

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 November 23, 2002, or
- Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of  
1934  
For the transition period from \_\_\_\_\_ to \_\_\_\_\_.

Commission file number 1-10714

**AUTOZONE, INC.**

(Exact name of registrant as specified in its charter)

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

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

**123 South Front Street**  
**Memphis, Tennessee 38103**  
(Address of principal executive offices) (Zip Code)

**(901) 495-6500**  
Registrant's telephone number, including area code

(not applicable)  
Former name, former address and former fiscal year, if changed since last report.

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

APPLICABLE ONLY TO CORPORATE ISSUERS

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

Common Stock, \$.01 Par Value -- 97,397,851 shares as of December 12, 2002.

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**PART I. FINANCIAL INFORMATION**

**Item 1. Financial Statements**

**AUTOZONE, INC.**

**CONDENSED CONSOLIDATED BALANCE SHEETS**

(Unaudited)  
(in thousands)

	<b>November 23, 2002</b>	<b>August 31, 2002</b>
<b>ASSETS</b>		
Current assets		
Cash and cash equivalents	\$6,530	\$6,498

Accounts receivable	28,899	23,782
Merchandise inventories	1,484,699	1,375,584
Prepaid expenses	17,385	11,690
Deferred income taxes	28,332	32,574
Total current assets	1,565,845	1,450,128
Property and equipment		
Property and equipment	2,458,096	2,432,130
Less: Accumulated depreciation and amortization	794,412	770,402
	1,663,684	1,661,728
Other assets		
Cost in excess of net assets acquired	305,390	305,390
Deferred income taxes	62,452	60,304
Other assets	15,142	241
	382,984	365,935
	\$3,612,513	\$3,477,791

#### LIABILITIES AND STOCKHOLDERS' EQUITY

Current liabilities		
Accounts payable	\$1,120,748	\$1,145,533
Accrued expenses	304,907	344,600
Income taxes payable	59,468	43,438
Total current liabilities	1,485,123	1,533,571
Long term debt	1,313,092	1,194,517
Other liabilities	60,456	60,576
Stockholders' equity	753,842	689,127
	\$3,612,513	\$3,477,791

See Notes to Condensed Consolidated Financial Statements

### AUTOZONE, INC.

#### CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

(in thousands, except per share amounts)

	Twelve Weeks Ended	
	November 23, 2002	November 17, 2001
Net sales	\$1,218,635	\$1,176,052
Cost of sales, including warehouse and delivery expenses	669,245	659,916
Operating, selling, general and administrative expenses	361,064	360,632
Operating profit	188,326	155,504
Interest expense -- net	19,105	19,427
Income before income taxes	169,221	136,077
Income taxes	64,310	52,000
Net income	\$104,911	\$84,077
Weighted average shares for basic earnings per share	98,808	107,984
Effect of dilutive stock equivalents	2,398	2,621

Adjusted weighted average shares for diluted earnings per share	101,206	110,605
Basic earnings per share	\$1.06	\$0.78
Diluted earnings per share	\$1.04	\$0.76

See Notes to Condensed Consolidated Financial Statements

**AUTOZONE, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)  
(in thousands)

	<b>Twelve Weeks Ended</b>	
	<b>November 23, 2002</b>	<b>November 17, 2001</b>
Cash flows from operating activities:		
Net income	\$104,911	\$84,077
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation and amortization	25,593	28,169
Net increase in merchandise inventories	(109,115)	(82,541)
Net decrease in current liabilities	(48,448)	(24,884)
Income tax benefit from exercise of options	18,291	9,884
Other -- net	(27,128 )	(7,543)
Net cash provided by (used in) operating activities	(35,896)	7,162
Cash flows from investing activities:		
Capital expenditures	(30,465)	(16,211)
Proceeds from disposal of capital assets	3,631	1,009
Notes receivable from officers	----	474
Net cash used in investing activities	(26,834)	(14,728)
Cash flows from financing activities:		
Net proceeds from debt	118,575	55,240
Net proceeds from sale of common stock	21,886	21,938
Purchase of treasury stock	(78,523)	(69,447)
Other	824	(166)
Net cash provided by financing activities	62,762	7,565
Net change in cash and cash equivalents	32	(1)
Cash and cash equivalents at beginning of period	6,498	7,286
Cash and cash equivalents at end of period	\$6,530	\$7,285

See Notes to Condensed Consolidated Financial Statements

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

(Unaudited)

**Note A-Basis of Presentation**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with 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 generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the twelve weeks ended November 23, 2002, are not necessarily indicative of the results that may be expected for the fiscal year ending August 30, 2003. For further information, refer

to the financial statements and footnotes included in the Company's annual report on Form 10-K for the year ended August 31, 2002.

## Note B-Restructuring and Impairment Charges

In fiscal 2001, AutoZone recorded restructuring and impairment charges of \$156.8 million. Total remaining accrued obligations for restructuring charges were \$17.8 million at November 23, 2002, and consisted primarily of accrued lease obligations. The Company has not reversed any reserves into income. The following table presents a summary of the activity in accrued lease obligations:

<i>(in thousands)</i>	<b>Lease Obligations</b>
Balance at August 31, 2002	\$18,140
Cash outlays	(314)
Balance at November 23, 2002	<u>\$ 17,826</u>

## Note C-Adoption of New Accounting Standards

On September 1, 2002, the Company adopted Statement of Financial Accounting Standards No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets" (SFAS 144). SFAS 144 supersedes Statement No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of," but retains many of its fundamental provisions. Additionally, SFAS 144 expands the scope of discontinued operations to include more disposal transactions. The adoption of SFAS 144 did not have a significant financial impact on the Company's Consolidated Financial Statements.

In June 2002, the financial Accounting Standards Board issued Statement No. 146, "Accounting for Costs Associated with Exit or Disposal Activities" (SFAS 146). SFAS 146 nullifies Emerging Issues Task Force Issue No. 94-3, "Liability Recognition for Certain Employee Termination Benefits and Other Costs to Exit an Activity (including Certain Costs Incurred in a Restructuring)" and requires that a liability for the cost associated with an exit or disposal activity be recognized when the liability is incurred, as opposed to the date of an entity's commitment to an exit plan. The provisions of SFAS 146 are effective for exit or disposal activities that are initiated after December 31, 2002. The Company does not expect the adoption of SFAS 146 to have a significant financial impact on its Consolidated Financial Statements.

In November 2002, the Emerging Issues Task Force (EITF) reached a consensus on EITF Issue No. 02-16, "Accounting by a Customer (including a Reseller) for Cash Consideration Received from a Vendor," which is effective for the Company's fiscal third quarter beginning February 16, 2002, and will require certain funds received from vendors to be reflected as a reduction of cost of sales or revenue as prescribed in the consensus. As the EITF has not yet issued final guidance on this issue, the Company cannot complete an evaluation of the impact of the adoption of this Statement on its Consolidated Financial Statements.

## Note D-Inventories

Inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management's estimates of expected year end inventory levels and costs.

## Note E-Financing Arrangements

The Company's long term debt as of November 23, 2002, and August 31, 2002, consisted of the following:

<i>(in thousands)</i>	<b>November 23, 2002</b>	<b>August 31, 2002</b>
5.875% Senior Notes due October 2012	\$300,000	\$ ----
6% Notes due November 2003	150,000	150,000
6.5% Debentures due July 2008	190,000	190,000
7.99% Notes due April 2006	150,000	150,000
Bank term loan due November 2004, interest rate of 2.55% at November 23, 2002, and 2.56% at August 31, 2002	350,000	350,000
Bank term loan due December 2003, interest rate of 3.11% at August 31, 2002	----	115,000

Commercial paper, weighted average rate of 1.4% at November 23, 2002, and 2.1% at August 31, 2002	156,775	223,200
Other	16,317	16,317
	<u>\$1,313,092</u>	<u>\$1,194,517</u>

The Company maintains \$950 million of revolving credit facilities with a group of banks. Of the \$950 million, \$300 million expires in May 2003. The remaining \$650 million expires in May 2005. The 364-day facility expiring in May 2003 includes a renewal feature, as well as an option to extend the maturity date of the then-outstanding debt by one year. The credit facilities exist largely to support commercial paper borrowings and other short term unsecured bank loans. Outstanding commercial paper at November 23, 2002, of \$156.8 million and the 6% Notes due November 2003 are classified as long term as the Company has the ability and intention to refinance them on a long term basis. The rate of interest payable under the credit facilities is a function of the London Interbank Offered Rate (LIBOR), the lending bank's base rate (as defined in the agreement) or a competitive bid rate at the option of the Company. The Company has agreed to observe certain covenants under the terms of its credit agreements, including limitations on total indebtedness, restrictions on liens and minimum fixed charge coverage.

On October 1, 2002, the Company filed a shelf registration with the Securities and Exchange Commission that will allow the Company to sell up to \$500 million in debt securities. On October 16, 2002, the Company issued \$300 million of 5.875% Senior Notes under the registration statement. The Senior Notes mature in October 2012, and interest is payable semi-annually on April 15 and October 15. A portion of the proceeds from the Senior Notes was used to prepay a \$115 million unsecured bank term loan due December 2003 and to repay a portion of the Company's outstanding commercial paper borrowings.

#### Note F-Stockholders' Equity

The Company presents basic and diluted earnings per share (EPS) in accordance with Statement of Financial Accounting Standards No. 128, "Earnings Per Share." Basic EPS is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted EPS reflects the potential dilution that could occur from common shares issuable through stock-based compensation including stock options.

As of November 23, 2002, the Company's Board of Directors had authorized the Company to repurchase up to \$2.3 billion of common stock in the open market. Since fiscal 1998, the Company has repurchased a total of 60.9 million shares at an aggregate cost of \$2.0 billion. At times, the Company utilizes equity forward contracts to facilitate its repurchase of common stock. At November 23, 2002, the Company held equity forward contracts that relate to the purchase of approximately 1.6 million shares of common stock at an average cost of \$72.79 per share, all of which mature in fiscal 2003. The Company, at its option, may settle the forward contracts in cash or common stock. The Company has historically settled all similar contracts in cash. In accordance with the provisions of Emerging Issues Task Force Issue 00-19, "Accounting for Derivative Financial Instruments Indexed to, and Potentially Settled in, a Company's Own Stock," these contracts qualify as equity instruments and are not reflected in the Company's Consolidated Balance Sheets. Due to fluctuations in the Company's stock price, when the Company settles these forward contracts, the settlement price may be above or below the market price of the underlying common stock.

#### Note G-Comprehensive Income

Comprehensive income includes foreign currency translation adjustments and changes in the fair value of certain derivative financial instruments that qualify for cash flow hedge accounting. Comprehensive income for all periods presented is as follows:

(in thousands)	Twelve Weeks Ended	
	November 23, 2002	November 17, 2001
Reported net earnings	\$104,911	\$84,077
Foreign currency translation adjustment, net of deferred taxes	558	(84)
Unrealized loss on interest rate swap contracts, net of deferred taxes	(2,675)	(2,705)
Comprehensive income	<u>\$102,794</u>	<u>\$81,288</u>

#### Note H-Contingencies

AutoZone, Inc., is a defendant in a lawsuit entitled "Coalition for a Level Playing Field, L.L.C., et al., v. AutoZone, Inc., Wal-mart Stores, Inc., Advance Stores Company, Inc., O'Reilly Automotive, Inc., and Keystone Automotive Operations, Inc.," filed in the U.S. District Court for the Eastern District of New York in February 2000. The case was originally filed by over 100

plaintiffs, which are principally automotive aftermarket warehouse distributors and jobbers. The plaintiffs claim that the defendants have knowingly received volume discounts, rebates, slotting and other allowances, fees, free inventory, sham advertising and promotional payments, a share in the manufacturers' profits, and excessive payments for services purportedly performed for the manufacturers in violation of the Robinson-Patman Act. Plaintiffs' third amended and corrected complaint seeks unspecified damages suffered by each plaintiff (prior to statutory trebling) ranging from several million dollars to \$35 million and a permanent injunction prohibiting defendants from committing further violations of the Robinson-Patman Act and from opening any further stores to compete with plaintiffs as long as defendants continue to violate the Act. The Company does not know how the plaintiffs have calculated their alleged damages. The Company intends to vigorously defend against this action and believes that it has substantive defenses to all of the claims in the complaint. This lawsuit has been set for trial beginning January 21, 2003.

The Company currently, and from time to time, is involved in various other legal proceedings incidental to the conduct of its business. Although the amount of liability that may result from these proceedings cannot be ascertained, the Company does not currently believe that, in the aggregate, these other matters will result in liabilities material to the Company's financial condition or results of operations.

#### **Note I-Sale of TruckPro Business**

In December 2001, the Company's heavy-duty truck parts business was sold to a group of investors in exchange for cash and a six-year note. The Company has deferred a gain of \$3.6 million related to the sale due to uncertainties associated with the realization of the gain. The Company has subleased some of the TruckPro properties to the purchaser of the TruckPro business for an initial term of not less than 20 years.

#### **Note J-Retirement Plan Changes**

Effective January 1, 2003, the Company is introducing an enhanced 401(k) Plan that will replace the existing pension plan and current 401(k) plan. The new plan features include increased company matching contributions, immediate 100% vesting of company contributions and an increased savings option to 25% of qualified earnings. AutoZone employees who are pension plan participants will earn no new benefits under the plan formula and no new participants will join the pension plan. The Company does not anticipate a material financial statement impact as a result of the plan changes.

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### **Independent Accountants' Review Report**

Stockholders  
AutoZone, Inc.

We have reviewed the accompanying condensed consolidated balance sheet of AutoZone, Inc. as of November 23, 2002, and the related condensed consolidated statements of income and cash flows for the twelve week periods ended November 23, 2002 and November 17, 2001. These financial statements are the responsibility of the Company's management.

We conducted our reviews in accordance with standards established by the American Institute of Certified Public Accountants. A review of interim financial information consists principally of applying analytical procedures to financial data, and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States, which will be performed for the full year with the objective of expressing an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

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

We have previously audited, in accordance with auditing standards generally accepted in the United States, the consolidated balance sheet of AutoZone, Inc. as of August 31, 2002, and the related consolidated statements of income, stockholders' equity, and cash flows for the year then ended (not presented herein) and, in our report dated September 20, 2002, 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, 2002 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 5, 2002

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

### Critical Accounting Policies

For information regarding our critical accounting policies, refer to our report on Form10-K for the fiscal year ended August 31, 2002.

### Twelve Weeks Ended November 23, 2002, Compared with Twelve Weeks Ended November 17, 2001

Net sales for the twelve weeks ended November 23, 2002, increased by \$42.6 million, or 3.6%, over net sales for the comparable period of fiscal 2002. Excluding TruckPro, which was sold in fiscal 2002, net sales increased 6.9%. The sales increases were attributable to a 4.5% increase in comparable store sales, or sales for domestic auto parts stores opened at least one year. New store sales for the twelve weeks ended November 23, 2002, contributed 1.8 percentage points of the increase. Comparable store sales increased as a result of an increase in average dollars spent per transaction over the amounts in the same period of the prior year, and to a lesser extent, an increase in customer count.

At November 23, 2002, we operated 3,098 domestic auto parts stores and 40 in Mexico, compared with 2,999 domestic auto parts stores, 22 in Mexico and 49 TruckPro stores at November 17, 2001.

Gross profit for the twelve weeks ended November 23, 2002, was \$549.4 million, or 45.1% of net sales, compared with \$516.1 million, or 43.9% of net sales, during the comparable period for fiscal 2002. Approximately 0.4 percentage points of the improvement is due to the inclusion of TruckPro gross profit dollars in the first quarter of fiscal 2002. TruckPro was sold in December 2001. The remainder of the improvement is due primarily to cost savings.

Operating, selling, general and administrative expenses for the twelve weeks ended November 23, 2002, increased by \$0.4 million over such expenses for the comparable period for fiscal 2002, and decreased as a percentage of net sales from 30.7% to 29.6%. The improvement in the expense ratio reflects the fact that retail revenues rose more rapidly than the growth of store-level expenses, a 0.4 percentage point improvement. Additionally, the prior year quarter included higher expenses related to bonus.

Interest expense for the twelve weeks ended November 23, 2002, was \$19.1 million compared with \$19.4 million during the comparable period of 2001. The decrease in interest expense was due primarily to lower average interest rates on short term borrowings. Weighted average borrowings for the twelve weeks ended November 23, 2002, were \$1.36 billion, compared with \$1.33 billion for the same period of fiscal 2002. However, weighted average borrowing rates were lower in the twelve weeks ended November 23, 2002, compared with the same period of the prior year at 4.5% compared with 5.0%.

AutoZone's effective income tax rate was 38.0% of pretax income for the twelve weeks ended November 23, 2002, and 38.2% for the twelve weeks ended November 17, 2001.

### Liquidity and Capital Resources

For the twelve weeks ended November 23, 2002, net cash of \$35.9 million was used in AutoZone's operating activities compared to \$7.2 million of cash provided for the comparable prior year period. The decrease in cash flow from operating activities is due primarily to working capital requirements and the settlement of certain derivatives. These changes were partially offset by an increase in net income.

Additionally, \$26.8 million was used in investing activities by AutoZone compared with \$14.7 million in the comparable period of fiscal year 2002. The increase in investing activities as compared to the same period of the prior year is due primarily to increased store development activities. Capital expenditures for the twelve weeks ended November 23, 2002, were \$30.5 million compared to \$16.2 million for the comparable period of fiscal 2002. During the quarter, we opened 30 net new domestic auto parts stores, including one store that replaced an existing store, opened one new store in Mexico and closed one domestic auto parts store. In the comparable period of the prior fiscal year, we opened 15 net new domestic auto parts stores, including 6 stores that replaced existing stores, and closed 35 stores. We expect to open approximately 150 new domestic auto parts stores during the fiscal year.

Financing activities for the twelve weeks ended November 23, 2002, provided \$62.8 million compared with \$7.6 million in the comparable period of the prior year. The current period reflects net proceeds from debt of \$118.6 million offset by \$78.5 million in stock repurchases, compared with \$55.2 million in debt proceeds and \$69.4 million in stock repurchases in the same period of the prior year. For the twelve weeks ended November 23, 2002, exercises of stock options provided \$40.2 million, including \$18.3 million in related tax benefits that are reflected in cash flows from operations. In the same period of the prior year, exercises of stock options provided \$31.8 million, including \$9.9 million in related tax benefits. Options to purchase 1.9 million shares were exercisable at November 23, 2002, at a weighted average exercise price of \$28.

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 to support a majority of our capital expenditures, working capital requirements and stock repurchases. The balance will be funded through borrowings. We anticipate that we will be able to obtain such financing in view of our credit rating and favorable experiences in the debt market in the past.

At November 23, 2002, 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 us a senior unsecured debt credit rating of Baa2 and a commercial paper rating of P-2. Moody's had AutoZone listed as having a "stable" outlook and Standard & Poor's had AutoZone listed as having a "positive" outlook. If these credit ratings drop, AutoZone's 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 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, and obligations under our equity forward agreements may be accelerated, requiring the agreements to be settled prior to their planned settlement date.

We maintain \$950 million of revolving credit facilities with a group of banks. Of the \$950 million, \$300 million expires in May 2003. The remaining \$650 million expires in May 2005. The 364-day facility expiring in May 2003 includes a renewal feature, as well as an option to extend the maturity date of the then-outstanding debt by one year. The credit facilities exist largely to support commercial paper borrowings and other short-term unsecured bank loans. Outstanding commercial paper at November 23, 2002, of \$156.8 million and the 6% Notes due November 2003 are classified as long term as we have the ability and intention to refinance them on a long term basis. The rate of interest payable under the credit facilities is a function of the London Interbank Offered Rate (LIBOR), the lending bank's base rate (as defined in the agreement) or a competitive bid rate at our option. We have agreed to observe certain covenants under the terms of our credit agreements, including limitations on total indebtedness, restrictions on liens and minimum fixed charge coverage.

On October 1, 2002, we filed a shelf registration with the Securities and Exchange Commission that will allow us to sell up to \$500 million in debt securities. On October 16, 2002, we issued \$300 million of 5.875% Senior Notes under the registration statement. The Senior Notes mature in October 2012, and interest is payable semi-annually on April 15 and October 15. A portion of the proceeds from the Senior Notes was used to prepay a \$115 million unsecured bank term loan due December 2003 and to repay a portion of our outstanding commercial paper borrowings.

All of the repayment obligations under our bank lines of credit may be accelerated and come due prior to the scheduled payment date if AutoZone experiences a change in control (as defined in the agreements) of AutoZone or its Board of Directors or if covenants are breached related to total indebtedness and minimum fixed charge coverage. We expect to remain in compliance with these covenants.

As of November 23, 2002, our Board of Directors had authorized the repurchase of up to \$2.3 billion of common stock in the open market. From January 1998 to November 23, 2002, we have repurchased 60.9 million shares at an aggregate cost of \$2.0 billion. At times, we use equity forward contracts to facilitate the repurchase of common stock. At November 23, 2002, we held equity forward contracts relating to the purchase of approximately 1.6 million shares of common stock at an average cost of \$72.79 per share. During fiscal 2003, we have increased our repurchases of common stock, including forward purchase contracts, by \$48.2 million.

At times, we utilize equity forward contracts to facilitate our repurchase of common stock and to lock in current market prices for later purchase. Our obligations under the equity forward agreements are not reflected on our balance sheet. AutoZone, at its option, may settle the forward purchase agreements in cash or in common stock.

There were no material changes to the financial commitment schedules disclosed in our report on Form 10-K for the fiscal year ended August 31, 2002, except for the issuance of debt as discussed above.

In conjunction with our commercial sales program, we offer credit to some of our commercial customers. The receivables related to the credit program are sold to a third party at a discount for cash with limited recourse. AutoZone has established a reserve for this recourse. At November 23, 2002, the receivables facility had an outstanding balance of \$21.6 million and the balance of the recourse reserve was \$2.4 million.

AutoZone has a synthetic lease facility of \$30 million in total. The facility expires in fiscal 2006. At November 23, 2002, \$29.4 million in synthetic lease obligations were outstanding relating to a small number of our domestic auto parts stores. The synthetic leases qualify as operating leases for accounting purposes and are not reflected as an asset or a liability on our balance sheet. The lease payments on the stores are reflected in the income statement in operating expenses and we depreciate the underlying assets for tax purposes.

We have subleased some of our leased real property to other entities, including the purchaser of our former TruckPro business. If the purchaser of the TruckPro business becomes unable to meet its obligations under the subleases, we might incur liabilities in connection with the recovery and subsequent sublease or lease termination of the properties.

## **Forward-Looking Statements**

Certain statements contained in this Quarterly Report on Form 10-Q are forward-looking statements. These statements discuss, among other things, business strategies and future performance. The forward-looking statements are subject to risks, uncertainties and assumptions including, without limitation, accuracy of estimates, competition, product demand, the economy, inflation, gasoline prices, consumer debt levels, war and the prospect of war, including terrorist activity, and availability of



commercial transportation. Actual results may materially differ from anticipated results. Please refer to the Risk Factors section in the Annual Report on Form 10-K for fiscal year ended August 31, 2002, for more details.

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

AutoZone is exposed to market risk from changes in foreign exchange and interest rates. To reduce such risks, we may periodically use various financial instruments. To date, foreign exchange exposure has not been material. All hedging transactions are authorized and executed pursuant to policies and procedures. Further, we do not buy or sell financial instruments for trading purposes.

#### *Derivatives and Hedging*

Financial market risk relating to AutoZone's operations results primarily from changes in interest rates. We comply with Statement of Financial Accounting Standards Nos. 133, 137 and 138 (collectively "SFAS 133") pertaining to the accounting for derivatives and hedging activities. SFAS 133 requires us to recognize all derivative instruments on the balance sheet at fair value. AutoZone reduces its exposure to increases in interest rates by entering into interest rate swap contracts and treasury lock agreements. All of our interest rate swaps and treasury locks are designated as cash flow hedges.

AutoZone has utilized interest rate swaps to convert variable rate debt to fixed rate debt. At November 23, 2002, we held interest rate swap contracts related to \$75 million of variable rate debt. These swaps expire throughout fiscal years 2003 and 2004, and are used to hedge the variable rate debt associated with commercial paper borrowings. At August 31, 2002, we also held \$115 million of swaps that were used to hedge the variable rate debt associated with a \$115 million term loan. Additionally, at August 31, 2002, we held treasury lock agreements with notional amounts of \$300 million that expired in October 2002 and were used to hedge the exposure to variability in future cash flows related to AutoZone's issuance of \$300 million 5.875% Senior Notes. The treasury lock agreements were settled upon the issuance of the Senior Notes. The loss realized under the treasury lock agreements is being amortized as interest expense over the life of the underlying Senior Notes. A portion of the proceeds generated from the issuance of the Senior Notes was used to prepay a \$115 million term loan. Accordingly, the related swap agreements were settled and the realized loss is being amortized as interest expense over the life of the swap agreement.

In accordance with SFAS 133, AutoZone reflects the current fair value of interest rate swaps and treasury lock agreements on its balance sheet. The related gains or losses on these transactions are deferred in stockholders' equity as a component of comprehensive income. These deferred gains and losses are recognized in income in the period in which the related interest rates being hedged are recognized in expense. However, to the extent that the change in value of an interest rate swap contract does not perfectly offset the change in the value of the interest rate being hedged, that ineffective portion is immediately recognized in income. For the twelve weeks ended November 23, 2002, and November 17, 2001, all of our interest rate swap contracts were determined to be highly effective, and no ineffective portion was recognized in income.

The fair value of AutoZone's debt was estimated at \$1.35 billion as of November 23, 2002, and \$1.22 billion as of August 31, 2002, based on the market values of the debt at those dates. Such fair value is greater than the carrying value of debt at November 23, 2002, by \$36.2 million, and at August 31, 2002, by \$27.2 million. We had \$518.4 million of variable rate debt outstanding at November 23, 2002, and \$699.8 million outstanding at August 31, 2002. At these borrowing levels, a one percentage point increase in interest rates would have an unfavorable annual impact on AutoZone's pretax earnings and cash flows of \$4.4 million in fiscal 2003 and \$5.1 million in fiscal 2002, which includes the effects of interest rate swaps. The primary interest rate exposure on variable rate debt is based on LIBOR.

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

As of November 23, 2002, an evaluation was performed under the supervision and with the participation of AutoZone's management, including the Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures. Based on that evaluation, AutoZone's management, including the Chief Executive Officer and Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of November 23, 2002. No significant changes in AutoZone's internal controls or in other factors have occurred that could significantly affect controls subsequent to November 23, 2002.

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## **PART II. OTHER INFORMATION**

### **Item 1. Legal Proceedings**

AutoZone, Inc., is a defendant in a lawsuit entitled "Coalition for a Level Playing Field, L.L.C., *et al.*, v. AutoZone, Inc., Wal-mart Stores, Inc., Advance Stores Company, Inc., O'Reilly Automotive, Inc., and Keystone Automotive Operations, Inc.," filed in the U.S. District Court for the Eastern District of New York in February 2000. The case was originally filed by over 100 plaintiffs, which are principally automotive aftermarket warehouse distributors and jobbers. The plaintiffs claim that the defendants have knowingly received volume discounts, rebates, slotting and other allowances, fees, free inventory, sham advertising and promotional payments, a share in the manufacturers' profits, and excessive payments for services purportedly performed for the manufacturers in violation of the Robinson-Patman Act. Plaintiffs' third amended and corrected complaint seeks unspecified damages suffered by each plaintiff (prior to statutory trebling) ranging from several million dollars to \$35 million and a permanent

injunction prohibiting defendants from committing further violations of the Robinson-Patman Act and from opening any further stores to compete with plaintiffs as long as defendants continue to violate the Act. We do not know how the plaintiffs have calculated their alleged damages. We intend to vigorously defend against this action and believes that we have substantive defenses to all of the claims in the complaint. This lawsuit has been set for trial beginning January 21, 2003.

#### **Item 6. Exhibits and Reports on Form 8-K**

(a) 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 Form 10-Q for the quarter ended February 13, 1999.

3.2 Third Amended and Restated By-laws of AutoZone, Inc. incorporated by reference to Exhibit 3.1 to the Form 8-K dated October 1, 2002.

\*10.1 Form of Non-Qualified Stock Option Agreement.

\*10.2 Form of Incentive Stock Option Agreement.

15.1 Letter Regarding Unaudited Financial Information

\* Management contract or compensatory plan or arrangement.

(b) (1) The Company filed a Form 8-K dated September 25, 2002, containing a press release announcing its earnings for the fiscal year ended August 31, 2002.

(2) The Company filed a Form 8-K dated October 1, 2002, containing various exhibits filed under the Securities Exchange Act of 1934, including the Third Amended and Restated By-laws of AutoZone, Inc.

(3) The Company filed a Form 8-K dated October 21, 2002, containing an underwriting agreement associated with the issuance of \$300 million 5.875% Senior Notes due 2012.

(4) The Company filed a Form 8-K dated October 31, 2002, containing statements under oath of the principal executive officer and principal financial officer regarding facts and circumstances relating to Exchange Act filings as ordered by the Securities and Exchange Commission.

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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/ MICHAEL ARCHBOLD

Michael Archbold  
Senior Vice President and  
Chief Financial Officer  
(Principal Financial Officer)

By: /s/ TRICIA K. GREENBERGER

Tricia K. Greenberger  
Vice President, Controller  
(Principal Accounting Officer)

Dated: December 20, 2002

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#### **CERTIFICATIONS**

I, Steve Odland, certify that:

1. I have reviewed this quarterly report on Form 102Q of AutoZone, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;
  - b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
  - c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
  - b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

December 20, 2002

/s/ STEVE ODLAND

Steve Odland  
Chairman, President and  
Chief Executive Officer

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I, Michael Archbold, certify that:

1. I have reviewed this quarterly report on Form 10-Q of AutoZone, Inc.;
2. Based on my knowledge, this quarterly report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this quarterly report;
3. Based on my knowledge, the financial statements, and other financial information included in this quarterly report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;
4. The registrant's other certifying officers and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-14 and 15d-14) for the registrant and have:
  - a) designed such disclosure controls and procedures to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this quarterly report is being prepared;

- b) evaluated the effectiveness of the registrant's disclosure controls and procedures as of a date within 90 days prior to the filing date of this quarterly report (the "Evaluation Date"); and
- c) presented in this quarterly report our conclusions about the effectiveness of the disclosure controls and procedures based on our evaluation as of the Evaluation Date;
5. The registrant's other certifying officers and I have disclosed, based on our most recent evaluation, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
- a) all significant deficiencies in the design or operation of internal controls which could adversely affect the registrant's ability to record, process, summarize and report financial data and have identified for the registrant's auditors any material weaknesses in internal controls; and
- b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls; and
6. The registrant's other certifying officers and I have indicated in this quarterly report whether there were significant changes in internal controls or in other factors that could significantly affect internal controls subsequent to the date of our most recent evaluation, including any corrective actions with regard to significant deficiencies and material weaknesses.

December 20, 2002

/s/ MICHAEL ARCHBOLD

Michael Archbold  
Senior Vice President and  
Chief Financial Officer

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### EXHIBIT INDEX

The following exhibits are filed as part of this report:

3. Restated Articles of Incorporation of AutoZone, Inc. incorporated by reference to Exhibit 3.1 to the Form 10-Q for the quarter ended February 13, 1999.
- 3.2 Third Amended and Restated By-laws of AutoZone, Inc. incorporated by reference to Exhibit 3.1 to the Form 8-K dated October 1, 2002.
- \*10. Form of Non-Qualified Stock Option Agreement.
- \*10. Form of Incentive Stock Option Agreement.
15. Letter Regarding Unaudited Financial Information
- \*Management contract or compensatory plan or arrangement.

**NON-QUALIFIED STOCK OPTION AGREEMENT**  
**(AUTOZONE OPTIONEE)**

This NON-QUALIFIED STOCK OPTION AGREEMENT (this "Agreement"), dated as of-----, is made by and between AutoZone, Inc., a Nevada corporation (the "Company"), and the person identified as the "Optionee" on Schedule I, an employee of the Company ("Optionee") (together, the "Parties").

**RECITALS**

A. The Company wishes to carry out the AutoZone, Inc. Second Amended and Restated 1996 Stock Option Plan (the "Plan") (the terms of which are hereby incorporated by reference and made a part of this Agreement).

B. The Compensation Committee of the Company's Board of Directors has determined that it would be to the advantage and best interest of the Company and its stockholders to grant the Non-Qualified Option provided for herein to Optionee and has advised the Company thereof and instructed the undersigned officers to issue said Option.

In order to implement the following and in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties do hereby agree as follows:

**ARTICLE I**

**DEFINITIONS**

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary. Whenever the context so indicates, the masculine pronoun shall include the feminine and neuter, and the singular the plural.

**Section 1.01 - Affiliate**

"Affiliate" shall mean any Subsidiary and any limited partnership of which the Company or any Subsidiary is the general partner.

**Section 1.02 - Cause**

"Cause" shall mean the willful engagement by the Optionee in conduct which is demonstrably or materially injurious to the Employer, monetarily or otherwise. For this purpose, no act or failure to act by the Optionee shall be considered "willful" unless done, or omitted to be done, by the Optionee not in good faith and without reasonable belief that his action or omission was in the best interest of the Employer.

**Section 1.03 - Committee**

"Committee" shall mean the Compensation Committee of the Company's Board of Directors which has been appointed to administer the Plan.

**Section 1.04 - Common Stock**

"Common Stock" shall mean shares of the Company's common stock, \$.01 par value per share.

**Section 1.05 - Corporate Transaction**

"Corporate Transaction" shall mean any of the following stockholder-approved transactions to which the Company is a party:

(a) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which the Company is incorporated, from a holding company or effect a similar reorganization as to form whereupon this Plan and all Awards are assumed by the successor entity;

(b) the sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, in complete liquidation or dissolution of the Company in a transaction not covered by the exceptions to clause (a), above; or

(c) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

**Section 1.06 - Duly Endorsed**

"Duly Endorsed" shall mean duly endorsed by the person or persons in whose name a stock certificate is registered in blank or accompanied by a duly executed stock assignment separate from certificate with the signature(s) thereon guaranteed by a commercial bank or trust company or a member of a national securities exchange or a member of the National Association of

Securities Dealers.

### **Section 1.07 - Employer**

"Employer" shall mean the Company, or any Affiliate, whichever at the time employs the Optionee.

### **Section 1.08 - Option**

"Option" shall mean the non-qualified option or options to purchase Common Stock granted under this Agreement.

### **Section 1.09 - Option Stock**

"Option Stock" shall mean all shares of Common Stock acquired by Optionee pursuant to the exercise of this Option or any portion hereof.

### **Section 1.10 - Permanent Disability**

Optionee shall be deemed to have a "Permanent Disability" hereunder when the majority of the Board of Directors of the Employer shall, in good faith, so determine.

### **Section 1.11 - Public Offering**

"Public Offering" shall mean the sale of any shares of Common Stock, or any securities convertible into or exercisable or exchangeable for shares of Common Stock, to the public pursuant to an effective underwritten registration statement filed under the Securities Act of 1933, as amended.

### **Section 1.12 - Secretary**

"Secretary" shall mean the Secretary of the Company.

### **Section 1.13 - Subsidiary**

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

### **Section 1.14 - Termination of Employment**

"Termination of Employment" shall mean the time when the employee-employer relationship between the Optionee and the Employer is terminated for any reason, including, but not by way of limitation, a termination for Permanent Disability or by resignation, discharge with or without Cause, death or retirement, but excluding any termination where there is a simultaneous reemployment by the Employer. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge with or without Cause, and all questions of whether particular leaves of absence constitute Termination of Employment.

## **ARTICLE II**

### **GRANT OF OPTION**

#### **Section 2.01 - Grant of Option**

For good and valuable consideration, on the date hereof the Company irrevocably grants to the Optionee the option or options to purchase the number of shares of its \$.01 par value Common Stock set forth on Schedule I attached hereto upon the terms and conditions set forth in this Agreement.

#### **Section 2.02 - Purchase Price**

The purchase price of the shares of Common Stock covered by the Option shall be the applicable amount per share without commission or other charge as set forth for the Option in Schedule I attached hereto.

#### **Section 2.03 - Adjustments in Option**

In the event that the outstanding shares of Common Stock subject to the Option are changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of merger, consolidation, recapitalization, reclassification, stock split, stock dividend or combination of shares, the Committee shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable, to the end that after such event the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option shall be made without change in the aggregate price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in the option price per share. Any such adjustment made by the Committee shall be final and binding upon the Optionee, the Company and all other interested persons.

## **ARTICLE III**

### **PERIOD OF EXERCISABILITY**

#### **Section 3.01 - Commencement of Exercisability**

The Option shall become exercisable as of the applicable Exercise Dates set forth on Schedule I hereto. Notwithstanding the Exercise Dates set forth on Schedule I, the Option shall become immediately exercisable on the date of Optionee's death.

### **Section 3.02 - Duration of Exercisability**

The Option, once it becomes exercisable pursuant to Section 3.01, shall remain exercisable until it becomes unexercisable under Section 3.03.

### **Section 3.03 - Expiration of Option**

The Option may not be exercised to any extent by anyone after the first to occur of the following events:

- (a) The expiration of ten (10) years and one (1) day from the date hereof; or
- (b) The time of the Optionee's Termination of Employment unless such Termination of Employment results from Optionee's death, Permanent Disability, voluntary termination, involuntary termination without Cause or retirement from the Company at the Optionee's normal retirement age as set forth in the AutoZone, Inc. Associate's Pension Plan, as it may be amended from time to time; or
- (c) The expiration of thirty (30) days from the date of the Optionee's Termination of Employment by reason of Optionee's Permanent Disability, voluntary termination or involuntary termination without Cause, unless the Optionee dies within said thirty-day period; or
- (d) The expiration of one (1) year from the date of the Optionee's death; or
- (e) The effective date of either the merger or consolidation of the Company with or into another corporation (except a wholly-owned subsidiary of the Company), or the acquisition by another corporation or person of all or substantially all of the Company's assets or 80% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, unless the Committee waives this provision in connection with such transaction. At least ten (10) days prior the effective date of such merger, consolidation, exchange, acquisition, liquidation or dissolution, the Committee shall give the Optionee notice of such event if the Option has then neither been fully exercised nor become unexercisable under this Section 3.03.

### **Section 3.04 - Reduction In or Expiration of Option In Event of Demotion**

In the event that the Optionee is assigned to a position in the Company or an Affiliate, which, as determined by the Committee in good faith, pays a lower salary or involves less responsibility than the Optionee's position with the Company on the date of grant, the Committee may, in its sole discretion, reduce the number of shares of Common Stock subject to this Option or terminate the entire Option in accordance with Section 3.03 as if the Optionee's employment were terminated for Cause.

## **ARTICLE IV**

### **EXERCISE OF OPTIONS**

#### **Section 4.01 - Person Eligible to Exercise**

During the lifetime of the Optionee, only the Optionee may exercise the Option or any portion thereof. After the death of the Optionee, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.03, be exercised by his personal representative or by any person empowered to do so under the Optionee's will or under the then applicable laws of descent and distribution.

#### **Section 4.02 - Manner of Exercise**

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his designee of all of the following prior to the time when the Option or such portion becomes unexercisable under Section 3.03:

- (a) Notice in writing signed by the Optionee or the other person then entitled to exercise the Option or portion thereof, stating that the Option or portion thereof is thereby exercised, such notice complying with all applicable rules established by the Committee; and
- (b)
  - (i) Full payment (in cash or by check) for the shares with respect to which such Option or portion is exercised; or
  - (ii) Delivery of a notice that the Optionee has placed a market sell order with a broker approved by the Company with respect to shares of Common Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the option exercise price; or
  - (iii) A combination of the consideration provided in the foregoing subparagraphs (i) and (ii); and
- (c) Full payment in cash to the Company of all amounts which, under federal, state or local law, it is required to withhold upon exercise of the Option; and
- (d) In the event the Option or portion thereof shall be exercised pursuant to Section 4.01 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option.

### **Section 4.03 - Conditions to Issuance of Stock Certificates**

The shares of Option Stock may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of Option Stock prior to fulfillment of all of the following conditions:

- (a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and
- (b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and
- (c) The receipt of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and
- (d) Full payment as stated under Section 4.02(b) for the Option exercised; and
- (e) The payment to the Employer of all amounts which, under federal, state or local law, it is required to withhold upon exercise of the Option; and
- (f) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience.

### **Section 4.04 - Rights as Stockholder**

The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates representing such shares shall have been issued by the Company to such holder.

### **Section 4.05 - Number of Shares Exercised**

Optionee shall not exercise the Option to purchase fewer than one hundred (100) shares of Option Stock at a time, unless the vested portion is less than 100 shares, in which event the Optionee shall exercise the right to purchase all vested Options at the time of exercise.

## **ARTICLE V**

### **TRANSFER AND OTHER RESTRICTIONS**

#### **Section 5.01 - Rule 144**

If the Company shall have filed a registration statement pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or engaged in a Public Offering, the Company will file the reports required to be filed by it under the Act and the Exchange Act and the rules and regulations adopted by the Securities and Exchange Commission ("SEC") thereunder, to the extent required from time to time to enable the Optionee to sell shares of Option Stock without registration under the Act within the limitations of the exemptions provided by (i) Rule 144 under the Act, as such Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC. Notwithstanding anything contained in this Section 5.01, the Company may deregister under Section 12 of the Exchange Act if it is then permitted to do so pursuant to the Exchange Act and the rules and regulations thereunder.

#### **Section 5.02 - Rule 144 Sales**

If any of the Option Stock is to be disposed of in accordance with Rule 144 under the Act or otherwise, the Optionee shall promptly notify the Company of such intended disposition and shall deliver to the Company at or prior to the time of such disposition such documentation as the Company may reasonably request in connection with such sale and, in the case of a disposition pursuant to Rule 144, shall deliver to the Company an executed copy of any notice on Form 144 required to be filed with the SEC.

#### **Section 5.03 - Resales Prohibited During Public Offerings**

Optionee agrees that if any shares of the capital stock of the Company are offered to the public pursuant to an effective registration statement under the Act, that upon the written request of the Company, Optionee will not effect any public sale or distribution of any of the Option Stock not covered by such registration statement within a period beginning seven days prior to and ending 120 days after the effective date of such registration statement.

## **ARTICLE VI**

### **OTHER PROVISIONS**

#### **Section 6.01 - Administration**

The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Optionee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.



## **Section 6.02 - Option Not Transferable**

Neither the Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section 6.02 shall not prevent transfers by will or by the applicable laws of descent and distribution.

## **Section 6.03 - Shares to Be Reserved**

The Company shall at all times during the term of the Option reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Agreement.

## **Section 6.04 - Notices**

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary and any notice to be given to the Optionee shall be addressed to him at the address given on Schedule I hereof. By a notice given pursuant to this Section 6.04, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to the Optionee shall, if the Optionee is then deceased, be given to the Optionee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 6.04. Any notice shall have been deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

## **Section 6.05 - Titles**

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

## **Section 6.06 - Binding Effect**

The provisions of this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective heirs, legal representatives, successors and assigns. In the case of a transferee permitted under Section 6.02 hereof, such transferee shall be deemed the Optionee hereunder for purposes of obtaining the benefits or enforcing the rights of Optionee hereunder; provided, however, that no transferee shall derive any rights under this Agreement unless and until such transferee has delivered to the Company a valid undertaking and becomes bound by the terms of this Agreement.

## **Section 6.07 - Amendment**

Except as otherwise stated in this Agreement, this Agreement may be amended only by a written instrument signed by the Parties which specifically states that it is amending this Agreement.

## **Section 6.08 - Applicable Law**

The laws of the State of Nevada shall govern the interpretation, validity and performance of the terms of this Agreement, regardless of the law that might be applied under principles of conflicts of law.

## **Section 6.09 - Adjustment of Options**

(a) Subject to Section 6.09(c), in the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or the disposition of all or substantially all of the assets of the Company (including, but not limited to, a Corporate Transaction), or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Committee's sole discretion, affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits intended to be made available under the Plan or with respect to an Option, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares of Common Stock subject to this Option, or the grant or exercise price with respect to this Option.

(b) Subject to Section 6.09(c), in the event of any Corporate Transaction or other transaction or event described in Section 6.09(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations, or accounting principles, the Committee in its discretion may take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available with respect to the Option, to facilitate such transactions or events, or to give effect to such changes in laws, regulations or principles:

(i) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide by action taken prior to the occurrence of such transaction or event and either automatically or upon the Optionee's request, for either the purchase of any Option for an amount of cash equal to the amount that could have been attained upon the exercise of such Option or realization of the Optionee's rights had such Option been currently exercisable or payable or fully vested or the replacement of such Option with other rights or property selected by the Committee in its sole discretion;

(ii) In its sole and absolute discretion, the Committee may provide by action taken prior to the occurrence of such transaction or event that the Option cannot be exercised after such event;

(iii) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide, by action taken prior to the occurrence of such transaction or event, that for a specified period of time prior to such transaction or event, Option shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in Section 3.01;

(iv) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide, by action taken prior to the occurrence of such transaction or event, that upon such event, such Option be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments in the number and kind of shares and prices; or

(v) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may make adjustments in the number and type of shares of Common Stock subject to the Option.

c) No adjustment or action described in this Section 6.09 or in any other provision of this Agreement shall be authorized to the extent that such adjustment or action would cause the Option to fail to so qualify under Section 162(m), as the case may be, or any successor provisions thereto. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 of the Exchange Act or violate the exemptive conditions of Rule 16b-3.

(d) The number of shares of Common Stock subject to any Option or the vesting thereof shall always be rounded to the nearest whole number.

#### **Section 6.10 - Optionee's Employment by Employer**

Nothing contained in this Agreement or in any other agreement entered into by the Company and the Optionee contemporaneously with the execution of this Agreement (i) obligates the Employer to employ Optionee in any capacity whatsoever, or (ii) prohibits or restricts the Employer from terminating the employment of the Optionee at any time or for any reason whatsoever, with or without cause, and the Optionee hereby acknowledges and agrees that neither the Company nor any other person has made any representations or promises whatsoever to the Optionee concerning the Optionee's employment or continued employment by the Employer.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto by their signatures on the following Schedule I.

**INCENTIVE STOCK OPTION AGREEMENT**  
**(AUTOZONE OPTIONEE)**

This INCENTIVE STOCK OPTION AGREEMENT (this "Agreement"), dated as of -----, is made by and between AutoZone, Inc., a Nevada corporation (the "Company"), and the person identified as the "Optionee" on Schedule I, an employee of the Company ("Optionee") (together, the "Parties").

**RECITALS**

A. The Company wishes to carry out the AutoZone, Inc. Second Amended and Restated 1996 Stock Option Plan (the "Plan") (the terms of which are hereby incorporated by reference and made a part of this Agreement).

B. The Compensation Committee of the Company's Board of Directors has determined that it would be to the advantage and best interest of the Company and its stockholders to grant the Incentive Stock Option provided for herein to Optionee and has advised the Company thereof and instructed the undersigned officers to issue said Option.

In order to implement the following and in consideration of the mutual covenants contained herein and for other good and valuable consideration, the receipt of which is hereby acknowledged, the Parties do hereby agree as follows:

**ARTICLE I**

**DEFINITIONS**

Whenever the following terms are used in this Agreement they shall have the meaning specified below unless the context clearly indicates to the contrary. Whenever the context so indicates, the masculine pronoun shall include the feminine and neuter, and the singular the plural.

**Section 1.01 - Affiliate**

"Affiliate" shall mean any Subsidiary and any limited partnership of which the Company or any Subsidiary is the general partner.

**Section 1.02 - Cause**

"Cause" shall mean the willful engagement by the Optionee in conduct which is demonstrably or materially injurious to the Employer, monetarily or otherwise. For this purpose, no act or failure to act by the Optionee shall be considered "willful" unless done, or omitted to be done, by the Optionee not in good faith and without reasonable belief that his action or omission was in the best interest of the Employer.

**Section 1.03 - Code**

"Code" shall mean the Internal Revenue Code of 1986, as amended.

**Section 1.04 - Committee**

"Committee" shall mean the Compensation Committee of the Company's Board of Directors which has been appointed to administer the Plan.

**Section 1.05 - Common Stock**

"Common Stock" shall mean shares of the Company's common stock, \$.01 par value per share.

**Section 1.06 - Corporate Transaction**

"Corporate Transaction" shall mean any of the following stockholder-approved transactions to which the Company is a party:

- (a) a merger or consolidation in which the Company is not the surviving entity, except for a transaction the principal purpose of which is to change the State in which the Company is incorporated, from a holding company or effect a similar reorganization as to form whereupon this Plan and all Awards are assumed by the successor entity;

(b) the sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company, in complete liquidation or dissolution of the Company in a transaction not covered by the exceptions to clause (a), above; or

(c) any reverse merger in which the Company is the surviving entity but in which securities possessing more than fifty percent (50%) of the total combined voting power of the Company's outstanding securities are transferred or issued to a person or persons different from those who held such securities immediately prior to such merger.

### **Section 1.07 - Duly Endorsed**

"Duly Endorsed" shall mean duly endorsed by the person or persons in whose name a stock certificate is registered in blank or accompanied by a duly executed stock assignment separate from certificate with the signature(s) thereon guaranteed by a commercial bank or trust company or a member of a national securities exchange or a member of the National Association of Securities Dealers.

### **Section 1.08 - Employer**

"Employer" shall mean the Company, or any Affiliate, whichever at the time employs the Optionee.

### **Section 1.09 - Option**

"Option" shall mean the incentive stock option or options to purchase Common Stock granted under this Agreement.

### **Section 1.10 - Option Stock**

"Option Stock" shall mean all shares of Common Stock acquired by Optionee pursuant to the exercise of this Option or any portion hereof.

### **Section 1.11 - Permanent Disability**

Optionee shall be deemed to have a "Permanent Disability" hereunder when the majority of the Board of Directors of the Employer shall, in good faith, so determine.

### **Section 1.12 - Public Offering**

"Public Offering" shall mean the sale of any shares of Common Stock, or any securities convertible into or exercisable or exchangeable for shares of Common Stock, to the public pursuant to an effective underwritten registration statement filed under the Securities Act of 1933, as amended (the "Act").

### **Section 1.13 - Secretary**

"Secretary" shall mean the Secretary of the Company.

### **Section 1.14 - Subsidiary**

"Subsidiary" shall mean any corporation in an unbroken chain of corporations beginning with the Company if each of the corporations other than the last corporation in the unbroken chain then owns stock possessing 50% or more of the total combined voting power of all classes of stock in one of the other corporations in such chain.

### **Section 1.15 - Termination of Employment**

"Termination of Employment" shall mean the time when the employee-employer relationship between the Optionee and the Employer is terminated for any reason, including, but not by way of limitation, a termination for Permanent Disability or by resignation, discharge with or without Cause, death or retirement, but excluding any termination where there is a simultaneous reemployment by the Employer. The Committee, in its absolute discretion, shall determine the effect of all other matters and questions relating to Termination of Employment, including, but not by way of limitation, the question of whether a Termination of Employment resulted from a discharge with or without Cause, and all questions of whether particular leaves of absence constitute Termination of Employment.

## **ARTICLE II**

### **GRANT OF OPTION**

#### **Section 2.01 - Grant of Option**

For good and valuable consideration, on the date hereof the Company irrevocably grants to the Optionee the Option to purchase the number of shares of its \$.01 par value Common Stock set forth on Schedule I attached hereto upon the terms and conditions set forth in this Agreement. The Option is intended to be an incentive stock option within the meaning of Section 422 of the Code.

### **Section 2.02 - Purchase Price**

The purchase price of the shares of Common Stock covered by the Option shall be the applicable amount per share without commission or other charge as set forth for the Option in Schedule I attached hereto. The exercise price per share shall not be less than 100% (110% in the case of a grant to an individual then owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof within the meaning of Section 422 of the Code) of the Fair Market Value (as defined in the Plan) of a share of Common Stock on the date this incentive stock option is granted.

### **Section 2.03 - Adjustments in Option**

In the event that the outstanding shares of Common Stock subject to the Option are changed into or exchanged for a different number or kind of shares or other securities of the Company, or of another corporation, by reason of merger, consolidation, recapitalization, reclassification, stock split, stock dividend or combination of shares, the Committee shall make an appropriate and equitable adjustment in the number and kind of shares as to which the Option, or portions thereof then unexercised, shall be exercisable, to the end that after such event the Optionee's proportionate interest shall be maintained as before the occurrence of such event. Such adjustment in the Option shall be made without change in the aggregate price applicable to the unexercised portion of the Option (except for any change in the aggregate price resulting from rounding-off of share quantities or prices) and with any necessary corresponding adjustment in the option price per share. Any such adjustment made by the Committee shall be final and binding upon the Optionee, the Company and all other interested persons.

## **ARTICLE III**

### **PERIOD OF EXERCISABILITY**

#### **Section 3.01 - Commencement of Exercisability**

The Option shall become exercisable as of the applicable Exercise Dates set forth on Schedule I hereto. Notwithstanding the Exercise Dates set forth on Schedule I, the Option shall become immediately exercisable on the date of Optionee's death. The Optionee acknowledges that, to the extent that the aggregate fair market value of stock with respect to which "incentive stock options" (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code), including the Option, are exercisable for the first time by the Optionee during any calendar year (under the Plan and all other incentive stock option plans of the Company, any Subsidiary and any parent corporation thereof within the meaning of Section 422 of the Code) exceeds \$100,000, such options shall be treated as not qualifying under Section 422 of the Code but rather shall be taxed as non-qualified options. The Optionee further acknowledges that the rule set forth in the preceding sentence shall be applied by taking options into account in the order in which they were granted. For purposes of these rules, the fair market value of stock shall be determined as of the time the option with respect to such stock is granted.

#### **Section 3.02 - Duration of Exercisability**

The Option, once it becomes exercisable pursuant to Section 3.01, shall remain exercisable until it becomes unexercisable under Section 3.03.

#### **Section 3.03 - Expiration of Option**

The Option may not be exercised to any extent by anyone after the first to occur of the following events:

- (a) The expiration of ten (10) years from the date hereof; or
- (b) The expiration of five (5) years from the date hereof if the Optionee at the time of grant owns (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any Subsidiary or parent corporation thereof (within the meaning of Section 422 of the Code); or
- (c) The time of the Optionee's Termination of Employment unless such Termination of Employment results from Optionee's death, Permanent Disability, voluntary termination, involuntary termination without Cause or retirement from the Company at the Optionee's normal retirement age as set forth in the AutoZone, Inc. Associate's Pension Plan, as it may be amended from time to time; or
- (d) The expiration of thirty (30) days from the date of the Optionee's Termination of Employment by reason of Optionee's Permanent Disability, voluntary termination or involuntary termination without Cause, unless the Optionee dies within said thirty-day period; or

(e) The expiration of one (1) year from the date of the Optionee's death; or

(f) The effective date of either the merger or consolidation of the Company with or into another corporation (except a wholly-owned subsidiary of the Company), or the acquisition by another corporation or person of all or substantially all of the Company's assets or 80% or more of the Company's then outstanding voting stock, or the liquidation or dissolution of the Company, unless the Committee waives this provision in connection with such transaction. At least ten (10) days prior the effective date of such merger, consolidation, exchange, acquisition, liquidation or dissolution, the Committee shall give the Optionee notice of such event if the Option has then neither been fully exercised nor become unexercisable under this Section 3.03.

#### **Section 3.04 - Reduction In or Expiration of Option In Event of Demotion**

In the event that the Optionee is assigned to a position in the Company or an Affiliate, which, as determined by the Committee in good faith, pays a lower salary or involves less responsibility than the Optionee's position with the Company on the date of grant, the Committee may, in its sole discretion, reduce the number of shares of Common Stock subject to this Option or terminate the entire Option in accordance with Section 3.03 as if the Optionee's employment were terminated for Cause.

### **ARTICLE IV**

#### **EXERCISE OF OPTIONS**

##### **Section 4.01 - Person Eligible to Exercise**

During the lifetime of the Optionee, only the Optionee may exercise the Option or any portion thereof. After the death of the Optionee, any exercisable portion of the Option may, prior to the time when the Option becomes unexercisable under Section 3.03, be exercised by his personal representative or by any person empowered to do so under the Optionee's will or under the then applicable laws of descent and distribution.

##### **Section 4.02 - Manner of Exercise**

The Option, or any exercisable portion thereof, may be exercised solely by delivery to the Secretary or his designee of all of the following prior to the time when the Option or such portion becomes unexercisable under Section 3.03:

(a) Notice in writing signed by the Optionee or the other person then entitled to exercise the Option or portion thereof, stating that the Option or portion thereof is thereby exercised, such notice complying with all applicable rules established by the Committee; and

(b) (i) Full payment (in cash or by check) for the shares with respect to which such Option or portion is exercised; or

(ii) Delivery of a notice that the Optionee has placed a market sell order with a broker approved by the Company with respect to shares of Common Stock then issuable upon exercise of the Option, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the option exercise price; or

(iii) A combination of the consideration provided in the foregoing subparagraphs (i) and (ii); and

(c) Full payment in cash to the Company of all amounts which, under federal, state or local law, it is required to withhold upon exercise of the Option; and

(d) In the event the Option or portion thereof shall be exercised pursuant to Section 4.01 by any person or persons other than the Optionee, appropriate proof of the right of such person or persons to exercise the Option.

##### **Section 4.03 - Conditions to Issuance of Stock Certificates**

The shares of Option Stock may be either previously authorized but unissued shares or issued shares which have then been reacquired by the Company. Such shares shall be fully paid and nonassessable. The Company shall not be required to issue or deliver any certificate or certificates for shares of Option Stock prior to fulfillment of all of the following conditions:

(a) The admission of such shares to listing on all stock exchanges on which such class of stock is then listed; and

(b) The completion of any registration or other qualification of such shares under any state or federal law or under rulings or regulations of the Securities and Exchange Commission or of any other governmental regulatory body, which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(c) The receipt of any approval or other clearance from any state or federal governmental agency which the Committee shall, in its absolute discretion, determine to be necessary or advisable; and

(d) Full payment as stated under Section 4.02(b) for the Option exercised; and

(e) The payment to the Employer of all amounts which, under federal, state or local law, it is required to withhold upon exercise of the Option; and

(f) The lapse of such reasonable period of time following the exercise of the Option as the Committee may from time to time establish for reasons of administrative convenience.

#### **Section 4.04 - Rights as Stockholder**

The holder of the Option shall not be, nor have any of the rights or privileges of, a stockholder of the Company in respect of any shares purchasable upon the exercise of any part of the Option unless and until certificates representing such shares shall have been issued by the Company to such holder.

#### **Section 4.05 - Number of Shares Exercised**

Optionee shall not exercise the Option to purchase fewer than one hundred (100) shares of Option Stock at a time, unless the vested portion is less than 100 shares, in which event the Optionee shall exercise the right to purchase all vested Options at the time of exercise.

### **ARTICLE V**

#### **TRANSFER AND OTHER RESTRICTIONS**

#### **Section 5.01 - Rule 144**

If the Company shall have filed a registration statement pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), or engaged in a Public Offering, the Company will file the reports required to be filed by it under the Act and the Exchange Act and the rules and regulations adopted by the Securities and Exchange Commission ("SEC") thereunder, to the extent required from time to time to enable the Optionee to sell shares of Option Stock without registration under the Act within the limitations of the exemptions provided by (i) Rule 144 under the Act, as such Rule may be amended from time to time, or (ii) any similar rule or regulation hereafter adopted by the SEC. Notwithstanding anything contained in this Section 5.01, the Company may deregister under Section 12 of the Exchange Act if it is then permitted to do so pursuant to the Exchange Act and the rules and regulations thereunder.

#### **Section 5.02 - Rule 144 Sales**

If any of the Option Stock is to be disposed of in accordance with Rule 144 under the Act or otherwise, the Optionee shall promptly notify the Company of such intended disposition and shall deliver to the Company at or prior to the time of such disposition such documentation as the Company may reasonably request in connection with such sale and, in the case of a disposition pursuant to Rule 144, shall deliver to the Company an executed copy of any notice on Form 144 required to be filed with the SEC.

#### **Section 5.03 - Resales Prohibited During Public Offerings**

Optionee agrees that if any shares of the capital stock of the Company are offered to the public pursuant to an effective registration statement under the Act, that upon the written request of the Company, Optionee will not effect any public sale or distribution of any of the Option Stock not covered by such registration statement within a period beginning seven days prior to and ending 120 days after the effective date of such registration statement.

### **ARTICLE VI**

#### **OTHER PROVISIONS**

#### **Section 6.01 - Administration**

The Committee shall have the power to interpret the Plan and this Agreement and to adopt such rules for the administration, interpretation and application of the Plan as are consistent therewith and to interpret or revoke any such rules. All actions taken and all interpretations and determinations made by the Committee in good faith shall be final and binding upon the Optionee, the Company and all other interested persons. No member of the Committee shall be personally liable for any action, determination or interpretation made in good faith with respect to the Plan or this Agreement.

#### **Section 6.02 - Option Not Transferable**

Neither the Option nor any interest or right therein or part thereof shall be liable for the debts, contracts or engagements of the Optionee or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) and any attempted disposition thereof shall be null and void and of no effect; provided, however, that this Section 6.02 shall not prevent transfers by will or by the applicable laws of descent and distribution.

### **Section 6.03 - Shares to Be Reserved**

The Company shall at all times during the term of the Option reserve and keep available such number of shares of Common Stock as will be sufficient to satisfy the requirements of this Agreement.

### **Section 6.04 - Notices**

Any notice to be given under the terms of this Agreement to the Company shall be addressed to the Company in care of the Secretary and any notice to be given to the Optionee shall be addressed to him at the address given on Schedule I hereof. By a notice given pursuant to this Section 6.04, either party may hereafter designate a different address for notices to be given to him. Any notice which is required to be given to the Optionee shall, if the Optionee is then deceased, be given to the Optionee's personal representative if such representative has previously informed the Company of his status and address by written notice under this Section 6.04. Any notice shall have been deemed duly given when enclosed in a properly sealed envelope or wrapper addressed as aforesaid, deposited (with postage prepaid) in a post office or branch post office regularly maintained by the United States Postal Service.

### **Section 6.05 - Titles**

Titles are provided herein for convenience only and are not to serve as a basis for interpretation or construction of this Agreement.

### **Section 6.06 - Binding Effect**

The provisions of this Agreement shall be binding upon and inure to the benefit of the Parties hereto and their respective heirs, legal representatives, successors and assigns. In the case of a transferee permitted under Section 6.02 hereof, such transferee shall be deemed the Optionee hereunder for purposes of obtaining the benefits or enforcing the rights of Optionee hereunder; provided, however, that no transferee shall derive any rights under this Agreement unless and until such transferee has delivered to the Company a valid undertaking and becomes bound by the terms of this Agreement.

### **Section 6.07 - Amendment**

Except as otherwise stated in this Agreement, this Agreement may be amended only by a written instrument signed by the Parties which specifically states that it is amending this Agreement.

### **Section 6.08 - Applicable Law**

The laws of the State of Nevada shall govern the interpretation, validity and performance of the terms of this Agreement, regardless of the law that might be applied under principles of conflicts of law.

### **Section 6.09 - Adjustment of Options**

(a) Subject to Section 6.09(c), in the event that the Committee determines that any dividend or other distribution (whether in the form of cash, Common Stock, other securities, or other property), recapitalization, reclassification, stock split, reverse stock split, reorganization, merger, consolidation, split-up, spin-off, combination, repurchase, liquidation, dissolution, or sale, transfer, exchange or the disposition of all or substantially all of the assets of the Company (including, but not limited to, a Corporate Transaction), or exchange of Common Stock or other securities of the Company, issuance of warrants or other rights to purchase Common Stock or other securities of the Company, or other similar corporate transaction or event, in the Committee's sole discretion, affects the Common Stock such that an adjustment is determined by the Committee to be appropriate in order to prevent dilution or enlargement of the benefits intended to be made available under the Plan or with respect to an Option, then the Committee shall, in such manner as it may deem equitable, adjust any or all of the number and kind of shares of Common Stock subject to this Option, or the grant or exercise price with respect to this Option.

(b) Subject to Section 6.09(c), in the event of any Corporate Transaction or other transaction or event described in Section 6.09(a) or any unusual or nonrecurring transactions or events affecting the Company, any affiliate of the Company, or the financial statements of the Company or any affiliate, or of changes in applicable laws, regulations, or accounting principles, the Committee in its discretion may take any one or more of the following actions whenever the Committee determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential benefits intended to be made available with respect to the Option, to facilitate such transactions or events, or to give effect to such changes in laws, regulations or principles:



(i) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide by action taken prior to the occurrence of such transaction or event and either automatically or upon the Optionee's request, for either the purchase of the Option for an amount of cash equal to the amount that could have been attained upon the exercise of such Option or realization of the Optionee's rights had such Option been currently exercisable or payable or fully vested or the replacement of such Option with other rights or property selected by the Committee in its sole discretion;

(ii) In its sole and absolute discretion, the Committee may provide by action taken prior to the occurrence of such transaction or event that the Option cannot be exercised after such event;

(iii) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide, by action taken prior to the occurrence of such transaction or event, that for a specified period of time prior to such transaction or event, the Option shall be exercisable as to all shares covered thereby, notwithstanding anything to the contrary in Section 3.01;

(iv) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may provide, by action taken prior to the occurrence of such transaction or event, that upon such event, the Option be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments in the number and kind of shares and prices; or

(v) In its sole and absolute discretion, and on such terms and conditions as it deems appropriate, the Committee may make adjustments in the number and type of shares of Common Stock subject to the Option.

(c) No adjustment or action described in this Section 6.09 or in any other provision of this Agreement shall be authorized to the extent that such adjustment or action would cause the Option to cease to be an incentive stock option within the meaning of Section 422 of the Code or would cause the Option to fail to qualify as performance-based compensation under Section 162(m) of the Code (if the Committee intended for the Option to qualify as performance-based compensation under Section 162(m) of the Code), as the case may be, or any successor provisions thereto. Furthermore, no such adjustment shall be made in a manner that constitutes a "modification" within the meaning of Section 424(h)(3) of the Code. Furthermore, no such adjustment or action shall be authorized to the extent such adjustment or action would result in short-swing profits liability under Section 16 of the Exchange Act or violate the exemptive conditions of Rule 16b-3 under the Exchange Act.

(d) The number of shares of Common Stock subject to any Option or the vesting thereof shall always be rounded to the nearest whole number.

#### **Section 6.10 - Optionee's Employment by Employer**

Nothing contained in this Agreement or in any other agreement entered into by the Company and the Optionee contemporaneously with the execution of this Agreement (i) obligates the Employer to employ Optionee in any capacity whatsoever, or (ii) prohibits or restricts the Employer from terminating the employment of the Optionee at any time or for any reason whatsoever, with or without cause, and the Optionee hereby acknowledges and agrees that neither the Company nor any other person has made any representations or promises whatsoever to the Optionee concerning the Optionee's employment or continued employment by the Employer.

IN WITNESS WHEREOF, this Agreement has been executed and delivered by the parties hereto by their signatures on the following Schedule I.

**Exhibit 15.1**

**Letter Regarding Unaudited Interim Financial Information**

December 16, 2002

Stockholders

AutoZone, Inc.

We are aware of the incorporation by reference in the following Registration Statements and related Prospectuses of AutoZone, Inc. of our report dated December 5, 2002 relating to the unaudited condensed consolidated interim financial statements of AutoZone, Inc. that are included in its Form 10-Q for the quarter ended November 23, 2002:

Registration Statement (Form S-8 No. 333-42797) pertaining to the Amended and Restated AutoZone, Inc. Employee Stock Purchase Plan

Registration Statement (Form S-8 and S-3 No. 33-41618) pertaining to the AutoZone, Inc. Amended and Restated Stock Option Plan

Registration Statement (Form S-8 No. 333-88245) pertaining to the AutoZone, Inc. Second Amended and Restated 1996 Stock Option Plan

Registration Statement (Form S-8 No. 333-88241) pertaining to the AutoZone, Inc. Second Amended and Restated Director Compensation Plan

Registration Statement (Form S-8 No. 333-75142) pertaining to the AutoZone, Inc. Third Amended and Restated 1998 Director Stock Option Plan

Registration Statement (Form S-8 No. 333-83436) pertaining to a shelf registration to sell 15,000,000 shares of common stock owned by certain selling stockholders

Registration Statement (Form S-8 No. 333-75140) pertaining to the AutoZone, Inc. Executive Stock Purchase Plan

Registration Statement (Form S-3 No. 333-100205) pertaining to a shelf registration of \$500 million in debt securities.

/s/ Ernst & Young LLP

Memphis, Tennessee