

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Quarterly report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934 For the quarterly period ended November 23, 1996, 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 - 150,384,839 shares as of December 31, 1996

PART 1. FINANCIAL INFORMATION

AUTOZONE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

| | Nov. 23, 1996 ----- (Unaudited) | Aug. 31, 1996 ----- (Unaudited) |
|--|--|--|
| | (in thousands) | |
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 3,878 | \$ 3,904 |
| Accounts receivable | 18,280 | 15,466 |
| Merchandise inventories | 610,480 | 555,894 |
| Prepaid expenses | 24,939 | 19,225 |
| Deferred income taxes | 19,140 | 18,608 |
| | ----- | ----- |
| Total current assets | 676,717 | 613,097 |
| Property and equipment: | | |
| Property and equipment | 1,115,282 | 1,061,166 |
| Less accumulated depreciation and amortization | (215,531) | (198,292) |
| | ----- | ----- |
| | 899,751 | 862,874 |
| Other assets: | | |
| Cost in excess of net assets acquired | 17,044 | 17,187 |
| Deferred income taxes | 3,488 | 2,938 |
| Other assets | 3,410 | 2,301 |
| | ----- | ----- |
| | 23,942 | 22,426 |
| | ----- | ----- |
| | \$ 1,600,410 | \$ 1,498,397 |
| | ===== | ===== |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 417,337 | \$ 381,304 |
| Accrued expenses | 97,879 | 104,909 |
| Checks outstanding, net | 1,936 | 20,005 |
| Income taxes payable | 23,982 | 12,260 |
| Revolving credit agreements | - | 94,400 |
| | ----- | ----- |
| Total current liabilities | 541,134 | 612,878 |
| Long-term debt | 133,000 | - |
| Other liabilities | 19,788 | 19,937 |
| Stockholders' equity | 906,488 | 865,582 |
| | ----- | ----- |
| | \$ 1,600,410 | \$ 1,498,397 |
| | ===== | ===== |

See Notes to Condensed Consolidated Financial Statements.

AUTOZONE, INC.
 CONDENSED CONSOLIDATED STATEMENTS OF INCOME
 (Unaudited)

| | Twelve Weeks Ended | |
|---|--|------------------|
| | Nov. 23, 1996 | Nov. 18, 1995 |
| | ----- | |
| | (in thousands, except per share amounts) | |
| Net sales | \$ 569,145 | \$ 463,029 |
| Cost of sales, including warehouse and delivery expenses | 328,847 | 269,809 |
| Operating, selling, general and administrative expenses | 178,400 | 137,823 |
| | ----- | |
| Operating profit | 61,898 | 55,397 |
| Interest income (expense)-net | (1,173) | - |
| | ----- | |
| Income before income taxes | 60,725 | 55,397 |
| Income taxes | 22,750 | 20,600 |
| | ----- | |
| Net income | \$ 37,975 | \$ 34,797 |
| | ===== | |
| Net income per share | \$ 0.25 | \$ 0.23 |
| | ===== | |
| Average shares outstanding, including common stock equivalents | 152,394 | 149,847 |
| | ===== | |

See notes to Condensed Consolidated Financial Statements.

AUTOZONE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Twelve Weeks Ended | |
|--|--------------------|------------------|
| | Nov. 23, 1996 | Nov. 18, 1995 |
| | (in thousands) | |
| Cash flows from operating activities: | | |
| Net income | \$ 37,975 | \$ 34,797 |
| Adjustments to reconcile net income to net cash provided by operating activities: | | |
| Depreciation and amortization | 17,482 | 12,679 |
| Net increase in merchandise inventories | (54,586) | (26,754) |
| Net increase in current liabilities | 22,656 | 41,706 |
| Other - net | (10,874) | (5,334) |
| Net cash provided by operating activities | 12,653 | 57,094 |
| Cash flows from investing activities: | | |
| Cash outflows for property and equipment, net | (54,210) | (69,100) |
| Cash flows from financing activities: | | |
| Net proceeds from debt | 38,600 | 4,959 |
| Proceeds from sale of Common Stock, including related tax benefit ... | 2,931 | 3,530 |
| Net cash provided by financing activities | 41,531 | 8,489 |
| Net decrease in cash and cash equivalents | (26) | (3,517) |
| Cash and cash equivalents at beginning of period | 3,904 | 6,411 |
| Cash and cash equivalents at end of period | \$ 3,878 | \$ 2,894 |
| | ===== | ===== |

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, 1996, are not necessarily indicative of the results that may be expected for the fiscal year ending August 30, 1997. For further information, refer to the financial statements and footnotes thereto included in the Company's annual report on Form 10-K for the year ended August 31, 1996.

NOTE B--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 C--DEBT

Effective September 19, 1996, the Company increased its unsecured revolving credit agreement with a bank by \$10 million resulting in lines of credit totaling \$135 million which extend until February 1, 1998. The rate of interest payable under the agreements is a function of the London Interbank Offered Rate (LIBOR), or the lending bank's base rate (or prime rate as such term may be used by the individual bank), at the option of the Company. At November 23, 1996, the Company's borrowings under the agreements were \$133 million and the weighted average interest rate was 5.6%. The revolving credit agreements contain a covenant limiting the amount of debt the Company may incur relative to its net worth. During December 1996, the Company executed an agreement with a group of banks for a \$275 million five-year revolving credit facility to replace the existing revolving credit agreements. Based on the terms of the Company's new five-year credit facility, amounts outstanding under the revolving credit facility at November 23, 1996 have been classified as long-term.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

TWELVE WEEKS ENDED NOVEMBER 23, 1996, COMPARED TO
TWELVE WEEKS ENDED NOVEMBER 18, 1995

Net sales for the twelve weeks ended November 23, 1996 increased by \$106.1 million, or 22.9%, over net sales for the comparable period of fiscal 1996. This increase was due to a comparable store sales increase of 7%, (which was primarily due to sales growth in the Company's newer stores and the added sales of the Company's commercial program), and increases in net sales for stores opened since the beginning of fiscal 1996. At November 23, 1996 the Company had 1,477 stores in operation compared with 1,193 stores at November 18, 1995.

Gross profit for the twelve weeks ended November 23, 1996, was \$240.3 million, or 42.2% of net sales, compared with \$193.2 million, or 41.7% of net sales, during the comparable period for fiscal 1996. The increase in the gross profit percentage was due primarily to efficiencies in distribution and inventory control costs and the added sales of higher margin ALLDATA products.

Operating, selling, general and administrative expenses for the twelve weeks ended November 23, 1996 increased by \$40.6 million over such expenses for the comparable period for fiscal 1996, and increased as a percentage of net sales from 29.8% to 31.3%. The increase in the expense ratio was due primarily to start up costs of the Company's commercial program, which was fully implemented at the end of the first fiscal quarter of 1997, and operating costs of ALLDATA. Although the commercial sales program is currently unprofitable, the Company anticipates that optimum operating efficiencies will be achieved after consolidating the commercial business of certain stores. Ultimately, the Company expects that the program will be in 80 to 90 percent of its stores. The number of stores participating in the commercial program was 1,436 at November 23, 1996.

The Company's effective income tax rate was 37.5% of pre-tax income for the twelve weeks ended November 23, 1996 and 37.2% for the twelve weeks ended November 18, 1995.

LIQUIDITY AND CAPITAL RESOURCES

For the twelve weeks ended November 23, 1996, net cash of \$12.7 million was provided by the Company's operations versus \$57.1 million for the comparable period of fiscal year 1996. The comparative decrease in cash provided by operations is due primarily to increased inventory requirements.

Capital expenditures for the twelve weeks ended November 23, 1996 were \$54.2 million. The Company anticipates that capital expenditures for fiscal 1997 as a whole will be approximately \$335 to \$350 million. Year-to-date, the Company opened 54 net new stores and 5 stores that replaced existing stores. The Company expects to open approximately 335 new stores and approximately 30 replacement stores during fiscal 1997.

The Company anticipates that it will rely on internally generated funds to support a majority of its capital expenditures and working capital requirements; the balance of such requirements will be funded through borrowings. The Company has revolving credit agreements with several banks providing for lines of credit in an aggregate maximum amount of \$135 million, including an increase of \$10 million in September 1996. At November 23, 1996, the Company had borrowings outstanding under these credit agreements of \$133 million. During December 1996, the Company executed an agreement with a group of banks for a new \$275 million five year revolving credit facility to replace the existing revolving credit agreements.

PART II. OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are filed as part of this report:

3.1 Articles of Incorporation of AutoZone, Inc. Incorporated by reference to Exhibit 3.1 to the Form 10-K for the fiscal year ended August 27, 1994.

3.2 Amendment to Articles of Incorporation of AutoZone, Inc., dated December 16, 1993, to increase its authorized shares of common stock to 200,000,000. Incorporated by reference to Exhibit 3.2 to the Form 10-K for the fiscal year ended August 27, 1994.

3.3 By-laws of AutoZone, Inc. Incorporated by reference to Exhibit 3.2 to the February 1992 Form S-1.

4.1 Form of Common Stock Certificate. Incorporated by reference to Exhibit 4.1 to Pre-Effective Amendment No. 2 to the February 1992 Form S-1.

4.2 Registration Rights Agreement, dated as of February 18, 1987, by and among Auto Shack, Inc. and certain stockholders. Incorporated by reference to Exhibit 4.9 to the Form S-1 Registration Statement filed by the Company under the Securities Act (No. 33-39197), (the "April 1991 Form S-1").

4.3 Amendment to the Registration Rights Agreement dated as of August 1, 1993. Incorporated by reference to Exhibit 4.1 to the Form S-3 Registration Statement filed by the Company under the Securities Act (No. 33-67550).

10.1 Management Contract or Compensatory Plan or Arrangement.

 Employment Agreement; Covenant Not to Compete; Not to Solicit
 and Agreement Concerning Confidential Information and Trade
 Secrets between the Company and Thomas S. Hanemann dated
 November 8, 1996.

11.1 Statement re: Computation of earnings per share.

27.1 Financial Data Schedule. (SEC Use Only)

(b) Reports on Form 8-K

During the twelve weeks ended November 23, 1996, the Company filed a
 report on Form 8-K dated November 8, 1996, stating:

On November 8, 1996, the Company announced that Thomas S.
 Hanemann, President, would retire December 12, 1996. Johnston C.
 Adams, Jr. currently the Company's Vice Chairman and Chief Operating
 Officer, will be elected President upon Mr. Hanemann's retirement.

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/ Robert J. Hunt

 Robert J. Hunt
 Executive Vice President and
 Chief Financial Officer-Customer Satisfaction
 (Principal Financial Officer)

By: /s/ Michael E. Butterick

 Michael E. Butterick
 Vice President, Controller-Customer Satisfaction
 (Principal Accounting Officer)

Dated: January 6, 1997

EMPLOYMENT AGREEMENT;
COVENANT NOT TO COMPETE; NOT TO
SOLICIT AND AGREEMENT CONCERNING
CONFIDENTIAL INFORMATION AND TRADE SECRETS

THIS AGREEMENT is made and entered into in duplicate originals and effective this 8th day of November, 1996, by and between AUTOZONE, INC., a Nevada corporation with headquarters in Memphis, Tennessee, (AutoZone, Inc. and its direct and indirect subsidiaries are hereafter collectively referred to as "Company") and THOMAS S. HANEMANN, an individual who is a resident of Shelby County, Tennessee, (hereafter referred to as "Hanemann").

RECITALS

WHEREAS, the Company is a leading specialty retailer, engaged in the business of pricing and buying at wholesale and selling, promoting, marketing and distributing automotive parts and automotive accessories for automobiles, trucks, and miscellaneous vehicular equipment throughout a substantial portion of the United States with reasonable expectations in the foreseeable future of extending its business operations to include Hawaii and Alaska as well as Puerto Rico, Canada and Mexico. The Company carries out its business operations through the development and implementation of business plans and strategies developed through the expenditure of substantial time and expense; and

WHEREAS, Hanemann, as an officer of the Company, has participated in discussing and developing the Company's expectations of expanding its business operations throughout the United States, including Hawaii and Alaska, Puerto Rico, Canada and Mexico, and understands and acknowledges the importance of these strategies to the Company's business interest; and

WHEREAS, the Company has developed and compiled highly valuable and confidential business plans which include applications of its expertise in connection with its business operations, its list of customers and suppliers of goods and services (sometimes hereinafter collectively referred to as "Vendors") and its purchasing, marketing and computer software systems, computer programs and designs, processes, procedures and techniques; and

WHEREAS, Hanemann is now and for some time has been employed by the Company as an executive officer of the Company, the principal duties of which have included overall managerial responsibility for the operation of the Company's retail stores and the Human Resource Department of the Company, as well as involvement on the highest corporate level

with the overall business operations of the Company, including its strategic planning and business forecasts; and

WHEREAS, Hanemann has requested the Company of his own free will and accord to accept his resignation as an officer of the Company effective as of the close of business on December 12, 1996 (the "Resignation Date"), for the purpose of providing him time to pursue other personal interests, and to allow him to remain as an employee of the Company on a leave of absence during the term of this Agreement, but to remain as a member of the Board of Directors of the Company subject to removal, annual election, and resignation in the same manner as other members of the Board; and

WHEREAS, the Company has agreed to accept Hanemann's resignation as an officer of the Company effective as of the Resignation Date, and has agreed to enter into this Agreement with Hanemann to employ him as an employee of the Company and to accept his request that he be granted a leave of absence pursuant to the provisions of this Agreement, subject, however, to Hanemann's agreement to fully perform and abide by each and every covenant, condition and agreement set forth herein; and

WHEREAS, during the course of performing the duties of his position up through the date of this Agreement, Hanemann participated in the establishment and execution of the Company's business policies and operations and by doing so has created a substantial similarity of identification between the Company and Hanemann with respect to the Company's Vendors, suppliers, customers and retail outlets; and

WHEREAS, as a result of such responsibilities, and similarity of identification, and because of Hanemann's knowledge of the identity of the Company's strategic business operations and plans, present as well as future, it is essential that the Company protect its business interests; and

WHEREAS, Hanemann, in connection with his employment by and with the Company has gained broad experience and has otherwise become familiar with the nature and extent of the business of the Company, both present and planned, its business secrets, its methods and systems of doing business and Confidential Information (as hereinbelow defined); and

WHEREAS, in view of all of the foregoing it is necessary and essential that the Company in order to maintain its competitive position in the automotive parts and automotive accessories after market, protect the confidentiality of all of the aforementioned systems and methods, techniques, forms, materials, procedures pertinent thereto, customer lists, Vendor lists and future business plans, and secure the interest of the Company by entering into this

Agreement with Hanemann who acknowledges that the securing of this protection by the Company is a reasonable requirement of protecting the Company's business interest; and

WHEREAS, Hanemann recognizes and acknowledges that the confidential business planning, computer software systems, computer programs and designs, processes and techniques developed by the Company over the years to which he has become privy, are unique and of significant value to the Company; and

WHEREAS, Hanemann recognizes, acknowledges and agrees that the intent of this Agreement is to protect and preserve the confidentiality of the Company's unique, special and valuable expertise in the sale of automotive parts and automotive accessories as well as the Company's business operations including by way of illustration, but not limitation, its sales, marketing, and distribution processes, plans and techniques, inventory costs, Vendor and distribution lists and customer lists, all toward the end that the Company's business and competitive position are not impaired as they would be if not protected and preserved by this Agreement; and

WHEREAS, Hanemann acknowledges and agrees that this Agreement is reasonably necessary to protect the Company's interest throughout the geographic area and period of time defined below without imposing undue hardship on Hanemann and that the public interest is not adversely affected by the Agreement and that it is in all respects warranted and appropriate given the modern facilities of travel and communication as well as the breadth of the Company's business and Hanemann's responsibility, authority and involvement in the business of the Company; and

WHEREAS, the Company and Hanemann jointly acknowledge and agree that this Agreement supersedes all prior employment and non-competition agreements, if any, between the parties and all such agreements, if any, are hereby terminated by this Agreement; and

WHEREAS, the Company and Hanemann further jointly acknowledge and agree that without agreeing to the terms hereof, Hanemann would not receive the consideration set forth hereinbelow.

NOW, THEREFORE, in consideration of the above and the foregoing promises and the consideration set forth hereinbelow and other good and valuable consideration, the receipt of which is hereby acknowledged, Hanemann does hereby covenant and agree as follows:

1. Definitions.

(a) "Area" shall mean the entire geographic area encompassed within the borders of the continental United States and Hawaii and Alaska; and it shall also mean the entire geographic area encompassed within the boundaries of Puerto Rico, Canada and Mexico.

(b) "Business Ideas" shall mean all ideas, inventions and other developments or improvements conceived or reduced to practice by Hanemann, alone or with others, during the term of his employment with the Company, whether or not during working hours that are within the scope of the Business of the Company or that relate to Business of the Company, all of which shall be the exclusive property of the Company.

(c) "Business of the Company" shall mean and include the business of pricing and buying at wholesale and selling, marketing, promoting and distributing at retail and wholesale automotive parts and automotive accessories for automobiles, trucks and other automotive vehicles in any and all segments of the automotive after market, including but not limited to the "DIY" and commercial segments. The parties agree that the sale of automotive parts in conjunction with their installation by a company solely engaged in the sale of automotive parts in conjunction with the installation of such automotive parts by such company shall not be deemed to be a part of the Business of the Company, and the sale of automotive parts in conjunction with their installation shall not be deemed a "Competing Business" under Section 1(d) hereof. By way of illustration and not limitation, the following shall not be considered "Competing Businesses": Jiffy Lube, Midas Muffler and Brake Shop, Precision Tune, Goodyear Auto Service Centers, and Firestone Tire and Service Centers. The parties also agree that a company not engaged in the direct sale or indirect sale through subsidiaries (whether direct or indirect) or affiliates (whether direct or indirect) of automotive parts or accessories to (i) retail outlets (including, but not limited to outlets with sales to "DIY" customers or installers of automotive parts or accessories) (ii) end users of the automotive parts or accessories, or (iii) installers of automotive parts or accessories, shall not be a "Competing Business" under Section 1(d) hereof. Notwithstanding, it is agreed that TBC as it presently conducts business, shall not be considered a "Competing Business".

(d) "Competing Business" shall mean any entity of any kind which is engaged in any manner in the same business or substantially the same business as the Business of the Company; or any entity of any kind which has any organizational unit, part, subpart, subsidiary or affiliate engaged in the same or substantially the same business as the Business of the Company. Hanemann and the Company expressly agree that the wholesale distribution of automotive parts through a network of "jobbers" or through company-owned or company-controlled outlets such as Genuine Parts - NAPA shall be a "Competing Business". Provided, however, solely for purposes of excluding any retail business with retail stores that sell automotive parts and automotive accessories as a minor portion of the retail business in each of its retail stores from the term "Competing Business", any such retail business engaged in the same business or

substantially the same business as the Business of the Company either directly or through an operating division or subsidiary of such retail business shall not be deemed to be a "Competing Business" if both (a) the average sales per store per annum of the business or the average sales per store per annum of any organizational unit, part, subpart, subsidiary or affiliate of such business from the sale of automotive parts and automotive accessories (excluding sales at stores which do not sell automotive parts and automotive accessories) shall be less than 10% of the average sales per store per annum of the Company for the same year and (b) the total sales of automotive parts and accessories for any such retail business (including the sales of automotive parts and automotive accessories by any organizational unit, part, subpart, subsidiary or affiliate of such business) shall be, in the aggregate, less than 10% of such business' total gross sales. By way of illustration and not limitation, "Competing Business" is consequently intended to include (i) all public or independently owned automotive parts and automotive accessory specialty retailing chains such as, for example, Pep-Boys, Advance, and Hi-Lo; (ii) all chains with divisions or subsidiaries selling automotive parts and automotive accessories from separate business units such as, for example, Western Auto or Auto Palace; (iii) all wholesalers (other than those excluded by the last sentence of Section 1(c)) of automotive parts or automotive accessories such as Genuine Parts - NAPA; and (iv) all other retail businesses with sales of automotive parts and/or automotive accessories exceeding either of the minimum sales volume limitations set forth in clauses (a) or (b) of this Section 1(d).

(e) "Confidential Information" shall mean all Business Ideas, customer lists, sales promotion, distribution and marketing information, trade secrets (as hereinafter defined), analysis or other information relating to the Business of the Company; listings of the Company's Vendors and/or their prices; all ideas, designs, inventions, data and developments including strategic plans, whether or not copyrightable or patentable, whether originated or developed by or with Hanemann or others while working on behalf of the Company and which are related to the Business of the Company; all customer account records, training and operations material and memoranda, personnel records, pricing policies and information, financial information concerning or related to the Business of the Company, including, but not limited to, its accounts, customers, distributors, employees and affairs, obtained by or furnished, disclosed or disseminated to Hanemann, or obtained, assembled or compiled by Hanemann during the course of his employment by the Company and all physical embodiments of the foregoing, all of which are hereby agreed to be the property of and confidential to the Company, but Confidential Information shall not include any of the foregoing to the extent the same is or becomes publicly known through no fault or breach of this Agreement by Hanemann or through no fault or breach of a confidential relationship between the Company and a third party. The term trade secrets shall mean the singular and plural, whole or any part of or phase of any and all scientific or technical information, design, drawing, diagram, process, procedure, computer software systems, computer programs and designs, formula, improvement, invention, plan, apparatus, fixture, tool, equipment, mechanism, technique of production or method of manufacture or assembly, or

method of marketing, distribution or sale which is used or has been used by the Company and is secret and of value to the Company or which gives the Company an advantage over competitors who do not know or use it and which is known only by the Company and those of the Company's employees to whom it has been confided in order to apply it to its intended uses. For purposes hereof, "Confidential Information" shall not include the general knowledge and management abilities of Hanemann as long as his knowledge and management abilities are utilized in or imparted to any business which is not a Competing Business.

2. Term of Agreement. This Agreement shall remain in full force and effect beginning with the date of this Agreement and continuing thereafter for the remainder of the Company's 1997 fiscal year and, in addition, for the following two (2) consecutive fiscal years of the Company thereafter through August 2630, 1999.

3. Effective Date. This Agreement shall be effective as of the date of this Agreement.

4. Recitals. The recitals set forth above are fully incorporated into and made a part of this Agreement.

5. Resignation as Officer. Hanemann hereby resigns as an officer of the Company effective as of the Resignation Date, and the Company accepts his resignation.

6. Employment. The Company hereby agrees to continue to employ Hanemann as an employee of the Company during the term of this Agreement, and Hanemann hereby accepts employment pursuant to the terms and conditions set forth herein. Upon the earlier to occur of either (i) the expiration of the term of this Agreement or (ii) Hanemann's breach of any term or provision of this Agreement, including the covenants, conditions and agreements set forth in Sections 8, 9, 10 and 11, Hanemann and the Company agree that Hanemann's employment with the Company shall automatically terminate, and the Company shall have no further obligation to pay to him the consideration set forth in Section 19 hereof; provided, however, the covenants, conditions and agreements of Hanemann, including each of those set forth in Sections 8, 9, 10 and 11 hereof, shall remain in full force and effect during the term of this Agreement ending August 2630, 1999.

7. Leave of Absence/Duties of Hanemann. Effective as of the date of this Agreement, the Company agrees to accept Hanemann's request that he be granted a leave of absence from the Company while remaining in the employ of the Company at the salary and with such benefits as are expressly set forth herein. Hanemann agrees that he shall take no action for or on behalf of or in the name of the Company or otherwise represent himself by either words, conduct or both as having any authority to act for it, on its behalf or in its name.

Hanemann agrees to be available for such duties as reasonably requested by the Chairman of the Board of the Company such duties to not interfere with any new employment or business ventures of Hanemann. The Company agrees that Hanemann shall be entitled to seek and accept such additional employment as he may desire during the term of this Agreement, but only to the extent such additional employment does not in any manner violate any of the provisions of this Agreement, including specifically the provisions of Sections 7 through 11 hereof.

8. Covenant Not to Compete. For and in consideration of the covenants and agreements of the Company set forth herein, including the consideration described in Sections 19 and 20 hereof, Hanemann hereby covenants and agrees that during the term of this Agreement as set forth hereinabove, Hanemann shall not directly or indirectly, as an owner, partner, shareholder (other than as an owner of less than 5% of the issued and outstanding voting securities of an entity whose voting securities are traded on a national securities exchange or reported on the NASDAQ Stock Market's National Market System), officer, executive, board member, director, trustee, employee, consultant, or otherwise, whether directly or indirectly, engage in, work for, consult, provide advice or assistance or otherwise participate in, engage in, or be employed by any Competing Business as hereinabove defined.

This foregoing covenant not to compete shall be effective within the Area as hereinabove defined during the entire term of this Agreement.

9. Agreement Not to Solicit Employees. For and in consideration of the covenants and agreements of the Company set forth herein, including the consideration described in Sections 19 and 20 hereof, Hanemann agrees that during the term of this Agreement as hereinabove set forth without the prior express written consent of the Company, he will not on his own behalf or on behalf of others, solicit, entice, or hire away or participate in any attempt to solicit, entice, or hire away, nor will he employ or seek to employ or participate in any attempt to employ any person who is then employed by the Company in a managerial or supervisory position.

10. Non-Disclosure and Non-Use of Confidential Information. For and in consideration of the covenants and agreements of the Company set forth herein, including the consideration described in Sections 19 and 20 hereof, Hanemann acknowledges and agrees that all Confidential Information as hereinabove defined and all physical embodiments thereof are confidential to and shall be and remain the sole and exclusive property of the Company and whether original or any copy form thereof, shall not be removed by Hanemann or by anyone acting for or on his behalf from the possession or custody of the Company. Furthermore, Hanemann agrees that he will not, during the term of this Agreement, without the prior express written consent of the Company, disclose or make available any Confidential Information to any

person or entity, nor shall he make or cause to be made, or permit, either on his own behalf or on behalf of others, any use of such Confidential Information.

11. Agreement Not to Solicit Customers or Vendors. For and in consideration of the covenants and agreements of the Company set forth herein, including the consideration described in Sections 19 and 20 hereof, Hanemann agrees that during the term of this Agreement, he will not, without the prior written consent of the Company, within the Area, either directly or indirectly, on his own behalf or in the service or on behalf of others, as a partner, shareholder, officer, executive or managerial employee, consultant, director or trustee, solicit, divert or appropriate, to or for any Competing Business any customer or Vendor, including any person or entity from whom the Company acquired or sought to acquire any product or services for the Business of the Company during the term of employment of Hanemann by the Company and to whom any automotive parts and automotive accessories for automobiles, trucks and other automotive vehicles were sold at any time during the same time period.

12. Severability. In the event any portion of this Agreement is determined by a court of competent jurisdiction to be unenforceable, then the remaining portions and provisions of this Agreement shall in all respects remain unaffected and in full force and effect.

13. Reasonable Restrictions. Hanemann understands and agrees that this Agreement and its terms and provisions including, but not limited to the provisions of paragraphs 8, 9, 10 and 11 above, are reasonable and necessary for the proper protection of the Business of the Company and the Company's interest therein and will neither impose undue hardship upon Hanemann nor otherwise unduly deprive Hanemann of the means or opportunity to support and maintain suitably himself or for obtaining other or different employment after the termination of this employment with the Company.

14. Essence of the Agreement. The Company and Hanemann understand and agree that paragraphs 8, 9, 10 and 11 are the essence of this Agreement.

15. Remedy. Hanemann recognizes and agrees that monetary damages for breach of this Agreement cannot adequately compensate the Company for any breach of this Agreement, and in the event of any breach or threatened breach hereof, the Company shall be entitled to injunctive relief, both temporary and permanent, as well as and in addition to all other available remedies, including such damages as may be permitted by law, all of which remedies shall be cumulative and non-exclusive. Notwithstanding, in no event shall the Company be entitled to recover from Hanemann monetary damages in excess of two million five hundred thousand dollars (\$2,500,000) (provided that this damage limitation shall have no effect on the injunctive relief provided for herein and shall not apply to amounts paid to or for Hanemann's benefit on

account of any violation of this Agreement, by any person or entity other than Hanemann personally). Hanemann shall have thirty (30) days from receipt of written notice from the Company in which to cure any unintentional violation of this agreement by Hanemann and in the event such unintentional violation by Hanemann is not or cannot be cured by Hanemann in such thirty day (30) day period, the Company shall have all rights set forth herein.

16. Judicial Modification. In the event that a court of competent jurisdiction declares any provision of this Agreement unenforceable or void with respect to subject matter, time or geographic scope as sought to be enforced, the parties hereby authorize such court to enforce the Agreement as if it had been executed by both parties subsequent to the expungement of the provisions found by said court to be unenforceable or void. The parties further agree that if such court finds this Agreement unreasonable, the court shall modify this Agreement to make it reasonable in the opinion of the court and in light of the intentions of the parties as set forth in this Agreement.

17. No Waiver. The failure of either party to this Agreement to insist upon the immediate performance of any of the terms and condition of this Agreement or the waiver of any breach of any of the terms and conditions of this Agreement, shall not be construed as thereafter waiving any such terms and conditions or any other terms and conditions of this Agreement or the breach thereof, and the entire Agreement shall continue and remain in full force and effect as if no such forbearance or waiver had occurred, unless the same shall be in writing and signed by Hanemann and a duly authorized executive officer of the Company.

18. Amendments. No alteration, modification or amendment of this Agreement shall be effective or binding unless in writing and signed by both Hanemann and a duly authorized executive officer of the Company.

19. Consideration. In consideration for the promises, undertakings and covenants of Hanemann including those set forth in Sections 8 - - 11 hereof, and in consideration of Hanemann's employment by the Company, the Company agrees to pay to Hanemann the compensation hereinafter set forth and to provide him with the following benefits;

(a) Compensation.

(1) Hanemann will receive his scheduled bonus for the 1996 fiscal year of the Company (ending August 31, 1996), based upon the same formula that would have been used had this Agreement not been executed. Hanemann shall not be entitled to any bonus payments thereafter. The bonus shall be paid at the same time as other officer bonuses are paid for the 1996 fiscal year.

(2) Thereafter, (i) beginning on the date of the effective date of this Agreement and continuing for the remainder of the Company's 1997 fiscal year and ending upon the end of the 1997 fiscal year, Hanemann shall continue to receive his current base salary in bi-weekly installments of \$14,558.66 (which would total \$378,525 per annum if such payments were to continue for a complete fiscal year) (ii) commencing with the beginning of the 1998 fiscal year and ending upon the end of the Company's 1998 fiscal year, Hanemann shall receive an amount in bi-weekly installments of \$9,615.38 totaling \$250,000 per annum for the Company's 1998 fiscal year and (iii) commencing with the beginning of the Company's 1999 fiscal year and ending upon the end of the Company's 1999 fiscal year, Hanemann shall receive an amount in bi-weekly installments of \$9,615.38 totaling \$250,000 per annum for the Company's 1999 fiscal year. All payments stated herein are stated before deductions required by law or then Company policy are made and all such deductions shall be made by the Company before payment to Hanemann. All such payments shall be made at the same time as the Company's normal bi-weekly payroll for salaried employees. As used in this Section 19 paragraph (a), the term bi-weekly shall mean once every two weeks.

(3) Hanemann acknowledges and agrees that the payments he is to receive from the Company pursuant to paragraphs (a)(1) and (2) above are conditioned upon and subject to the full and complete performance of this Agreement by Hanemann throughout the term of this Agreement. In the event Hanemann shall be in breach of this Agreement, including any covenant or agreement set forth in Sections 8, 9, 10 and 11 hereof, the Company shall have no other or further obligations to pay any amounts to him under paragraphs (a)(1) and (2) hereof, and the Company shall be entitled to seek as a part of the damages it has incurred on account of Hanemann's breach of this Agreement, full and complete restitution of all amounts paid to Hanemann pursuant to paragraphs (a)(1) and (2) hereof from and after the date of this Agreement in addition to any and all other damages suffered by the Company, subject to the limitations contained in Paragraph 15 of this Agreement. Notwithstanding anything to the contrary contained herein, in the event Hanemann shall die prior to final and complete payments of all amounts set forth in paragraphs (a)(1) and (2) above, any amounts which would otherwise be due subsequent to the date of his death shall automatically cease and terminate and the Company shall be obligated under paragraphs (a)(1) and (2) only to pay the amounts accruing as of the date of Hanemann's death.

(b) Pension Plan Benefits, Health and Medical Insurance and Other Company Benefits. For so long as Hanemann shall remain an employee of the Company, Hanemann shall continue to accrue such pension benefits as he shall be entitled to accrue in accordance with the terms and provisions of the applicable Company pension benefit plans, as they may be amended from time to time by the Company. For purposes of medical and hospitalization coverage, the Company will continue to provide Hanemann with the same medical and hospitalization insurance and on the same basis as its other employees receive from time to time from the

Company as long as Hanemann shall remain an employee of the Company and upon the termination of this employment, Hanemann shall have the rights he is entitled to receive under COBRA. Hanemann waives any rights he may have to life insurance customarily provided by the Company to employees and life insurance available to be purchased at the option of employees.

20. Lump Sum Payment for Covenants. As additional consideration for each and every covenant, condition and agreement of Hanemann's contained herein, including specifically those set forth in Section 8 - 11 hereof, the Company shall pay to Hanemann, and Hanemann agrees to accept as full and adequate consideration, a lump-sum payment of Fifty Thousand Dollars (\$50,000.00), less deductions required by law or Company policy, to be paid within thirty-one (31) days of the effective date hereof.

21. Options. Except as set forth herein, all non-qualified stock options granted to Hanemann by the Company, whether vested or unvested, shall continue to be governed by the applicable non-qualified stock option agreements relating thereto. Hanemann and the Company acknowledge and agree that 100,000 of the 200,000 unvested stock options granted to Hanemann by the Company pursuant to the Non-Qualified Stock Option Agreement dated April 30, 1994, shall terminate and be canceled as of the Resignation Date with 50,000 options that would have vested on each of April 30, 2000 and April 30, 2001 terminating and being canceled on the Resignation Date. Hanemann shall have no further rights and benefits thereunder.

22. Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of Tennessee, and the parties hereto acknowledge and agree that any litigation, cause of action or proceeding arising hereunder shall be brought in a court of competent jurisdiction in Shelby County, Tennessee.

23. Enforcement. In the event either party shall bring any action or otherwise institute any proceeding against the other party for the enforcement of all or any part of this Agreement, including but not limited to the enforcement of the provisions of this paragraph, the prevailing party shall be entitled to receive from the other party all of the reasonable costs, expenses and attorney's fees incurred by the prevailing party in enforcing this Agreement.

24. Captions. The captions to the various paragraphs in this Agreement are for convenience only and are not otherwise a part of the Agreement.

25. Entire Agreement. This Agreement constitutes the sole and entire Agreement and understanding between the parties with respect to the matters expressly covered hereby, there being no other promises, agreements, representations, warranties or other statements between them in respect to such matters not expressly set forth in this Agreement.

26. Consultation with Counsel. With the assistance and advice of his attorney, Hanemann hereby acknowledges that he has had ample opportunity to read and review this Agreement and that he fully understands its content and intent, and that he enters into and executes this Agreement with such understanding and advice of counsel that in all respects this Agreement is enforceable and valid.

27. Release. Except for the obligations of the Company set forth in this Agreement (including Hanemann's rights and benefits to certain stock options as more fully described in the applicable stock option agreement of the Company), Hanemann hereby absolutely and unconditionally fully releases the Company from all claims, demands, losses, liability, actions, or rights of action whether arising out of contract, local ordinance, or state or federal law, in any way arising out of or related to any compensation or benefits he is entitled to receive as an officer and employee of the Company including, but not limited to, claims under the Federal Age Discrimination in Employment Act ("ADEA") or its state counterpart; Title VII of the Civil Rights Act of 1964, as amended, or its state counterpart; the Tennessee Human Rights Commission Act, or any other claims or causes of action arising out of common law, any contract, or any local, state or federal statute, regulation or ordinance arising out of or accruing during the course of or in any way related to Hanemann's employment with the Company or his service as one of its officers. In the event Hanemann shall have the right under any applicable law to withdraw any release or waiver of rights set forth in this Agreement or if Hanemann should seek to revoke or withdraw any release or waiver of rights set forth in this Agreement, the Company shall have the right to immediately terminate Hanemann's employment with the Company and discontinue all of its obligations under this Agreement to pay Hanemann for such employment, provided that all of the covenants, conditions and agreements of Hanemann, including those set forth in Sections 8 - 11 hereof, shall remain in full force and effect during the term of this Agreement.

Except for the obligations of Hanemann set forth in this Agreement, the Company hereby absolutely and unconditionally fully releases Hanemann from all claims, demands, losses, liabilities, actions or rights of action, whether arising out of contract, local ordinance, or state or federal law in any way arising out of or related to his employment with the Company or any other claims or causes of action arising out of common law, any contract, or any local, state or federal statute, regulation or ordinance arising out of or accruing during the course of or in any way related to Hanemann's employment with the Company or his service as one of its officers.

28. Older Workers Benefit Protection Act. To comply with the Older Workers Benefit Protection Act of 1990, the Company advises Hanemann of the legal requirements of the Act, and fully incorporates the legal requirements into this Agreement as follows:

(a) Hanemann understands the terms and conditions of this Agreement;

(b) Hanemann has been advised of his right to consult with an attorney to review this Agreement;

(c) Hanemann does not waive any rights or claims under the ADEA that may arise after the date the waiver is executed;

(d) Hanemann is receiving additional consideration over and above anything of value to which he is already entitled; and

(e) Hanemann has been given a period of twenty-one (21) days within which to consider his release and waiver of ADEA claims as set forth above. Hanemann hereby waives such period of time.

(f) Hanemann has the right to revoke the foregoing release and waiver of any claims arising under the ADEA within seven (7) days after the effective date of this Agreement by written notice addressed to the Company and delivered to the Company's general counsel. Such right of revocation does not apply to any other provisions of this Agreement.

29. No Set-Off. The existence of any claim, demand, action or cause of action by Hanemann against the Company, or any parent, subsidiary or affiliate of the Company, whether predicated upon this Agreement or otherwise, shall not constitute a defense to the enforcement by the Company of any of its rights hereunder.

30. Assignment. This Agreement may be assigned by the Company to any successors to the business of the Company through purchase, merger, reorganization or any similar corporate transaction and shall inure to the benefit of and may be enforced directly by any such assignee. Neither this Agreement nor any right of Hanemann hereunder may be assigned by Hanemann, nor may Hanemann in any way delegate the performance of his covenants and obligations hereunder.

31. Notices. Any notice required or permitted to be given to Hanemann pursuant to this Agreement shall be in writing, and deemed given and effective when personally delivered or delivered by courier, or when deposited in the United States mail, mailed to Hanemann by certified mail, return receipt requested, at the address set forth below or at such other address as he shall designate by written notice to the Company given in accordance with this Section 26, and any notice required or permitted to be given to the Company shall be in writing, and deemed given when personally delivered or delivered by courier or when deposited in the United States mails, mailed to the Company by certified mail, return receipt requested, addressed to the Company at the Address set forth below or at such other address as the Company shall designate by written notice to Hanemann given in accordance with this paragraph.

If to Hanemann:

If to the Company:

AutoZone, Inc.
123 South Front Street
Memphis, TN 38103
Attention: Chairman of the Board

with a copy to:

AutoZone, Inc.
123 South Front Street
Memphis, TN 38103
Attention: General Counsel

IN WITNESS WHEREOF, the Company and Hanemann have each duly executed and delivered this Agreement in duplicate originals as of the date first shown above.

/s/ Thomas S. Hanemann

THOMAS S. HANEMANN, an individual

AUTOZONE, INC.

By: /s/ J.R. Hyde, III

Name

Title: Chairman and CEO

By: /s/ Harry L. Goldsmith

Name

Title: Vice President and Secretary

STATEMENT RE: COMPUTATION OF EARNINGS PER SHARE
(Unaudited)
(in thousands, except per share data)

| | Twelve Weeks Ended | |
|--|--------------------|------------------|
| | Nov. 23, 1996 | Nov. 18, 1995 |
| PRIMARY: | | |
| Average shares outstanding | 150,243 | 147,170 |
| Net effect of dilutive stock options, based on the treasury stock method, using average fair market value | 2,151 | 2,677 |
| | 152,394 | 149,847 |
| | 152,394 | 149,847 |
| Net income | \$ 37,975 | \$ 34,797 |
| | \$ 37,975 | \$ 34,797 |
| Per share amount | \$ 0.25 | \$ 0.23 |
| | \$ 0.25 | \$ 0.23 |
| | \$ 0.25 | \$ 0.23 |
| FULLY DILUTED: | | |
| Average shares outstanding | 150,243 | 147,170 |
| Net effect of dilutive stock options, based on the treasury stock method, using higher of average or ending fair market value | 2,151 | 3,000 |
| | 152,394 | 150,170 |
| | 152,394 | 150,170 |
| Net income | \$ 37,975 | \$ 34,797 |
| | \$ 37,975 | \$ 34,797 |
| Per share amount | \$ 0.25 | \$ 0.23 |
| | \$ 0.25 | \$ 0.23 |
| | \$ 0.25 | \$ 0.23 |

THIS SCHEDULE CONTAINS SUMMARY FINANCIAL INFORMATION EXTRACTED FROM FINANCIAL STATEMENTS FOR THE QUARTER ENDED NOVEMBER 23, 1996, AND IS QUALIFIED IN ITS ENTIRETY BY REFERENCE TO SUCH FINANCIAL STATEMENTS.

1,000

| 3-MOS | |
|-----------|-------------|
| | AUG-30-1997 |
| | SEP-01-1996 |
| | NOV-23-1996 |
| | 3,878 |
| | 0 |
| | 18,280 |
| | 0 |
| | 610,480 |
| | 676,717 |
| | 1,115,282 |
| | 215,531 |
| | 1,600,410 |
| 541,134 | |
| | 133,000 |
| 0 | |
| | 0 |
| | 1,503 |
| 1,600,410 | 904,985 |
| | 569,145 |
| 569,145 | |
| | 328,847 |
| | 328,847 |
| | 328,847 |
| 178,400 | |
| | 0 |
| 1,173 | |
| | 60,725 |
| | 22,750 |
| 37,975 | |
| | 0 |
| | 0 |
| | 0 |
| | 37,975 |
| | 0.25 |
| | 0.25 |