AUTOZONE INC
Form 10-Q
December 19, 2008

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

þ **Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934**
For the quarterly period ended November 22, 2008, or

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

Commission file number 1-10714
AUTOZONE, INC.
(Exact name of registrant as specified in its charter)

Nevada	**62-1482048**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

123 South Front Street
Memphis, Tennessee 38103
(Address of principal executive offices) (Zip Code)
(901) 495-6500
(Registrant s telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter periods that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o

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 þ Accelerated filer o Non-accelerated filer o (Do not check if a smaller reporting company) Smaller reporting company o

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

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 57,464,817 shares outstanding as of December 11, 2008.

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements.

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

	November 22, 2008	August 30, 2008
ASSETS		
Current assets		
Cash and cash equivalents	$ 85,756	$ 242,461
Accounts receivable	67,440	71,241
Merchandise inventories	2,186,627	2,150,109
Other current assets	122,322	122,490
Total current assets	2,462,145	2,586,301
Property and equipment		
Property and equipment	3,643,834	3,639,277
Less: Accumulated depreciation and amortization	1,376,636	1,349,621
	2,267,198	2,289,656
Other assets		
Goodwill, net of accumulated amortization	302,645	302,645
Deferred income taxes	41,337	38,283
Other long-term assets	39,889	40,227
	383,871	381,155
	$ 5,113,214	$ 5,257,112
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities		
Accounts payable	$ 2,002,128	$ 2,043,271
Accrued expenses and other	317,034	327,664
Income taxes payable	68,142	11,582
Deferred income taxes	140,673	136,803
Total current liabilities	2,527,977	2,519,320
Debt	2,268,200	2,250,000
Other liabilities	257,040	258,105
Stockholders equity	59,997	229,687
	$ 5,113,214	$ 5,257,112

See Notes to Condensed Consolidated Financial Statements

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

	Twelve Weeks Ended	
	November 22, 2008	**November 17, 2007**
Net sales	$ 1,478,292	$ 1,455,655
Cost of sales, including warehouse and delivery expenses	737,101	729,207
Operating, selling, general and administrative expenses	502,652	489,073
Operating profit	238,539	237,375
Interest expense, net	31,166	28,062
Income before income taxes	207,373	209,313
Income taxes	76,002	76,797
Net income	$ 131,371	$ 132,516
Weighted average shares for basic earnings per share	58,325	64,855
Effect of dilutive stock equivalents	590	589
Adjusted weighted average shares for diluted earnings per share	58,915	65,444
Basic earnings per share	$ 2.25	$ 2.04
Diluted earnings per share	$ 2.23	$ 2.02

See Notes to Condensed Consolidated Financial Statements

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

	Twelve Weeks Ended	
	November 22, 2008	**November 17, 2007**
Cash flows from operating activities		
Net income	$ 131,371	$ 132,516
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation and amortization of property and equipment	40,153	39,692
Amortization of debt origination fees	620	415
Income tax benefit from exercise of options	(1,520)	(1,795)
Deferred income taxes	1,502	(379)
Share-based compensation expense	4,456	4,182
Changes in operating assets and liabilities		
Accounts receivable	3,054	5,976
Merchandise inventories	(53,828)	(44,094)
Accounts payable and accrued expenses	(47,291)	(23,074)
Income taxes payable	58,080	54,721
Other, net	4,187	2,885
Net cash provided by operating activities	140,784	171,045
Cash flows from investing activities		
Capital expenditures	(51,099)	(44,887)
Purchase of marketable securities	(5,281)	(20,448)
Proceeds from sale of marketable securities	5,270	5,282
Disposal of capital assets and other, net	4,498	392
Net cash used in investing activities	(46,612)	(59,661)
Cash flows from financing activities		
Net proceeds from commercial paper	18,900	264,370
Repayment of debt	(700)	(38,918)
Net proceeds from sale of common stock	8,062	8,766
Purchase of treasury stock	(272,123)	(349,990)
Income tax benefit from exercise of stock options	1,520	1,795
Payments of capital lease obligations	(3,979)	(3,874)
Other, net		(374)
Net cash used in financing activities	(248,320)	(118,225)

Effect of exchange rate changes on cash		(2,557)		
Net decrease in cash and cash equivalents		(156,705)		(6,841)
Cash and cash equivalents at beginning of period		242,461		86,654
Cash and cash equivalents at end of period	$	85,756	$	79,813

See Notes to Condensed Consolidated Financial Statements

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

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. 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 footnotes included in the 2008 Annual Report to Stockholders for AutoZone, Inc. (AutoZone or the Company) for the year ended August 30, 2008.

Operating results for the twelve weeks ended November 22, 2008 are not necessarily indicative of the results that may be expected for the fiscal year ending August 29, 2009. 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 2008 had 17 weeks and for fiscal 2009 will have 16 weeks. Additionally, the Company s business is somewhat seasonal in nature, with the highest sales generally occurring in the spring and summer months of March through September and the lowest sales generally occurring in the winter months of December through February.

Recent Accounting Pronouncements: On August 25, 2007, the Company adopted the recognition and disclosure provisions of FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement plans, and the recognition in accumulated other comprehensive income (AOCI) of unrecognized gains or losses and prior service costs or credits. The funded status is measured as the difference between the fair value of the plan s assets and the projected benefit obligation (PBO) of the plan.

Additionally, SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor s year end. On August 31, 2008, the Company adopted the measurement date provisions of SFAS 158. The adoption of the measurement date provisions of SFAS 158 had no material effect on our consolidated financial statements as of and for the twelve weeks ended November 22, 2008 or for any prior period presented, and it will not materially affect our operating results in future periods.

Effective August 31, 2008, the Company adopted FASB Statement No. 157, Fair Value Measurements (SFAS 157), which defines fair values, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. The adoption of SFAS 157 had no material impact on the consolidated financial statements as of and for the twelve weeks ended November 22, 2008. Refer to Note C Fair Value Measurements for disclosure about fair value measurements.

Note B- Share-Based Payments

Share-based payments include stock option grants and the discount on shares sold to employees under share purchase plans. Additionally, directors may defer a portion of their fees in units (Director Units) with value equivalent to the value of shares of common stock as of the grant date.

Total share-based expense (a component of operating, selling, general and administrative expenses) was $4.5 million for the twelve week period ended November 22, 2008 and was $4.2 million for the comparable prior year period. During the quarter, the Company made stock option grants of 567,942 shares in connection with our annual grant. We granted options to purchase 619,240 shares during the first quarter of fiscal 2008. The weighted average fair value of the stock option awards, granted during the twelve week periods ended November 22, 2008 and November 17, 2007, using the Black-Scholes-Merton multiple-option pricing valuation model, was $33.64 and $29.96 per share, respectively, using the following weighted average key assumptions:

	Twelve Weeks Ended	
	November 22, 2008	November 17, 2007
Expected price volatility	27%	24%

Risk-free interest rate	2.5%	4.1%
Weighted average expected lives in years	4.1	4.0
Forfeiture rate	10.0%	10.0%
Dividend yield	0.0%	0.0%

See our 2008 Annual Report to Stockholders for a discussion of the methodology used in developing our assumptions used in determining the fair value of the option awards.

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Note C- Fair Value Measurements

As previously discussed, during the twelve week period ended November 22, 2008, the Company adopted SFAS No. 157, which defines fair value, establishes a framework for measuring fair value in GAAP and expands disclosure requirements about fair value measurements. This standard 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. SFAS 157 establishes a framework for measuring fair value by creating a hierarchy of valuation inputs used to measure fair value, and although it does not require additional fair value measurements, it applies to other accounting pronouncements that require or permit fair value measurements.

The hierarchy prioritizes the inputs into three broad levels:

Level 1 inputs unadjusted quoted prices in active markets for identical assets or liabilities that we have the ability to access. An active market for the asset or liability is one in which transactions for the asset or liability occurs 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.

The following table provides the fair value measurement amounts for assets and liabilities recorded on the Company s Condensed Consolidated Balance Sheet at fair value as of November 22, 2008:

	Total Fair Value Amounts at November 22, 2008	Level 1	Level 2	Level 3
Short-term investments[(1)]	$ 65,659	$ 65,659	$	$
Fuel hedge derivative liability[(2)]	(2,705)		(2,705)	
Interest rate swap derivative liabilities[(3)]	(6,111)		(6,111)	
Total	$ 56,843	$ 65,659	$ (8,816)	$

(1) Included within Other current assets on the Condensed Consolidated Balance Sheet.

(2) Included within Accrued expenses and other current liabilities on the

Condensed Consolidated Balance Sheet.

(3) Included within Other long term liabilities on the Condensed Consolidated Balance Sheet.

Short-term investments are typically valued at the closing price in the principal active market as of the last business day of the quarter. The fair values of derivative assets and liabilities traded in the over-the-counter market are determined using quantitative models that require the use of multiple inputs including interest rates, prices and indices to generate pricing and volatility factors. The predominance of market inputs are actively quoted and can be validated through external sources, including brokers, market transactions and third-party pricing services. Our derivative instruments are valued using Level 2 measurements.

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Note D- Inventories

Inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method. Included in inventory are related purchasing, storage, delivery and handling costs. Due to price deflation on the Company s merchandise purchases, the Company s inventory balances are effectively maintained under the first-in first-out method. The Company s policy is not to write up inventory in excess of replacement cost, resulting in cost of sales being reflected at the higher amount. The cumulative balance of this unrecorded adjustment, which is reduced upon experiencing price inflation on our merchandise purchases, was $215.2 million at November 22, 2008, and $225.4 million at August 30, 2008.

Note E- Pension Plans

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

	Twelve Weeks Ended	
(in thousands)	**November 22, 2008**	**November 17, 2007**
Interest cost	$ 2,457	$ 2,299
Expected return on plan assets	(2,927)	(3,008)
Amortization of prior service cost	14	23
Amortization of net loss	17	22
Net periodic benefit income	$ (439)	$ (664)

The Company makes contributions in amounts at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974. During the twelve week period ended November 22, 2008 the Company did not make any contributions to its funded plan and does not expect any additional funding for the remainder of this fiscal year.

Note F- Long-Term Debt

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

(in thousands)	**November 22, 2008**	**August 30, 2008**
Bank Term Loan due December 2009, effective interest rate of 4.40%	$ 300,000	$ 300,000
4.75% Senior Notes due November 2010, effective interest rate of 4.17%	199,300	200,000
5.875% Senior Notes due October 2012, effective interest rate of 6.33%	300,000	300,000
4.375% Senior Notes due June 2013, effective interest rate of 5.65%	200,000	200,000
6.5% Senior Notes due January 2014, effective interest rate of 6.63%	500,000	500,000
5.5% Senior Notes due November 2015, effective interest rate of 4.86%	300,000	300,000
6.95% Senior Notes due June 2016, effective interest rate of 7.09%	200,000	200,000
7.125% Senior Notes due August 2018, effective interest rate of 7.28%	250,000	250,000
Commercial paper, weighted average interest rate of 4.5% at November 22, 2008	18,900	
	$ 2,268,200	$ 2,250,000

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

Note G- Stock Repurchase Program

On September 23, 2008, the Board of Directors increased the Company s cumulative share repurchase authorization from $6.4 billion to $6.9 billion. From January 1, 1998 to November 22, 2008, the Company has repurchased a total of 108.3 million shares at an aggregate cost of $6.6 billion, including 2,233,052 shares of our common stock at an aggregate cost of $272.1 million during the twelve week period ended November 22, 2008. Considering cumulative repurchases as of November 22, 2008, the Company has $337.0 million remaining under the Board s authorization to repurchase its common stock.

On December 17, 2008, the Board of Directors increased the Company s cumulative share repurchase authorization from $6.9 billion to $7.4 billion.

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Note H- Comprehensive Income

Comprehensive income includes foreign currency translation adjustments; the impact from certain derivative financial instruments designated and effective as cash flow hedges, including changes in fair value, as applicable; the reclassification of gains and/or losses from accumulated other comprehensive loss to net income to offset the earnings impact of the underlying items being hedged; and changes in the fair value of certain investments classified as available for sale. The foreign currency translation adjustment of $41.6 million in the twelve weeks ended November 22, 2008, was attributable to the weakening of the Mexican Peso against the US Dollar, which as of November 22, 2008, had decreased by approximately 25% when compared to August 30, 2008.

Comprehensive income for all periods presented is as follows:

	Twelve Weeks Ended	
(in thousands)	**November 22, 2008**	**November 17, 2007**
Net income, as reported	$ 131,371	$ 132,516
Foreign currency translation adjustment	(41,600)	812
Net impact from derivative instruments	(1,257)	(3,542)
Unrealized gains (losses) from marketable securities	(432)	246
Comprehensive income	$ 88,082	$ 130,032

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Report of Independent Registered Public Accounting Firm
The Board of Directors and Stockholders
AutoZone, Inc.

We have reviewed the condensed consolidated balance sheet of AutoZone, Inc. as of November 22, 2008, the related condensed consolidated statements of income and cash flows for the twelve week periods ended November 22, 2008 and November 17, 2007. 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 30, 2008, and the related consolidated statements of income, changes in stockholders equity, and cash flows for the year then ended, not presented herein, and, in our report dated October 20, 2008, 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 30, 2008 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ Ernst & Young LLP
Memphis, Tennessee
December 16, 2008

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Item 2. Management s Discussion and Analysis of Financial Condition and Results of Operations.

Overview

We are the nation s leading retailer and a leading distributor of automotive parts and accessories. As of November 22, 2008, we operated 4,272 stores including 150 stores in Mexico, compared with 4,096 stores including 124 stores in Mexico at November 17, 2007. 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. In many of our 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 government agencies. We also sell the ALLDATA brand automotive diagnostic and repair software. On the web, we sell diagnostic and repair information and automotive hard parts, maintenance items, accessories and non-automotive products through www.autozone.com. We do not derive revenue from automotive repair or installation.

Operating results for the twelve weeks ended November 22, 2008, are not necessarily indicative of the results that may be expected for the fiscal year ending August 29, 2009. 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 2008 had 17 weeks and for fiscal 2009 will have 16 weeks. Our business is somewhat seasonal in nature, with the highest sales generally occurring in the spring and summer months of March through September and the lowest sales generally occurring in the winter months of December through February. Additionally, we believe the two statistics that have the closet correlation to our market growth are the number of seven year old or older vehicles on the road and miles driven.

Executive Summary

Net sales were up 1.6% for the quarter as we experienced modest same store sales declines. Early in the quarter our net sales were negatively impacted by two major hurricanes in September, which were followed by gas shortages in the Southeast, but later in the quarter gas prices declined and our sales trends ran generally consistent with our recent quarterly performance.

In the midst of a very challenging macro environment, our business displayed a great deal of resilience. The sales of new vehicles have declined significantly while scrappage rates have remained stable. This leads to an aging U.S. fleet which historically has been beneficial to us. On the other hand, miles driven declined for the twelfth straight month in October. While we believe higher gas prices have contributed to these trends, we have seen a material decline in gas prices in the last few months and we are optimistic that, over time, the decline in gas prices will lead to a more normalized trend in miles driven which could eliminate one of the major challenges our industry has faced for the last couple of years.

As we continue to see specific discretionary categories being negatively impacted by the current environment, we have increased our focus on selling the parts, products and related items necessary to complete the job, improving our proprietary sales tool, Z-net, and enhancing training and promotions.

Twelve Weeks Ended November 22, 2008,
Compared with Twelve Weeks Ended November 17, 2007

Net sales for the twelve weeks ended November 22, 2008, increased $22.6 million to $1.478 billion, or 1.6% over net sales of $1.456 billion for the comparable prior year period. Domestic same store sales (sales for stores opened at least one year) decreased 1.5%. Domestic retail sales increased 0.7%, domestic commercial sales increased 1.8%, and combined sales from our ALLDATA and Mexico operations increased 14.2%.

Gross profit for the twelve weeks ended November 22, 2008, was $741.2 million, or 50.1% of net sales, compared with $726.4 million, or 49.9% of net sales, during the comparable prior year period. The improvement in gross margin rate was primarily due to ongoing category management efforts, including an increase in vendor supported promotional activities that were partially offset by increased product costs.

Operating, selling, general and administrative expenses for the twelve weeks ended November 22, 2008, were $502.7 million, or 34.0% of net sales, compared with $489.1 million, or 33.6% of net sales, during the comparable prior year period. The increase in operating expenses, as a percentage of sales, was primarily due to higher occupancy costs and self insurance expenses versus last year.

Interest expense, net for the twelve weeks ended November 22, 2008, was $31.2 million compared with $28.1 million during the comparable prior year period. This increase was primarily due to the increase in debt over the comparable prior year period. Average borrowings for the twelve weeks ended November 22, 2008, were $2.256 billion, compared with $2.035 billion for the comparable prior year period. Weighted average borrowing rates were 5.8% at November 22, 2008 and 5.4% at November 17, 2007.

Our effective income tax rate was 36.6% of pretax income for the twelve weeks ended November 22, 2008, and 36.7% for the comparable prior year period. The annual rate for fiscal 2009 will depend on a number of factors, including the amount and source of operating income and the timing and nature of discrete income tax events.

Net income for the twelve week period ended November 22, 2008, decreased by $1.1 million to $131.4 million, and diluted earnings per share increased by 10.1% to $2.23 from $2.02 in the comparable prior year period driven by stock repurchases.

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Liquidity and Capital Resources

The primary source of our liquidity is our cash flows realized through the sale of automotive parts and accessories. For the twelve weeks ended November 22, 2008, our net cash flows from operating activities provided $140.8 million as compared with $171.0 million during the comparable prior year period. The decrease was primarily due to a decrease in accounts payable and accrued expenses due to timing of payments and an increase in cash used to build inventory.

Our net cash flows from investing activities for the twelve weeks ended November 22, 2008, used $46.6 million as compared with $59.7 million used in the comparable prior year period. Capital expenditures for the twelve weeks ended November 22, 2008, were $51.1 million compared to $44.9 million for the comparable prior year period. During this twelve week period, we opened 32 stores, including two new stores in Mexico. In the comparable prior year period, we opened 41 stores, including one in Mexico. Investing cash flows were also impacted by our wholly-owned insurance captive, which purchased $5.3 million and sold $5.3 million in marketable securities during the twelve weeks ended November 22, 2008. During the comparable prior year period, this captive purchased $20.4 million in marketable securities and sold $5.2 million in marketable securities. Capital asset disposals provided $4.5 million during the current period and $0.4 million in the prior year period.

Our net cash flows from financing activities for the twelve weeks ended November 22, 2008, used $248.3 million compared to $118.2 million used in the comparable prior year period. Net proceeds from commercial paper borrowings were $18.9 million versus $264.4 million in the comparable prior year period. Repayment of debt was $0.7 million as compared to $38.9 million in the comparable prior year period. Stock repurchases were $272.1 million in the current twelve week period as compared with $350.0 million in the comparable prior year period. For the twelve weeks ended November 22, 2008, proceeds from the sale of common stock and exercises of stock options provided $9.6 million, including $1.5 million in related tax benefits. In the comparable prior year period, proceeds from the sale of common stock and exercises of stock options provided $10.6 million, including $1.8 million in related tax benefits.

We expect to invest in our business consistent with historical rates during fiscal 2009, primarily related to our new store development program and enhancements to existing stores and systems. 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. We plan to continue leveraging our inventory purchases; however, our ability to do so may be impacted by a prolonged tightening of the credit markets which may directly limit our vendors capacity to factor their receivables from us.

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 credit ratings.

Credit Ratings

At November 22, 2008, AutoZone had a senior unsecured debt credit rating from Standard & Poor s of BBB and a commercial paper rating of A-2. Moody s Investors Service had assigned the Company a senior unsecured debt credit rating of Baa2 and a commercial paper rating of P-2. Fitch Ratings assigned the Company a BBB rating for senior unsecured debt and an F-2 rating for commercial paper. As of November 22, 2008, Moody s, Standard & Poor s and Fitch had AutoZone listed as having a stable outlook. If our credit ratings drop, our interest expense may increase; similarly, we anticipate that our interest expense may decrease if our investment ratings are raised. If our commercial paper ratings drop below current levels, we may have difficulty continuing to utilize the commercial paper market and our interest expense will likely increase, as we will then be required to access more expensive bank lines of credit. If our senior unsecured debt ratings drop below investment grade, our access to financing may become more limited.

Debt Facilities

We maintain $1.0 billion of revolving credit facilities with a group of banks to primarily support commercial paper borrowings, letters of credit and other short-term unsecured bank loans. The credit facilities may be increased to $1.3 billion at AutoZone 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 $100 million in capital leases. As the available balance is reduced by

commercial paper borrowings and certain outstanding letters of credit, the Company had $841.6 million in available capacity under these facilities at November 22, 2008. The rate of interest payable under the credit facilities is a function of Bank of America s base rate or a Eurodollar rate (each as defined in the facility agreements), or a combination thereof. These facilities expire in May 2010.

The 6.50% and 7.125% notes issued during August, 2008, are subject to an interest rate adjustment if the debt ratings assigned to the notes are downgraded and a provision where 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 arrangements 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 provision where repayment obligations may be accelerated if AutoZone experiences a change in control (as defined in the agreements). 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 November 22, 2008, we were in compliance with all covenants and expect to remain in compliance with all covenants.

Stock Repurchases

On September 23, 2008, the Board of Directors increased the Company s cumulative share repurchase authorization from $6.4 billion to $6.9 billion. From January 1, 1998 to November 22, 2008, we have repurchased a total of 108.3 million shares at an aggregate cost of $6.6 billion, including 2,233,052 shares of our common stock at an aggregate cost of $272.1 million during the twelve week period ended November 22, 2008. Considering cumulative repurchases as of November 22, 2008, the Company has $337.0 million remaining under the Board s authorization to repurchase our common stock.

On December 17, 2008, the Board of Directors increased the Company s cumulative share repurchase authorization from $6.9 billion to $7.4 billion.

Off-Balance Sheet Arrangements

In conjunction with our commercial sales program, we offer credit to some of our commercial customers. The majority of our receivables related to the credit program are sold to a third party at a discount for cash with limited recourse. We have established a reserve for this recourse. At November 22, 2008, the receivables facility had an outstanding balance of $56.4 million and the balance of the recourse reserve was approximately $1.4 million.

Since fiscal year end, we have cancelled, issued new and modified existing stand-by letters of credit that are primarily renewed on an annual basis to cover premium and deductible payments to our workers compensation carrier. Our total standby letters of credit commitment at November 22, 2008, was $114.0 million compared with $113.3 million at August 30, 2008, and our total surety bonds commitment at November 22, 2008, was $13.1 million compared with $13.8 million at August 30, 2008.

Recent Accounting Pronouncements

On August 25, 2007, we adopted the recognition and disclosure provisions of FASB Statement No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (SFAS 158). SFAS 158 requires recognition in the balance sheet of the funded status of defined benefit pension and other postretirement plans, and the recognition in accumulated other comprehensive income (AOCI) of unrecognized gains or losses and prior service costs or credits. The funded status is measured as the difference between the fair value of the plan s assets and the projected benefit obligation (PBO) of the plan.

Additionally, SFAS 158 requires the measurement date for plan assets and liabilities to coincide with the sponsor s year end. On August 31, 2008, we adopted the measurement date provisions of SFAS 158. The adoption of the measurement date provisions of SFAS 158 had no material effect on our consolidated financial statements as of and for the twelve weeks ended November 22, 2008 or for any prior period presented, and it will not materially affect our operating results in future periods.

Effective August 31, 2008, the Company adopted FASB Statement No. 157, Fair Value Measurements (SFAS 157), which defines fair values, establishes a framework for measuring fair value in generally accepted accounting principles, and expands disclosure about fair value measurements. The adoption of SFAS 157 had no impact on our financial statements as of and for the twelve weeks ended November 22, 2008.

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, competition; product demand; the economy; credit markets; 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; availability of consumer transportation; construction delays; access to available and feasible financing; and changes in laws or regulations. 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 such events could materially and adve