letters of credit outstanding under the letter of credit facility, which expires in June 2016.

In addition to the outstanding letters of credit issued under the committed facilities discussed above, we had \$36.6 million in letters of credit outstanding as of February 15, 2014. These letters of credit have various maturity dates and were issued on an uncommitted basis.

As of February 15, 2014, \$871.7 million of commercial paper borrowings and \$341.6 million of the 5.750% Senior Notes due January 2015 are classified as long-term in the Consolidated Balance Sheets as we have the ability and intent to refinance on a long-term basis through available capacity in our revolving credit facility. As of February 15, 2014, we had \$1.213 billion of availability under our \$1.25 billion revolving credit facility, expiring in September 2017 that would allow us to replace these short-term obligations with long-term financing.

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On January 14, 2014, we issued \$400 million in 1.300% Notes due January 2017 under our 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 January 14, 2014, were used to repay a portion of the \$500 million in 6.500% Senior Notes due January 2014. We used commercial paper borrowings to repay the remainder of the 6.500% Senior Notes.

On April 29, 2013, the Company issued \$500 million in 3.125% Senior Notes due July 2023 under its Shelf Registration. Proceeds from the debt issuance on April 29, 2013, were used to repay a portion of the outstanding commercial paper borrowings, which were used to repay the \$200 million in 4.375% Senior Notes due in June 2013, and for general corporate purposes.

On November 13, 2012, the Company issued \$300 million in 2.875% Senior Notes due January 2023 under its Shelf Registration. 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 5.750% Senior Notes issued in July 2009 and the 6.500% and 7.125% Senior Notes issued during August 2008, are subject to an interest rate adjustment if the debt ratings assigned to these notes are downgraded. Further, all senior notes issued since August 2008 contain a provision that repayment of the notes may be accelerated if we experience 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 15, 2014, 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 2.5:1 as of February 15, 2014, and was 2.6:1 as of February 9, 2013. 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 15, 2014, we have repurchased a total of 135.7 million shares at an aggregate cost of \$13.423 billion, including 1,082,135 shares of our common stock at an aggregate cost of \$491.5 million during the twenty-four week period ended February 15, 2014. On December 17, 2013, the Board voted to increase the authorization by \$750 million to raise the cumulative share repurchase authorization from \$13.4 billion to \$14.15 billion. Considering cumulative repurchases as of February 15, 2014, we have \$726.9 million remaining under the Board's authorization to repurchase our common stock. Subsequent to February 15, 2014, we have repurchased 252,845 shares of our common stock at an aggregate cost of \$136.0 million.

During the twenty-four week period ended February 15, 2014, we retired 3.2 million shares of treasury stock which had previously been repurchased under our share repurchase program. The retirement increased Retained deficit by \$1.220 billion and decreased Additional paid-in capital by \$74.0 million. During the comparable prior year period, we retired 3.9 million shares of treasury stock, which increased Retained deficit by \$1.362 billion and decreased Additional paid-in capital by \$75.7 million.

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 15, 2014, was \$140.7 million compared with \$145.4 million at August 31, 2013, and our total surety bonds commitment at February 15, 2014, was \$26.6 million compared with \$30.7 million at August 31, 2013.

Financial Commitments

As of February 15, 2014, there were no significant changes to our contractual obligations as described in our Annual Report on Form 10-K for the year ended August 31, 2013.

Table of Contents**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 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.

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 15, 2014 and February 9, 2013.

| | A | B | A-B=C | D | C+D |
|--|---|---|---|--|---|
| | Fiscal Year Ended August 31, 2013 ⁽⁶⁾ | Twenty-Four Weeks Ended February 9, 2013 | Twenty-Nine Weeks Ended August 31, 2013 ⁽⁶⁾ | Twenty-Four Weeks Ended February 15, 2014 | Trailing Four Quarters Ended February 15, 2014 ⁽⁶⁾ |
| <i>(in thousands, except percentage)</i> | | | | | |
| Net income | \$ 1,016,480 | \$ 379,698 | \$ 636,782 | \$ 410,917 | \$ 1,047,699 |
| Adjustments: | | | | | |
| Interest expense | 185,415 | 82,428 | 102,987 | 81,921 | 184,908 |
| Rent expense | 246,340 | 109,915 | 136,425 | 115,505 | 251,930 |
| Tax effect ⁽¹⁾ | (155,432) | (68,666) | (86,766) | (70,481) | (157,247) |
| After-tax return | \$ 1,292,803 | \$ 503,375 | \$ 789,428 | \$ 537,862 | \$ 1,327,290 |
| Average debt ⁽²⁾ | | | | | \$ 4,136,218 |
| Average deficit ⁽³⁾ | | | | | (1,640,250) |
| Rent x 6 ⁽⁴⁾ | | | | | 1,511,580 |
| Average capital lease obligations ⁽⁵⁾ | | | | | 104,127 |
| Pre-tax invested capital | | | | | \$ 4,111,675 |
| ROIC | | | | | 32.3% |
| | A | B | A-B=C | D | C+D |

| <i>(in thousands, except percentage)</i> | Fiscal Year Ended August 25, 2012 | Twenty-Four Weeks Ended February 11, 2012 | Twenty-Eight Weeks Ended August 25, 2012 | Twenty-Four Weeks Ended February 9, 2013 | Trailing Four Quarters Ended February 9, 2013 |
|--|--|--|---|---|--|
| 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 ⁽¹⁾ | (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 ⁽²⁾ | | | | | \$ 3,727,872 |
| Average deficit ⁽³⁾ | | | | | (1,480,371) |
| Rent x 6 ⁽⁴⁾ | | | | | 1,413,666 |
| Average capital lease obligations ⁽⁵⁾ | | | | | 101,446 |
| Pre-tax invested capital | | | | | \$ 3,762,613 |
| ROIC | | | | | 32.4% |

(1) The effective tax rate was 35.7% and 36.0% over the trailing four quarters ended February 15, 2014 and February 9, 2013 respectively.

(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.

(6) The fiscal year ended August 31, 2013 consisted of 53 weeks resulting in an additional week for the trailing four quarters ended February 15, 2014.

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

The following tables calculate the ratio of adjusted debt to EBITDAR for the trailing four quarters ended February 15, 2014 and February 9, 2013.

| | A | B | A-B=C | D | C+D |
|-------------------------------------|---------------------|-------------|---------------------|--------------|---------------------|
| | Fiscal Year | Twenty-Four | Twenty-Nine | Twenty-Four | Trailing Four |
| | Ended | Weeks Ended | Weeks Ended | Weeks Ended | Quarters |
| | August 31, | February 9, | August 31, | February 15, | Ended |
| | 2013 ⁽²⁾ | 2013 | 2013 ⁽²⁾ | 2014 | February 15, |
| | | | | | 2014 ⁽²⁾ |
| <i>(in thousands, except ratio)</i> | | | | | |
| Net income | \$ 1,016,480 | \$ 379,698 | \$ 636,782 | \$ 410,917 | \$ 1,047,699 |
| Add: Interest expense | 185,415 | 82,428 | 102,987 | 81,921 | 184,908 |
| Income tax expense | 571,203 | 218,722 | 352,481 | 228,232 | 580,713 |
| EBIT | 1,773,098 | 680,848 | 1,092,250 | 721,070 | 1,813,320 |
| Add: Depreciation expense | 227,251 | 103,044 | 124,207 | 114,154 | 238,361 |
| Rent expense | 246,340 | 109,915 | 136,425 | 115,505 | 251,930 |
| Share-based expense | 37,307 | 16,616 | 20,691 | 20,716 | 41,407 |
| EBITDAR | \$ 2,283,996 | \$ 910,423 | \$ 1,373,573 | \$ 971,445 | \$ 2,345,018 |
| Debt | | | | | \$ 4,321,684 |
| Capital lease obligations | | | | | 107,224 |
| Add: Rent x 6 ⁽¹⁾ | | | | | 1,511,580 |
| Adjusted debt | | | | | \$ 5,940,488 |
| Adjusted debt / EBITDAR | | | | | 2.5 |

| | A | B | A-B=C | D | C+D |
|-------------------------------------|-------------|--------------|--------------|-------------|---------------|
| | Fiscal Year | Twenty-Four | Twenty-Eight | Twenty-Four | Trailing Four |
| | Ended | Weeks Ended | Weeks Ended | Weeks Ended | Quarters |
| | August 25, | February 11, | August 25, | February 9, | Ended |
| | 2012 | 2012 | 2012 | 2013 | February 9, |
| | | | | | 2013 |
| <i>(in thousands, except ratio)</i> | | | | | |
| 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 |

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| | | | | | |
|------------------------------|--------------|------------|--------------|------------|--------------|
| 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 ⁽¹⁾ | | | | | 1,413,666 |
| Adjusted debt | | | | | \$ 5,510,841 |
| Adjusted debt / EBITDAR | | | | | 2.6 |

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

(2) The fiscal year ended August 31, 2013 consisted of 53 weeks resulting in an additional week for the trailing four quarters ended February 15, 2014.

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Recently Adopted Accounting Pronouncements:

Refer to Note A of the Notes to Condensed Consolidated Financial Statements for the discussion of recently adopted accounting pronouncements.

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 31, 2013. Our critical accounting policies have not changed since the filing of our Annual Report on Form 10-K for the year ended August 31, 2013.

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, positioned, strategy and similar expressions. These are 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 31, 2013, 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 15, 2014, 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 31, 2013, except as described below.

The fair value of our debt was estimated at \$4.443 billion as of February 15, 2014, and \$4.259 billion as of August 31, 2013, 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 \$120.9 million at

February 15, 2014 and \$ 72.2 million at August 31, 2013. We had \$871.7 million of variable rate debt outstanding at February 15, 2014, and \$637.0 million of variable rate debt outstanding at August 31, 2013. 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 \$8.7 million in fiscal 2014. The primary interest rate exposure on variable rate debt is based on LIBOR. We had outstanding fixed rate debt of \$3.450 billion at February 15, 2014 and \$3.550 billion at August 31, 2013. A one percentage point increase in interest rates would reduce the fair value of our fixed rate debt by \$158.6 million at February 15, 2014.

Item 4. Controls and Procedures.

As of February 15, 2014, 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 15, 2014. During or subsequent to the quarter ended February 15, 2014, there were no changes in our internal controls that have materially affected or are reasonably likely to materially affect, internal controls over financial reporting.

During the twenty-four weeks ended February 15, 2014, we implemented several modules of a new accounting system, including a general ledger, accounts payable and fixed assets module. The internal controls over financial reporting affected by this implementation were evaluated for design and found to be effective. Prior to implementation of the modules, user acceptance testing was performed to ensure the system was functioning as designed.

Post-implementation reviews have been and will continue to be conducted by management to ensure that the internal controls surrounding the system implementation processes, key applications and the financial close process are properly designed and are operating effectively. We expect to implement additional modules during the remainder of fiscal 2014 and will apply the same methodology to those implementations.

Table of Contents**Item 4T. Controls and Procedures.**

Not applicable.

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 and again in an Amended Directive and Notice to Insurers dated January 13, 2014 (collectively the Directives), that we are liable for the downgradient impacts under a joint and severable liability theory. We have contested any such assertions due to the existence of other entities/sources of contamination, some of which are also named in the Directives, 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 31, 2013.

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

Shares of common stock repurchased by the Company during the quarter ended February 15, 2014, 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 24, 2013 to December 21, 2013 | | \$ | | \$ 926,904,342 |
| December 22, 2013 to January 18, 2014 | 118,112 | 489.46 | 118,112 | 869,093,123 |
| January 19, 2014 to February 15, 2014 | 285,880 | 497.37 | 285,880 | 726,904,425 |
| Total | 403,992 | \$ 495.06 | 403,992 | \$ 726,904,425 |

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. This program was most recently amended on December 17, 2013, to increase the repurchase authorization to \$14.15 billion from \$13.4 billion and does not have an expiration date. All of the above repurchases were part of this program. Subsequent to February 15, 2014, we have repurchased 252,845 shares of our common stock at an aggregate cost of \$136.0 million.

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 Officer's Certificate dated January 14, 2014, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 1.300% Senior Notes due 2017. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated January 14, 2014.
- 4.2 Form of 1.300% Note due 2017. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated January 14, 2014.
- 10.1 Underwriting Agreement, dated January 7, 2014, among AutoZone, Inc., J.P. Morgan Securities LLC, U.S. Bancorp Investments, Inc. and Wells Fargo Securities, LLC, as representatives of the several underwriters named therein. Incorporated by reference to the Current Report on Form 8-K dated January 8, 2014.
- *10.2 Amended and Restated AutoZone, Inc. AutoZone, Inc. Executive Deferred Compensation Plan dated December 17, 2013.
- *10.3 AutoZone, Inc. Director Compensation Program effective January 1, 2014.
- 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.

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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 25, 2014

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EXHIBIT INDEX

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 Officer s Certificate dated January 14, 2014, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 1.300% Senior Notes due 2017. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated January 14, 2014.
- 4.2 Form of 1.300% Note due 2017. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated January 14, 2014.
- 10.1 Underwriting Agreement, dated January 7, 2014, among AutoZone, Inc., J.P. Morgan Securities LLC, U.S. Bancorp Investments, Inc. and Wells Fargo Securities, LLC, as representatives of the several underwriters named therein. Incorporated by reference to the Current Report on Form 8-K dated January 8, 2014.
- *10.2 Amended and Restated AutoZone, Inc. AutoZone, Inc. Executive Deferred Compensation Plan dated December 17, 2013.
- *10.3 AutoZone, Inc. Director Compensation Program effective January 1, 2014.
- 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.