[COVER: PICTURE OF KEYCHAIN WITH "AUTOZONE" AND "FY 98" KEY RINGS]

1998 ANNUAL REPORT

COMPANY DESCRIPTION

AutoZone is more than just the nation's leading auto parts chain. We sell auto and light truck parts, chemicals and accessories in 38 states through 2,657 AutoZone and Chief stores. We also sell heavy-duty truck parts and accessories through 43 TruckPro stores in 14 states, plus automotive diagnostic and repair software through ALLDATA.

We cater to a broad range of customers. Our core customers are the do-it-yourselfers, who work on their family cars. They're driven by a need for transportation and to save money. We also sell to professional technicians who work on other people's vehicles. They're driven by the need to make a living. Both rely on us for quality, service, value and information.

AutoZone turned 19 years old on July 4, 1998. Our first store was in Forrest City, Arkansas, and was the laboratory for developing many of our customer service ideas. Those ideas became the foundation of the AutoZone pledge:

AutoZoners always put customers first.

We know our parts and products.

Our stores look great.

And we've got the best merchandise at the right price.

Today over 38,000 people work for AutoZone, TruckPro and ALLDATA. All share the pride and responsibility of working for the leader in their respective industries.

[BAR GRAPHS APPEAR HERE WITH THE FOLLOWING DATA:]

Sales ($ millions)

94	95	96	97	98
1,508	1,808	2,243	2,691	3,243

Operating Profit ($ millions)

94	95	96	97	98
191	228	269	321	382

Net Income ($ millions

94	95	96	97	98
116	139	167	195	228

Earnings Per Share ($)

94	95	96	97	98
.78	.93	1.11	1.28	1.48

After Tax Return on Capital

94	95	96	97	98
19%	19%	18%	16%	14%

[PHOTO OF AUTOZONE STORE SIGN APPEARS HERE]

Financial Highlights

	1998	1997	% Change
Sales	$3,242,922,000	$2,691,440,000	+20%
Operating Profit	$382,307,000	$321,351,000	+19%
Net Income	$227,903,000	$195,008,000	+17%
Earnings Per Share	$1.48	$1.28	+16%
Stockholders' Equity	$1,302,057,000	$1,075,208,000	+21%
Number of Auto Parts Stores	2,657	1,728	+54%

To our Customers, AutoZoners and Stockholders,

Fiscal 1998 will be remembered as the year AutoZone took the lead in industry consolidation. ALLDATA was our only major acquisition entering the year, but we ended with three new acquisitions on the books. We bought these companies with the intention of either boosting our customer base or reaching an entirely new segment of the parts market. We took a very strategic approach to potential purchases. In fact, we turned down opportunities that didn't meet thecriteria and value we needed.

[PHOTO OF TIM VARGO AND JOHN ADAMS APPEARS HERE]
[CAPTION] President Tim Vargo and Chairman John Adams

Here's an overview of this past year's acquisitions:

* Auto Palace with 112 stores in six states on February 17, 1998

* TruckPro with 43 stores in 14 states on May 1, 1998

* Chief Auto Parts with 560 stores in five states on June 29, 1998

We're pleased to say we completed these acquisitions without sacrificing our focus on the core business. Concentrating on a more efficient operation and our trademark customer service continues to show strong returns on earnings. Sales, despite the dreaded El Nino and a winter that didn't take place, kept pace with the growth we've seen in past years.

Specifically:

* Sales rose 20% to $3.24 billion

* Comparable store sales increased by 2%

* Net income increased 17% to $228 million

Our internal growth plans remain on track as well. Acquiring nearly 700 net stores did divert some resources, but we still opened 275 net new AutoZone stores during the year. We also entered six new states and the District of Columbia during FY98. Next year we plan to open 225 net new AutoZone stores while also remodeling and converting the Chief stores.

While DIY customers will continue to drive our core business, we've begun tapping markets that offer new opportunities for sales. These will become our future legs for growth.

The commercial business was an early taste of this. While we've only been selling to professional accounts for two years, we've already become one of the top five wholesalers in the country. Of course we're not satisfied with that. Learning better ways to serve the professional technician is a daily process that shows lots of opportunities.

TruckPro is another business that will help support our growth. The heavy-duty truck parts industry is large and fragmented. If this sounds familiar, it should. These are characteristics that described the DIY market back when AutoZone first took the industry by storm.

The international auto parts market is without a big-name player. And while we're careful to study each potential country individually, many have some very attractive qualities in common. Lots of old cars and trucks. Emerging economies that give families the opportunity to own their first vehicles and very few places to get parts for those vehicles. And the incredible number of big trucks on the roads outside of our borders presents another avenue of growth for our TruckPro business.

These new ventures plus the continued growth of our store base offer greater opportunities to leverage our systems and buying power.

As we approach the year 2000, we're making diligent efforts to see that our computer systems will make that transition smoothly. We're also working with a number of business partners, including external consultants, insurers, vendors and financial institutions to address Y2K related issues. If you're interested in more details about this plan, see the financial section in this annual report.

We've been challenging the status quo for 19 years and being the industry leader hasn't changed that strategy. In fact, our position in the industry took a giant leap forward this year. Our acquisitions added stores and market share, but more importantly they added talented people. AutoZone is now 38,000 people strong, and they are the driving force behind the most efficient operation in auto parts.

/s/ John Adams	/s/ Tim Vargo
John Adams Chairman & CEO Customer Satisfaction	Tim Vargo President & COO Customer Satisfaction

[PHOTO OF KEYCHAIN APPEARS HERE WITH "AUTOZONE" ON KEYRING]

Buckle up and turn the key.
We're just getting started.

[PHOTO OF IGNITION SWITCH AND DASHBOARD OF CAR APPEARS HERE;
KEYCHAIN SAYS: "AutoZone" AND "FY 98"]

WHAT DRIVES US

A cheer, some catchy acronyms and a pledge to put customers first. We even throw in a line or two about keeping our stores clean and offering great parts at great prices. It's what drives us, what keeps our eyes on the road. Does that make us different from the other guys? No. Not the act of saying it, anyway.

[PHOTO OF AUTOZONE EMPLOYEE WITH CUSTOMER USING TESTER ON CAR APPEARS HERE]
[CAPTION] Customers rely on us for more than just quality parts at great prices.

Just as there's more to owning a new car than learning the fancy gadgets and soaking up that "new car" smell, there's more to giving great customer service than a friendly smile and spit-shined linoleum. It takes a healthy disrespect for the status quo. A general disgust with keeping up with the Joneses.

We rely on innovation as our fuel for growth and let others run on imitation. We make sure the objects in our rear-view mirror aren't closer than they appear because we keep moving faster. What's more, because we're constantly fine-tuning the business, we're squeezing more horsepower out of the same fuel-efficient engine. We're experts on getting more for less. We have to be, because when the rubber hits the road, a customer with grease up to his elbows will tell you he doesn't care about anything but the right part at the right price, right now. Yes, there are other places he could go for that. But he comes to AutoZone because we give him all of that plus a level of service that helps make that tough job a littler easier.

[PHOTO OF EXTERIOR OF AUTOZONE STORE APPEARS HERE]
[CAPTION] AutoZone's clean, well-lit stores broke the stereotype for the auto parts business.

So when we say we're set on customer service, we're not just yanking your timing chain. It's the foundation of our culture, and it's ours alone. It's what drives us.

[PHOTO OF KEYCHAIN APPEARS HERE;
KEYRING SAYS "CUSTOMER # 1"]

A guide to catchy acronyms

WITTDTJR - What It Takes To Do The Job Right
GOTTChA - Go Out To The Customer's Automobile
Drop/Stop-30/30- Drop what's in your hands and stop what you're doing to greet customers before They're 30 feet or 30 seconds into the store.

WHO'S ON BOARD

[PHOTO OF CD-ROM APPEARS HERE]
[CAPTION] We now sell a consumer version of ALLDATA's repair software under the Popular Mechanics label.

Over 38,000 AutoZoners, thousands of stockholders and millions of customers. And that's only the beginning. ALLDATA. Commercial Accounts. Auto Palace. TruckPro. Chief.

AutoZoners satisfy customers, stockholders invest in our growth and customers keep us in business. But what about the others?

ALLDATA is information - something every technician needs. And since acquiring ALLDATA in 1996, we've increased the amount of information in their electronic database by almost 300%.

[PHOTO OF AUTOZONE EMPLOYEE WITH COMMERCIAL CUSTOMER APPEARS HERE]
[CAPTION] Our Commercial Accounts help their customers faster thanks to our 30-minute delivery.

Commercial Accounts let us serve a different customer base. Although it hasn't reached its potential, it has become an integral part of our business. Every day we're learning better ways to serve our professional customers.

[PHOTO OF AUTO PALACE STORE APPEARS HERE]
[CAPTION] We acquired AutoPalace with 112 stores in six states and gained an instant presence in the Northeast.

Auto Palace offered a chance to quickly and economically establish ourselves in a market that had never seen an AutoZone store before this year. We've gained customer loyalty and completely transformed their stores into AutoZone stores in less than a year.

[PHOTO OF TRUCKPRO EMPLOYEE APPEARS HERE]
[CAPTION] TruckPro's 43 stores in 14 states took us into the heavy-duty truck parts business.

TruckPro might have been our smallest acquisition, but it's big in terms of strategy. The heavy-duty truck parts market is fragmented and lacks a clear industry leader, putting TruckPro in a very similar position to AutoZone 19 years ago. With our guidance and their established position in the industry, we hope TruckPro's growth is equally impressive.

[PHOTO OF CHIEF AUTO PARTS STORE APPEARS HERE, WITH AUTOZONE STORE SIGN]
[CAPTION] Nearly 400 of the 560 stores we acquired through Chief are located in California.

Last year we touted our first California store. This year we're operating over 400 California stores, thanks in large part to the acquisition of Chief Auto Parts. The acquisition took some by surprise, but not those who follow AutoZone closely. It has become AutoZone's way to seize opportunities to acquire in markets where organic growth would take too long and cost too much.

Chief, TruckPro, Auto Palace, Commercial Accounts, ALLDATA, customers, stockholders and over 38,000 AutoZoners. That's who's on board.

[PHOTO OF KEYCHAIN APPEARS HERE;
KEYRINGS SAY: TruckPro, ALLDATA
Corporation, Auto Palace,
Chief, and Commercial Accounts]

Last year, our commercial trucks logged over 42 million miles delivering parts to our professional customers. That's the equivalent of driving round trip from our San Diego store to our Boston store nearly 7,000 times.

WHERE WE'RE HEADED

We've called it an odyssey. If you don't have a dictionary handy, it's defined as an adventurous voyage or trip. For a more practical definition, you can look at the landmarks we've seen during the past year alone. The opening of our 2,000th store, three acquisitions and the entry into an entirely new segment of the parts business.

[PHOTO OF AUTOZONE STORE APPEARS HERE]
[CAPTION] We're constantly looking for ways
to streamline our distribution
network to make it among the
most efficient in retailing

Are we going fast? We have to. Are we going too fast? We don't think so. By keeping an eye on the charts and gauges that have guided things to this point, we've managed to increase the speed without spinning out of control.

So what's around the next bend? Where are we headed? One possibility has us setting down that U.S. atlas we know so well and picking up a globe. Markets abroad have very real potential for the AutoZone concept. In fact, our research is showing that we can fit as many stores outside of the United States borders as we can within. Our trip outside the U.S. will begin this fiscal year.

At the same time, we've increased our projection for store capacity inside the United States to over 5,000. One reason for this upgrade is our small store prototype that hit the market this past year. This 3,800 square foot building is a model of efficiency and was designed to reach towns and neighborhoods that lack the space or population needed for our typical 7,700 square foot store.

After finding creative ways to maximize the space, we've managed to pack almost as many parts into this streamlined store.

[PHOTO OF AUTOZONE STORE UNDER CONSTRUCTION APPEARS HERE]
[CAPTION] We're only halfway to the 5,000
stores we believe the U.S.
can support. We currently operate
2,657 auto parts stores.

A smaller store means a smaller investment. And a smaller store with a lot of parts means higher returns. We'll also take advantage of these efficiencies as we remodel the Chief stores, which, on average, come in smaller buildings.

We're traveling to wherever our customers need us, whether it's down dusty country roads or across sweltering city asphalt. We plot our odyssey around those customers because they're the ones who decide where we're headed.

[PHOTO OF GLOBE AND ATLAS APPEARS HERE]

It's no coincidence that this globe shows Mexico on top. This fall, AutoZone will open its first international store in Nuevo Laredo, a city just across the border from Laredo, TX.

TEN-YEAR REVIEW
(in thousands, except per share data and selected operating data)

	5-Year Compound Growth	10-Year Compound Growth	Fiscal Year Ended August 1998	Fiscal Year Ended August 1997
INCOME STATEMENT DATA				
Net sales	22%	22%	$3,242,922	$2,691,440
Cost of sales, including warehouse and delivery expenses			1,889,847	1,559,296
Operating, selling, general and administrative expenses			970,768	810,793
Operating profit	22%	36%	382,307	321,351
Interest income (expense)			(18,204)	(8,843)
Income before income taxes	21%	45%	364,103	312,508
Income taxes			136,200	117,500
Net income	21%	47%	$ 227,903	$ 195,008
Diluted earnings per share	20%	44%	$ 1.48	$ 1.28
Adjusted weighted average shares for diluted earnings per share			154,070	152,535
BALANCE SHEET DATA				
Current assets			$1,117,090	$ 778,802
Working capital			257,261	186,350
Total assets			2,748,113	1,884,017
Current liabilities			859,829	592,452
Debt			545,067	198,400
Stockholders' equity			1,302,057	1,075,208
SELECTED OPERATING DATA				
Number of auto parts stores at beginning of year			1,728	1,423
New stores			952	308
Replacement stores			12	17
Closed stores			23	3
Net new stores			929	305
Number of auto parts stores at end of year			2,657	1,728
Total auto parts store square footage (000's)			16,499	11,611
Percentage increase in auto parts square footage			42%	23%
Percentage increase in auto parts comparable store net sales			2%	8%
Average net sales per auto parts store (000's)			$ 1,568	$ 1,691
Average net sales per auto parts store square foot			$ 238	$ 253
Total employment			38,526	28,700
Gross profit - percentage of sales			41.7%	42.0%
Operating profit - percentage of sales			11.8%	11.9%
Net income - percentage of sales			7.0%	7.2%
Debt-to-capital - percentage			29.5%	15.6%
Inventory turnover			2.3x	2.5x
Return on average equity			19%	20%

Ten-Year Review
(in thousands, except per share data and selected operating data)

	Fiscal Year Ended August			
	1996*	1995	1994	1993
INCOME STATEMENT DATA				
Net sales	$2,242,633	$1,808,131	$1,508,029	$1,216,793
Cost of sales, including warehouse and delivery expenses	1,307,638	1,057,033	886,068	731,971
Operating, selling, general and administrative expenses	666,061	523,440	431,219	344,060
Operating profit	268,934	227,658	190,742	140,762
Interest income (expense)	(1,969)	623	2,244	2,473
Income before income taxes	266,965	228,281	192,986	143,235
Income taxes	99,800	89,500	76,600	56,300
Net income	$ 167,165	$ 138,781	$ 116,386	$ 86,935
Diluted earnings per share	$ 1.11	$ 0.93	$ 0.78	$ 0.59
Adjusted weighted average shares for diluted earnings per share	151,238	149,302	148,726	147,608
BALANCE SHEET DATA				
Current assets	$ 613,097	$ 447,822	$ 424,402	$ 378,467
Working capital	219	30,273	85,373	92,331
Total assets	1,498,397	1,111,778	882,102	696,547
Current liabilities	612,878	417,549	339,029	286,136
Debt	94,400	13,503	4,252	4,458
Stockholders' equity	865,582	684,710	528,377	396,613
SELECTED OPERATING DATA				
Number of auto parts stores at beginning of year	1,143	933	783	678
New stores	280	210	151	107
Replacement stores	31	29	20	20
Closed stores	0	0	1	2
Net new stores	280	210	150	105
Number of auto parts stores at end of year	1,423	1,143	933	783
Total auto parts store square footage (000's)	9,437	7,480	5,949	4,839
Percentage increase in auto parts square footage	26%	26%	23%	20%
Percentage increase in auto parts comparable store net sales	6%	6%	9%	9%
Average net sales per auto parts store (000's)	$ 1,702	$ 1,742	$ 1,758	$ 1,666
Average net sales per auto parts store square foot	$ 258	$ 269	$ 280	$ 274
Total employment	26,800	20,200	17,400	15,700
Gross profit - percentage of sales	41.7%	41.5%	41.2%	39.8%
Operating profit - percentage of sales	12.0%	12.6%	12.6%	11.5%
Net income - percentage of sales	7.5%	7.7%	7.7%	7.1%
Debt-to-capital - percentage	9.8%	1.9%	0.8%	1.1%
Inventory turnover	2.7x	2.9x	3.0x	3.2x
Return on average equity	22%	23%	25%	26%

	Fiscal Year Ended August			
	1992	1991*	1990	1989
INCOME STATEMENT DATA				
Net sales	$1,002,327	$817,962	$671,725	$535,843
Cost of sales, including warehouse and delivery expenses	602,956	491,261	416,846	341,130
Operating, selling, general and administrative expenses	295,701	247,355	205,609	169,786
Operating profit	103,670	79,346	49,270	24,927
Interest income (expense)	818	(7,295)	(10,936)	(9,799)
Income before income taxes	104,488	72,051	38,334	15,128
Income taxes	41,200	27,900	14,840	6,200
Net income	$ 63,288	$ 44,151	$ 23,494	$ 8,928
Diluted earnings per share	$ 0.43	$ 0.33	$ 0.19	$ 0.07
Adjusted weighted average shares for diluted earnings per share	145,940	134,656	121,212	119,320
BALANCE SHEET DATA				
Current assets	$ 279,350	$233,439	$191,736	$177,824
Working capital	72,270	55,807	26,803	35,831
Total assets	501,048	397,776	327,368	296,546
Current liabilities	207,080	177,632	164,933	141,993
Debt	7,057	7,246	74,851	93,293
Stockholders' equity	278,120	204,628	80,356	54,592

SELECTED OPERATING DATA

Number of auto parts stores at beginning of year	598	538	504	440
New stores	82	60	38	70
Replacement stores	14	4	7	7
Closed stores	2	0	4	6
Net new stores	80	60	34	64
Number of auto parts stores at end of year	678	598	538	504
Total auto parts store square footage (000's)	4,043	3,458	3,031	2,758
Percentage increase in auto parts square footage	17%	14%	10%	19%
Percentage increase in auto parts comparable store net sales	15%	12%	13%	10%
Average net sales per auto parts store (000's)	$ 1,570	$ 1,408	$ 1,289	$ 1,135
Average net sales per auto parts store square foot	$ 267	$ 246	$ 232	$ 211
Total employment	13,200	11,700	9,300	7,900
Gross profit - percentage of sales	39.8%	39.9%	37.9%	36.6%
Operating profit - percentage of sales	10.3%	9.7%	7.3%	4.6%
Net income - percentage of sales	6.3%	5.4%	3.5%	1.7%
Debt-to-capital - percentage	2.5%	3.4%	48.2%	63.1%
Inventory turnover	3.0x	2.6x	2.4x	2.4x
Return on average equity	26%	31%	35%	18%

	Fiscal Year Ended August 1988
INCOME STATEMENT DATA	
Net sales	$437,399
Cost of sales, including warehouse and delivery expenses	277,043
Operating, selling, general and administrative expenses	142,868
Operating profit	17,488
Interest income (expense)	(8,826)
Income before income taxes	8,662
Income taxes	3,770
Net income	$ 4,892
Diluted earnings per share	$ 0.04
Adjusted weighted average shares for diluted earnings per share	119,936
BALANCE SHEET DATA	
Current assets	$137,098
Working capital	35,226
Total assets	232,977
Current liabilities	101,872
Debt	77,138
Stockholders' equity	45,608
SELECTED OPERATING DATA	
Number of auto parts stores at beginning of year	396
New stores	47
Replacement stores	1
Closed stores	3
Net new stores	44
Number of auto parts store at end of year	440
Total auto parts store square footage (000's)	2,318
Percentage increase in auto parts square footage	14%
Percentage increase in auto parts comparable store net sales	6%
Average net sales per auto parts store (000's)	$ 1,046
Average net sales per auto parts store square foot	$ 201
Total employment	7,100
Gross profit - percentage of sales	36.6%
Operating profit - percentage of sales	4.0%
Net income - percentage of sales	1.1%
Debt-to-capital - percentage	62.8%
Inventory turnover	2.3x
Return on average equity	11%

* 53 weeks. Comparable store sales, average net sales per store and average net sales per store square foot for fiscal year 1996 and 1991 have been adjusted to exclude net sales for the 53rd week.

QUARTERLY SUMMARY
(Unaudited)

	Twelve Weeks Ended			Sixteen Weeks Ended
	(in thousands, except per share data)			
	November 22, 1997	February 14, 1998	May 9, 1998	August 29, 1998
Net sales	$675,274	$607,097	$743,661	$1,216,890
Increase in comparable store sales	7%	2%	2%	0%
Gross profit	$280,441	$253,681	$311,080	$ 507,873
Operating profit	78,648	58,082	90,457	155,120
Income before income taxes	76,146	55,054	86,240	146,663
Net income	47,546	34,354	53,940	92,063
Basic earnings per share	0.31	0.23	0.35	0.60
Diluted earnings per share	0.31	0.22	0.35	0.60
Stock price range:				
High	$ 32.75	$ 32.06	$ 36.25	$ 38.00
Low	$ 27.00	$ 23.75	$ 29.00	$ 26.63

	November 23, 1996	February 15, 1997	May, 10 1997	August 30, 1997
Net sales	$569,145	$538,012	$637,895	$ 946,388
Increase in comparable store sales	7%	10%	7%	8%
Gross profit	$240,298	$226,956	$268,975	$ 395,915
Operating profit	61,898	49,217	76,775	133,461
Income before income taxes	60,725	47,107	74,103	130,573
Net income	37,975	29,407	46,103	81,523
Basic earnings per share	0.25	0.20	0.31	0.54
Diluted earnings per share	0.25	0.19	0.30	0.53
Stock price range:				
High	$ 30.63	$ 27.50	$ 26.13	$ 29.50
Low	$ 24.50	$ 20.13	$ 22.25	$ 22.25

Financial Review

The following table sets forth income statement data of AutoZone expressed as a percentage of net sales for the periods indicated:

	Fiscal Year Ended		
	August 29, 1998	August 30, 1997	August 31, 1996
Net sales	100.0%	100.0%	100.0%
Cost of sales, including warehouse and delivery expenses	58.3	58.0	58.3
Gross profit	41.7	42.0	41.7
Operating, selling, general and administrative expenses	29.9	30.1	29.7
Operating profit	11.8	11.9	12.0
Interest expense - net	0.6	0.3	0.1
Income taxes	4.2	4.4	4.4
Net income	7.0%	7.2%	7.5%

RESULTS OF OPERATIONS

For an understanding of the significant factors that influenced the Company's performance during the past three fiscal years, the following Financial Review should be read in conjunction with the consolidated financial statements presented in this annual report.

FISCAL 1998 COMPARED TO FISCAL 1997

Net sales for fiscal 1998 increased by $551.5 million or 20.5% over net sales for fiscal 1997. This increase was due to a comparable store net sales increase of 2% (which was primarily due to sales growth in the Company's newer auto parts stores and the added sales of the Company's commercial program) and an increase in net sales of $485.7 million for stores opened or acquired since the beginning of fiscal 1997. At August 29, 1998, the Company had 2,657 auto parts stores in operation, a net increase of 929 stores, including the acquisition of 112 and 560 auto parts stores acquired in February and June 1998 respectively.

Gross profit for fiscal 1998 was $1,353.1 million, or 41.7% of net sales, compared with $1,132.1 million, or 42.0% of net sales, for fiscal 1997. The decrease in gross profit percentage was due primarily to lower commodities gross margins coupled with lower gross margins in certain recently acquired stores.

Operating, selling, general and administrative expenses for fiscal 1998 increased by $160.0 million over such expenses for fiscal 1997 and decreased as a percentage of net sales from 30.1% to 29.9%. The decrease in the expense ratio was primarily due to commercial expense leverage and additional cooperative advertising funds received from vendors partially offset by higher occupancy costs primarily in recently acquired stores.

Net interest expense for fiscal 1998 was $18.2 million compared with $8.8 million for fiscal 1997. The increase in interest expense was primarily due to higher levels of borrowings as a result of the acquisitions.

AutoZone's effective income tax rate was 37.4% of pre-tax income for fiscal 1998 and 37.6% for fiscal 1997.

FISCAL 1997 COMPARED TO FISCAL 1996

Net sales for fiscal 1997 increased by $448.8 million or 20.0% over net sales for fiscal 1996. This increase was due to a comparable store net sales increase of 8% (which was primarily due to sales growth in the Company's newer stores and the added sales of the Company's commercial program) and an increase in net sales of $313.1 million for stores opened since the beginning of fiscal 1996, offset by net sales for the 53rd week of fiscal 1996. At August 30, 1997, the Company had 1,728 stores in operation, a net increase of 305 stores, or approximately 23% in new store square footage for the year.

Gross profit for fiscal 1997 was $1,132.1 million, or 42.0% of net sales, compared with $935.0 million, or 41.7% of net sales, for fiscal 1996. The increase in gross profit percentage was due primarily to improved leveraging of warehouse and delivery expenses.

Operating, selling, general and administrative expenses for fiscal 1997 increased by $144.7 million over such expenses for fiscal 1996 and increased as a percentage of net sales from 29.7% to 30.1%. The increase in the expense ratio was primarily due to operating costs of ALLDATA and to costs of the Company's commercial program.

Net interest expense for fiscal 1997 was $8.8 million compared with $2.0 million for fiscal 1996. The increase in interest expense was primarily due to higher levels of borrowings.

AutoZone's effective income tax rate was 37.6% of pre-tax income for fiscal 1997 and 37.4% for fiscal 1996.

FINANCIAL MARKET RISK

Financial market risks relating to the Company's operations result primarily from changes in interest rates. The Company enters into interest rate swaps to minimize the risk associated with its financing activities. The swap agreements are contracts to exchange fixed or variable rates for floating interest rate payments periodically over the life of the instruments.

LIQUIDITY AND CAPITAL RESOURCES

The Company's primary capital requirements have been the funding of its continued new store expansion program, inventory requirements and more recently, acquisitions. The Company has opened or acquired 1,874 net new auto parts stores and constructed four new distribution centers from the beginning of fiscal 1994 to August 29, 1998. Cash flow generated from store operations provides the Company with a significant source of liquidity. Net cash provided by operating activities was $366.8 million in fiscal 1998, $177.6 million in fiscal 1997, and $174.9 million in fiscal 1996. The significant increase in net cash provided by operating activities in fiscal 1998 is due primarily to improved inventory turnover, excluding acquisitions, coupled with favorable payment terms.

In fiscal 1998, the Company invested $337.2 million in capital assets and had a net cash outlay of $365.5 million for acquisitions including the retirement of the acquired companies' debt. Acquisitions included Chief Auto Parts, with stores primarily in California, Auto Palace, with stores primarily in the Northeast, and a truck parts chain, TruckPro. Capital expenditures were $337.2 million in fiscal 1998, $295.4 million in fiscal 1997, and $280.2 million in fiscal 1996. The Company opened or acquired 929 net new auto parts stores and 43 truck parts stores in fiscal 1998. Construction commitments totaled approximately $76 million at August 29, 1998.

The Company's new store development program requires significant working capital, principally for inventories. Historically, the Company has negotiated extended payment terms from suppliers, minimizing the working capital required by its expansion. The Company believes that it will be able to continue financing much of its inventory growth by favorable payment terms from suppliers, but there can be no assurance that the Company will be successful in obtaining such terms.

In July 1998, the Company sold $200 million of 6.5% Debentures due July 15, 2008 at a discount. Interest on the Debentures is payable semi-annually on January 15 and July 15 of each year, beginning January 15, 1999. The Debentures may be redeemed at any time at the option of the Company. Proceeds were used to repay portions of the Company's long-term variable rate bank debt and for general corporate purposes.

The Company has a commercial paper program that allows borrowing up to $500 million. As of August 29, 1998, there were borrowings of $305 million outstanding under the program. In connection with the program, the Company has a credit facility with a group of banks for up to $350 million and a 364-day $150 million credit facility with another group of banks. Borrowings under the commercial paper program reduce availability under the credit facilities. As of August 29, 1998, the Company had $34 million outstanding under the $350 million credit facility which expires in December 2001. There were no amounts outstanding under the $150 million credit facility at August 29,1998. Both of the revolving credit facilities contain a covenant limiting the amount of debt the Company may incur relative to its total capitalization.

In fiscal 1998, the Company announced plans to repurchase up to $100 million of the Company's common stock in the open market. Under this plan, in fiscal 1998 the Company repurchased nearly one million shares of its common stock for $28.7 million.

Subsequent to year end, the Company announced an agreement to acquire real estate and real estate leases for approximately 100 Express auto parts stores from Pep Boys for approximately $108 million. If consummated, the transaction would not have a material impact on the fiscal 1999 financial position or consolidated operating results.

The Company anticipates that it will rely primarily on internally generated funds to support a majority of its capital expenditures, working capital requirements, and treasury stock repurchases. The balance will be funded through borrowings. The Company anticipates no difficulty in obtaining such long-term financing in view of its credit rating and favorable experiences in the debt market in the past. In addition to the available credit lines mentioned above, the Company may sell up to $200 million of public debt under shelf registration statements filed with the Securities and Exchange Commission.

YEAR 200 CONVERSION

The Company began addressing the Year 2000 issue in June 1996 and implemented a formal Year 2000 project office in May 1997. As of August 29, 1998, the Company had completed over half of its conversion efforts. The Company anticipates completing the conversion and testing of all known remaining programs by July 31, 1999.

The total estimated cost of the Year 2000 project is $12 million, which is being expensed as incurred. As of August 29, 1998, approximately $3 million of the $12 million cost of conversion had been incurred. All of the related costs are being funded through operating cash flows. These costs are an immaterial part of the overall information technology budget. No major information technology projects or programs have been deferred.

In addition to internal system activities, the Company is addressing Year 2000 issues which do not normally fall under information technology such as embedded chip equipment and the compliance status of business partners. Although the Company believes that the ongoing assessment and testing will minimize the Company's risks, there is no guarantee that there will not be an adverse effect on the Company if third parties, such as merchandise vendors, service providers, or utility companies are not Year 2000 compliant.

Although the Company does not anticipate any major business disruptions as a result of Year 2000 issues, it is possible that certain disruptions may occur including loss of communications with stores, distribution centers, or business partners; inability to process transactions in a timely manner or loss of power. The Company is currently developing contingency plans which should be finalized by July 31, 1999. Elements of the Company's contingency plans may include: switching vendors, back-up systems or manual processes, and the stockpiling of certain products prior to the Year 2000.

The cost of conversion and the completion date are based on management's best estimates and may be updated as additional information becomes available.

RECENT ACCOUNTING PRONOUNCEMENTS

In June 1997, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards (SFAS) No. 130, "Reporting Comprehensive Income," and No. 131, "Disclosures about Segments of an Enterprise and Related Information." In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosure about Pensions and Other Postretirement Benefits." All statements are effective for financial statements issued for fiscal years beginning after December 15, 1997. The Company plans to adopt all three statements in the 1999 fiscal year.

SFAS No. 130 establishes standards for reporting and display of comprehensive income and its components. Adoption of this statement will have no impact on the Company's consolidated financial position or results of operations.

SFAS No. 131 revises existing guidelines about the level of financial disclosure of a Company's operations by requiring inclusion of selected information about operating segments in financial statements. The adoption of this statement requires only additional reporting and will not have an impact on the Company's reported results.

SFAS No. 132 establishes standards for the reporting of information about pensions and other postretirement benefits. Adoption of this statement will not materially change the Company's current reporting of pension and other postretirement benefits.

INFLATION

The Company does not believe its operations have been materially affected by inflation. The Company has been successful, in many cases, in mitigating the effects of merchandise cost increases principally due to economies of scale resulting from increased volumes of purchases, selective forward buying and the use of alternative suppliers.

SEASONALITY AND QUARTERLY PERIODS

The Company's business is somewhat seasonal in nature, with the highest sales occurring in the summer months of June through August, in which average weekly per store sales historically have been about 20% to 30% higher than in the slowest months of December through February. The Company's business is also affected by weather conditions. Extremely hot or extremely cold weather tends to enhance sales by causing parts to fail and spurring sales of seasonal products. Mild or rainy weather tends to soften sales as parts' failure rates are lower in mild weather and elective maintenance is deferred during periods of rainy weather.

Each of the first three quarters of AutoZone's fiscal year consists of twelve weeks and the fourth quarter consists of sixteen weeks. Because the fourth quarter contains the seasonally high sales volume and consists of sixteen weeks, compared to twelve weeks for each of the first three quarters, the Company's fourth quarter represents a disproportionate share of the annual net sales and net income. The fourth quarter of fiscal 1998 represented 37.5% of annual net sales and 40.4% of net income; the fourth quarter of fiscal 1997 represented 35.2% of annual net sales and 41.8% of net income.

FORWARD LOOKING STATEMENTS

Certain statements contained in the Financial Review and elsewhere in this annual report are forward-looking statements. These statements discuss, among other things, expected growth, domestic and international development and expansion strategy, business strategies, future revenues and future performance. The forward-looking statements are subject to risks, uncertainties and assumptions including, but not limited to competition, product demand, domestic and international economies, government approvals and regulations, the ability to hire and retain qualified employees, the ability to convert acquired stores in a timely and profitable manner, inflation and the weather. Actual results may materially differ from anticipated results.

CONSOLIDATED STATEMENTS OF INCOME

	Year Ended		
	August 29, 1998 (52 Weeks)	August 30, 1997 (52 Weeks)	August 31, 1996 (53 Weeks)
	(in thousands, except per share data)		
Net sales	$3,242,922	$2,691,440	$2,242,633
Cost of sales, including warehouse and delivery expenses	1,889,847	1,559,296	1,307,638
Operating, selling, general and administrative expenses	970,768	810,793	666,061
Operating profit	382,307	321,351	268,934
Interest expense - net	18,204	8,843	1,969
Income before income taxes	364,103	312,508	266,965
Income taxes	136,200	117,500	99,800
Net income	$ 227,903	$ 195,008	$ 167,165
Weighted average shares for basic earnings per share	152,160	150,726	148,476
Effect of dilutive stock options	1,910	1,809	2,762
Adjusted weighted average shares for diluted earnings per share	154,070	152,535	151,238
Basic earnings per share	$ 1.50	$ 1.29	$ 1.13
Diluted earnings per share	$ 1.48	$ 1.28	$ 1.11

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS

		August 29, 1998	August 30, 1997
		(in thousands, except per share data)	
ASSETS	Current assets:		
	Cash and cash equivalents	$ 6,631	$ 4,668
	Accounts receivable	42,252	18,713
	Merchandise inventories	966,560	709,446
	Prepaid expenses	37,532	20,987
	Deferred income taxes	61,964	24,988
	Income taxes receivable	2,151	
	Total current assets	1,117,090	778,802
	Property and equipment:		
	Land	320,203	243,587
	Buildings and improvements	851,083	682,710
	Equipment	374,465	267,536
	Leasehold improvements and interests	82,273	45,667
	Construction in progress	150,461	97,411
		1,778,485	1,336,911
	Less accumulated depreciation and amortization	350,979	255,783
		1,427,506	1,081,128
	Other assets:		
	Cost in excess of net assets acquired, net of accumulated amortization of $9,096 in 1998 and $8,084 in 1997	181,315	16,570
	Deferred income taxes	3,510	4,339
	Other assets	18,692	3,178
		203,517	24,087
		$2,748,113	$1,884,017
LIABILITIES AND STOCKHOLDERS' EQUITY	Current liabilities:		
	Accounts payable	$ 683,372	$ 449,793
	Accrued expenses	176,457	122,580
	Income taxes payable		20,079
	Total current liabilities	859,829	592,452
	Long-term debt	545,067	198,400
	Other liabilities	41,160	17,957
	Commitments and contingencies (See notes G and H)		
	Stockholders' equity:		
	Preferred Stock, authorized 1,000 shares; no shares issued		
	Common Stock, par value $.01 per share, authorized 200,000 shares; 153,039 shares issued and 152,086 shares outstanding in 1998 and 151,313 issued and outstanding shares in 1997	1,530	1,513
	Additional paid-in-capital	277,528	249,853
	Retained earnings	1,051,745	823,842
	Treasury stock, at cost	(28,746)	
	Total stockholders' equity	1,302,057	1,075,208
		$2,748,113	$1,884,017

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended		
	August 29, 1998 (52 Weeks)	August 30, 1997 (52 Weeks)	August 31, 1996 (53 Weeks)
	(in thousands)		
Cash flows from operating activities:			
Net income	$ 227,903	$ 195,008	$ 167,165
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment	95,464	77,163	62,919
Amortization of intangible and other assets	1,135	658	622
Deferred income tax expense (benefit)	20,241	(7,781)	6,082
Net increase in accounts receivable and prepaid expenses	(15,260)	(5,009)	(7,564)
Net increase in merchandise inventories	(47,285)	(153,552)	(158,673)
Net increase in accounts payable and accrued expenses	127,683	66,155	94,916
Net change in income taxes payable and receivable	(22,230)	7,819	6,493
Net change in other assets and liabilities	(20,813)	(2,898)	2,930
Net cash provided by operating activities	366,838	177,563	174,890
Cash flows from investing activities:			
Acquisitions	(100,031)		
Capital expenditures	(337,202)	(295,417)	(280,237)
Net cash used in investing activities	(437,233)	(295,417)	(280,237)
Cash flows from financing activities:			
Repayment of acquired companies' debt	(265,429)		
Increase in commercial paper	305,000		
Proceeds from debentures	197,751		
Net increase (decrease) in revolver	(164,350)	104,000	84,900
Repayment of long-term debt			(4,003)
Net proceeds from sale of Common Stock, including related tax benefit	27,692	14,618	17,699
Purchase of Treasury Stock	(28,746)		
Other	173		
Net cash provided by financing activities	72,091	118,618	98,596
Net increase (decrease) in cash and cash equivalents	1,696	764	(6,751)
Cash and cash equivalents at beginning of year	4,668	3,904	6,411
Cash provided by acquisitions/mergers	267		4,244
Cash and cash equivalents at end of year	$ 6,631	$ 4,668	$ 3,904
Supplemental cash flow information:			
Interest paid, net of interest cost capitalized	$ 17,042	$ 8,779	$ 1,971
Income taxes paid	$ 122,529	$ 109,681	$ 69,791

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS EQUITY

	Common Stock	Additional Paid-in Capital	Retained Earnings	Treasury Stock	Total
			(in thousands)		
Balance at August 26, 1995	$1,471	$196,625	$ 486,614	$ --	$ 684,710
Net income			167,165		167,165
Equity of pooled entity (issued 1,697 shares)	17	20,936	(24,945)		(3,992)
Sale of 1,386 shares of Common Stock under stock option and stock purchase plans	13	6,836			6,849
Tax benefit of exercise of stock options		10,850			10,850
Balance at August 31, 1996	1,501	235,247	628,834		865,582
Net income			195,008		195,008
Sale of 1,176 shares of Common Stock under stock option and stock purchase plans	12	7,676			7,688
Tax benefit of exercise of stock options		6,930			6,930
Balance at August 30, 1997	1,513	249,853	823,842		1,075,208
Net income			227,903		227,903
Sale of 1,726 shares of Common Stock under stock option and stock purchase plans	17	11,475			11,492
Tax benefit of exercise of stock options		16,200			16,200
Purchase of 953 shares of Treasury Stock				(28,746)	(28,746)
Balance at August 29, 1998	$1,530	$277,528	$ 1,051,745	$ (28,746)	$ 1,302,057

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note A - Significant Accounting Policies

Business: The Company is principally a specialty retailer of automotive parts and accessories. At the end of fiscal 1998, the Company operated 2,657 auto parts stores in 38 states. In addition, the Company sells heavy duty truck parts and accessories through its 43 TruckPro stores in 14 states and automotive diagnostic and repair information software through its ALLDATA subsidiary.

Fiscal Year: The Company's fiscal year consists of 52 or 53 weeks ending on the last Saturday in August.

Basis of Presentation: The consolidated financial statements include the accounts of AutoZone, Inc. and its wholly owned subsidiaries (the Company). All significant intercompany transactions and balances have been eliminated in consolidation.

Merchandise Inventories: Inventories are stated at the lower of cost or market using the last-in, first-out (LIFO) method.

Property and Equipment: Property and equipment is stated at cost. Depreciation is computed principally by the straight-line method over the estimated useful lives of the assets. Leasehold interests and improvements are amortized over the terms of the leases.

Amortization: The cost in excess of net assets acquired is amortized by the straight-line method over 40 years.

Preopening Expenses: Preopening expenses, which consist primarily of payroll and occupancy costs, are expensed as incurred.

Advertising Costs: The Company expenses advertising costs as incurred. Advertising expense, net of vendor rebates, was approximately $30,109,000 in fiscal 1998, $27,271,000 in fiscal 1997 and $25,442,000 in fiscal 1996.

Warranty Costs: The Company provides the retail consumer with a warranty on certain products. Estimated warranty obligations are provided at the time of sale of the product.

Financial Instruments: The Company has certain financial instruments which include cash, accounts receivable and accounts payable. The carrying amounts of these financial instruments approximate fair value because of their short maturities or variable interest rates. The Company uses derivative financial instruments for purposes other than trading to minimize the risk associated with financing activities. Settlements of interest rate swaps are accounted for by recording the net interest received or paid as an adjustment to interest expense on a current basis. Gains or losses resulting from market movements are not recognized. Contracts that effectively meet risk reduction and correlation criteria are recorded using hedge accounting. Hedges of anticipated transactions are deferred and recognized when the hedged transaction occurs.

Income Taxes: The Company accounts for income taxes under the liability method. Deferred tax assets and liabilities are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse.

Cash Equivalents: Cash equivalents consist of investments with maturities of 90 days or less at the date of purchase.

Use of Estimates: Management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent liabilities to prepare these financial statements in conformity with generally accepted accounting principles. Actual results could differ from those estimates.

Net Income Per Share: In fiscal 1998, the Company adopted Statement of Financial Accounting Standards (SFAS) No. 128, "Earnings per Share." SFAS No. 128 replaces primary and fully diluted earnings per share with basic and diluted earnings per share. Unlike primary earnings per share, basic earnings per share excludes any dilutive effect of options. Diluted earnings per share is based on the weighted average outstanding shares reduced by the effect of stock options. All earnings per share amounts for all periods presented have been restated to conform with SFAS No. 128 requirements.

Reclassifications: Certain prior year amounts have been reclassified to conform to current year presentation.

Impairment of Long-Lived Assets: The Company complies with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." This statement requires that long-lived assets and certain identifiable intangibles to be held and used by an entity be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Also, in general, long-lived assets and certain identifiable intangibles to be disposed of should be reported at the lower of carrying amount or fair value less cost to sell.

Comprehensive Income: In June 1997, the Financial Accounting Standards Board (FASB) issued SFAS No. 130, "Reporting Comprehensive Income." SFAS No. 130 is effective for interim and annual periods beginning after December 15, 1997, although earlier adoption is permitted. This statement establishes standards for reporting and display of comprehensive income and its components. This statement requires only additional reporting, therefore its adoption in fiscal 1999 will have no effect on the Company's results of operations or financial position.

Disclosures about Segments of an Enterprise and Related Information: In June 1997, the FASB issued SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." Statement No. 131 revises existing guidelines for financial disclosure of a Company's operations and is effective for fiscal years beginning after December 15, 1997, although earlier application is permitted. The adoption of this statement requires only additional reporting and will not have any effect on the Company's consolidated financial position or results of operations. The Company will adopt this statement in fiscal 1999.

Pensions and Other Postretirement Benefits: In February 1998, the FASB issued SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." Although earlier adoption is permitted, this statement is effective for periods beginning after December 15, 1997. SFAS No. 132 establishes new standards for the reporting of information about pension and other postretirement benefits. Adoption of SFAS No. 132 should not result in any significant changes in the Company's presentation of pension and other postretirement benefits. The Company will adopt SFAS No. 132 in fiscal 1999.

Note B - Accrued Expenses

Accrued expenses consist of the following:

	August 29, 1998	August 30, 1997
	(in thousands)	
Medical and casualty insurance claims	$ 40,640	$ 35,121
Accrued compensation and related payroll taxes	37,684	26,481
Property and sales taxes	38,506	27,161
Other	59,627	33,817
	$176,457	$122,580

Note C - Income Taxes

At August 29, 1998, the Company has net operating loss carryforwards (NOLs) of approximately $60 million that expire in years 2000 through 2018. These carryforwards resulted from the Company's acquisition of ALLDATA Corporation during fiscal 1996 and Chief Auto Parts Inc. and ADAP, Inc. (which had been doing business as "Auto Palace") in fiscal 1998. The use of the NOLs is limited to future taxable earnings of these companies and is subject to annual limitations. A valuation allowance of $15,902,000 in fiscal 1998 and $5,247,000 in fiscal 1997 relates to those carryforwards.

The provision for income tax expense (benefit) consists of the following:

	Year Ended		
	August 29, 1998	August 30, 1997	August 31, 1996
		(in thousands)	
Current:			
Federal	$103,810	$114,113	$86,469
State	12,149	11,168	7,249
	115,959	125,281	93,718
Deferred:			
Federal	19,665	(6,427)	5,531
State	576	(1,354)	551
	20,241	(7,781)	6,082
	$136,200	$117,500	$99,800

Significant components of the Company's deferred tax assets and liabilities are as follows:

	August 29, 1998	August 30, 1997
	(in thousands)	
Deferred tax assets:		
Net operating loss and credit carryforwards	$26,303	$ 5,247
Insurance reserves	13,847	12,078
Warranty reserves	7,778	7,171
Deferred lease expense	6,694	
Accrued vacation	4,387	2,537
Other	29,690	9,823
	88,699	36,856
Less valuation allowance	15,902	5,247
	72,797	31,609
Deferred tax liabilities:		
Property and equipment	4,104	
Accrued property taxes	3,219	2,282
	7,323	2,282
Net deferred tax assets	$65,474	$29,327

A reconciliation of the provision for income taxes to the amount computed by applying the federal statutory tax rate of 35% to income before income taxes is as follows:

	Year Ended		
	August 29, 1998	August 30, 1997	August 31, 1996
		(in thousands)	
Expected tax at statutory rate	$127,436	$109,378	$93,438
State income taxes, net	8,271	6,379	5,070

Other	493	1,743	1,292
	$136,200	$117,500	$99,800

Note D - Financing Arrangements

The Company's long-term debt at the end of fiscal 1998 and 1997 consisted of the following:

	August 29, 1998	August 30, 1997
	(in thousands)	
6.5% Debentures due July 15, 2008; redeemable at any time at the option of the Company	$200,000	$
Commercial paper, 5.7% weighted average rate	305,000	
Unsecured bank loan, floating interest rate averaging 5.8% at August 29, 1998 and August 30, 1997; payable in December 2001	34,050	198,400
Other	6,017	
Total long term debt	$545,067	$198,400

In July 1998, the Company sold $200 million of 6.5% Debentures due July 15, 2008 at a discount. Interest on the Debentures is payable semi-annually on January 15 and July 15 of each year, beginning January 15, 1999. Proceeds were used to repay portions of the Company's long-term variable rate bank debt and for general corporate purposes.

The Company has a commercial paper program that allows borrowing up to $500 million. As of August 29, 1998, there were borrowings of $305 million outstanding under the program. In connection with the program, the Company has a credit facility with a group of banks for up to $350 million and a 364-day $150 million credit facility with another group of banks. Borrowings under the commercial paper program reduce availability under the credit facilities. There were no amounts outstanding under the $150 million credit facility at August 29, 1998. Outstanding commercial paper and revolver borrowings at August 29, 1998 are classified as long-term debt as it is the Company's intention to refinance them on a long-term basis.

The rate of interest payable under the revolving credit agreements is a function of the London Interbank Offered Rate (LIBOR) or the lending bank's base rate (as defined in the agreement) at the option of the Company. In addition, the $350 million credit facility contains a competitive bid rate option. Both of the revolving credit facilities contain a covenant limiting the amount of debt the Company may incur relative to its total capitalization. These facilities are available to support domestic commercial paper borrowings and to meet cash requirements.

Maturities of long-term debt are $339 million for fiscal 2002 and $206 million thereafter.

Interest costs of $2,280,000 in fiscal 1998, $2,119,000 in fiscal 1997, and $2,416,000 in fiscal 1996 were capitalized.

The estimated fair value of the 6.5% Debentures, which are publicly traded, was approximately $199 million based on the market price at August 29, 1998. The estimated fair values of all other long-term borrowings approximates their carrying value primarily because of their variable interest rates.

Note E - Employee Stock Plans

The Company has granted options to purchase common stock to certain employees and directors under various plans at prices equal to the market value of the stock on the dates the options were granted. Options are generally exercisable over a three to seven year period, and generally expire in 10 years after the grant. A summary of outstanding stock options is as follows:

	Wtd. Avg. Exercise Price	Number of Shares
Outstanding August 26, 1995	$14.77	9,503,981
Assumed	4.46	221,841
Granted	28.50	1,621,395
Exercised	4.55	(1,332,588)
Canceled	24.38	(254,873)
Outstanding August 31, 1996	17.96	9,759,756
Granted	22.69	2,707,370
Exercised	4.93	(1,032,989)
Canceled	25.54	(834,883)
Outstanding August 30, 1997	19.84	10,599,254
Granted	31.13	1,692,272
Exercised	7.39	(1,738,882)
Canceled	25.40	(795,780)
Outstanding August 29, 1998	$23.56	9,756,864

The following table summarizes information about stock options outstanding at August 29, 1998:

Options Outstanding		Options Exercisable
Wtd. Avg.	Wtd. Avg.	Wtd. Avg.

Range of Exercise Price	No. of Options	Exercise Price	Contractual Life (in years)	No. of Options	Exercise Price
$ 1.00 - 9.17	1,053,319	$ 4.47	2.44	1,044,403	$ 4.47
14.31 - 22.69	1,454,961	18.96	7.48	294,961	14.31
22.88 - 25.13	2,325,478	24.70	7.22	117,203	25.13
25.25 - 27.25	2,130,191	25.92	6.11	380,943	25.31
27.38 - 35.13	2,792,915	30.40	8.58	105,000	28.30
$ 1.00 - 35.13	9,756,864	$23.56	6.89	1,942,510	$12.59

Options to purchase 1,942,510 shares at August 29, 1998, and 2,619,363 shares at August 30, 1997, were exercisable. Shares reserved for future grants were 2,699,468 shares at August 29, 1998, and 4,199,055 at August 30, 1997.

Pro forma information is required by SFAS No. 123, "Accounting for Stock-Based Compensation." In accordance with the provisions of SFAS No. 123, the Company applies APB Opinion 25 and related interpretations in accounting for its stock option plans and accordingly, no compensation expense for stock options has been recognized. If the Company had elected to recognize compensation cost based on the fair value of the options granted at the grant date as prescribed in SFAS No. 123, the Company's net income and earnings per share would have been reduced to the pro forma amounts indicated below. The effects of applying SFAS No. 123 and the results obtained through the use of the Black-Scholes option pricing model in this pro forma disclosure are not indicative of future amounts. SFAS No. 123 does not apply to awards prior to fiscal 1996. Additional awards in future years are anticipated.

		Year Ended		
		August 29, 1998	August 30, 1997	August 31, 1996
Net Income ($000)	As reported	$227,903	$195,008	$167,165
	Pro forma	$221,803	$191,118	$165,992
Basic Earnings per share	As reported	$1.50	$1.29	$1.13
	Pro forma	$1.46	$1.27	$1.12
Diluted Earnings per share	As reported	$1.48	$1.28	$1.11
	Pro forma	$1.44	$1.26	$1.10

The weighted-average fair value of the stock options granted during fiscal 1998 was $12.17, during fiscal 1997 was $9.26 and during fiscal 1996 was $12.25. The fair value of each option granted is estimated on the date of the grant using the Black-Scholes option pricing model with the following weighted-average assumptions for grants in 1998, 1997 and 1996: expected price volatility of .34; risk-free interest rates ranging from 4.56 to 5.98 percent; and expected lives between 3.75 and 8.0 years.

The Company also has an employee stock purchase plan under which all eligible employees may purchase Common Stock at 85% of fair market value (determined quarterly) through regular payroll deductions. Annual purchases are limited to $4,000 per employee. Under the plan, 232,389 shares were sold in fiscal 1998 and 308,141 shares were sold in fiscal 1997. The Company re-purchased 275,526 shares in fiscal 1998 and 168,362 shares in fiscal 1997 for sale under the plan. A total of 1,567,611 shares of Common Stock is reserved for future issuance under this plan.

During fiscal 1998, the Company adopted the 1998 Directors Stock Option Plan. Under the stock option plan, each non-employee director was automatically granted an option to purchase 1,000 shares of common stock on the plan's adoption date. Each non-employee director will receive additional options to purchase 1,000 shares of common stock on January 1 of each year. In addition, so long as the non-employee director owns common stock valued at least equal to five times the value of the annual fee paid to such director, that director will receive an additional option to purchase 1,000 shares as of December 31 of each year.

In March 1998, the Company adopted the Directors Compensation Plan. Under this plan, a director may receive no more than one-half of the annual and meeting fees immediately in cash, and the remainder of the fees must be taken in either common stock or the fees may be deferred in units with value equivalent to the value of shares of common stock as of the grant date ("stock appreciation rights").

Note F - Pension and Savings Plan

Substantially all full-time employees are covered by a defined benefit pension plan. The benefits are based on years of service and the employee's highest consecutive five-year average compensation.

The Company makes annual contributions in amounts at least equal to the minimum funding requirements of the Employee Retirement Income Security Act of 1974.

The following table sets forth the plan's funded status and amounts recognized in the Company's financial statements (in thousands):

	August 29, 1998	August 30, 1997
Actuarial present value of accumulated benefit obligation, including vested benefits of $36,338 in 1998 and $22,005 in 1997	$43,600	$26,886
Projected benefit obligation for service rendered to date	$53,971	$42,687
Less plan assets at fair value, primarily stocks and cash equivalents	54,565	39,598
Projected benefit obligation in excess of (less than) plan assets	(594)	3,089
Unrecognized prior service cost	5,934	(289)
Unrecognized net loss from past experience different from that assumed and effects of changes in assumptions	(9,282)	(3,721)
Unrecognized net asset		118
Accrued pension cost	$(3,942)	$ (803)

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Net pension cost included the following components (in thousands):

	Year Ended		
	August 29, 1998	August 30, 1997	August 31, 1996
Service cost of benefits earned during the year	$7,001	$6,034	$4,580
Interest cost on projected benefit obligation	3,047	2,496	1,748
Actual return on plan assets	(7,241)	(5,616)	(3,677)
Net amortization and deferral	2,741	2,820	2,518
Net periodic pension cost	$5,548	$5,734	$5,169

The actuarial present value of the projected benefit obligation was determined using weighted-average discount rates of 6.93% and 7.94% at August 29, 1998 and August 30, 1997, respectively. The assumed increases in future compensation levels were generally 5-10% based on age in fiscal 1998 and 6% in fiscal 1997 and 1996. The expected long-term rate of return on plan assets was 9.5%, 9.5% and 7% at August 29, 1998, August 30, 1997 and August 31, 1996, respectively. Prior service cost is amortized over the estimated average remaining service lives of the plan participants, and the unrecognized net experience gain or loss is amortized over five years.

During fiscal 1998, the Company established a defined contribution plan ("401(k)") pursuant to Section 401(k) of the Internal Revenue Code. The 401(k) covers substantially all employees that meet certain service requirements. The Company makes matching contributions, on an annual basis, up to specified percentages of employees' contributions as approved by the Board of Directors.

Note G - Leases

A portion of the Company's retail stores and certain equipment are leased. Most of these leases include renewal options and some include options to purchase and provisions for percentage rent based on sales.

Rental expense was $56,410,000 for fiscal 1998, $39,078,000 for fiscal 1997 and $30,626,000 for fiscal 1996. Percentage rentals were insignificant.

Minimum annual rental commitments under non-cancelable operating leases are as follows (in thousands):

Year	Amount
1999	$ 92,863
2000	85,232
2001	74,704
2002	60,080
2003	47,954
Thereafter	169,201
	$530,034

Note H - Commitments and Contingencies

Construction commitments, primarily for new stores, totaled approximately $76 million at August 29, 1998.

Chief, a wholly owned subsidiary of the Company, is a defendant in a class action entitled "Doug Winfrey, et al. on their own behalf and on behalf of a class and all others similarly situated, v. Chief Auto Parts Inc. et al." filed in The Superior Court of California, County of San Joaquin on August 22, 1995 and then transferred to The Superior Court of California, County of San Francisco on October 26, 1995. The Superior Court denied the plaintiff's motion for class certification on December 7, 1996. On February 6, 1998, the Court of Appeal reversed the Superior Court's order denying class certification. No substantive proceedings regarding the merits of this lawsuit have yet occurred.

The plaintiffs allege that Chief had a policy and practice of denying hourly employees in California mandated rest periods during their scheduled hours of work. The plaintiffs are seeking damages, restitution, disgorgement of profits, statutory penalties, declaratory relief, injunctive relief, prejudgment interest, and reasonable attorneys fees, expenses and costs. Management is unable to predict the outcome of this lawsuit at this time. The Company believes that the potential damages recoverable by any single plaintiff against Chief are minimal. However, if the plaintiff class were to prevail on all their claims, the amount of damages could be substantial. Chief is vigorously defending against this action.

The Company is a party to various claims and lawsuits arising in the normal course of business which, in the opinion of management, are not, singularly or in aggregate, material to the Company's financial position or results of operations.

The Company is self-insured for workers' compensation, automobile, general and product liability losses. The Company is also self-insured for health care claims for eligible active employees. The Company maintains certain levels of stop loss coverage for each self-insured plan. Self-insurance costs are accrued based upon the aggregate of the liability for reported claims and an estimated liability for claims incurred but not reported.

Note I - Business Combinations

In February 1998, the Company acquired ADAP, Inc. ("Auto Palace"). The acquisition added 112 automotive parts and accessories stores in the Northeast. In May 1998, the Company acquired the assets and liabilities of TruckPro, L.P., including the service mark "TruckPro." The 43 TruckPro stores in 14 states specialize in the sale of heavy duty truck parts.

Additionally, in June 1998, the Company acquired Chief Auto Parts Inc. for approximately $280 million, including the assumption of approximately $205 million of indebtedness. Chief operated 560 auto parts stores primarily in California. The purchase price for Chief has been preliminarily allocated in the consolidated financial statements and the final adjustment may differ from the preliminary allocation.

Results of operations for acquisitions are included with the Company since each respective acquisition date. The purchase method of accounting for acquisitions was utilized for all transactions and, therefore, the acquired assets and liabilities were recorded at their estimated fair values at the date of acquisition. The goodwill associated with these transactions is being amortized over 40 years.

The fair value of the assets and liabilities recorded as a result of these transactions is as follows (in thousands):

Cash and cash equivalents	$ 267
Receivables	22,786
Inventories	209,829
Property and equipment	104,640
Goodwill	166,013
Deferred income taxes	56,388
Accounts payable	(106,947)
Accrued liabilities	(52,826)

Debt	(271,273)
Other	(28,846)
Total cash purchase price	$100,031

The following unaudited pro forma results of operations assume that the acquisitions and the related financing transactions occurred at the beginning of the periods presented.

	Year Ended	
	August 29, 1998	August 30, 1997
	(in thousands, except per share data)	
Net sales	$3,758,700	$3,397,300
Net income	$ 221,200	$ 189,200
Diluted earnings per share	$ 1.44	$ 1.24

The pro forma financial information is presented for informational purposes only and is not necessarily indicative of the operating results that would have occurred had the business combinations and related transactions been consummated as of the above dates, nor is it necessarily indicative of future operating results.

Note J - Subsequent Event

The Company announced an agreement to acquire real estate and real estate leases for approximately 100 Express auto parts stores from Pep Boys for approximately $108 million. The transaction is subject to various contingencies and is anticipated to be closed by the end of the first quarter of fiscal 1999. If consummated, the transaction would not have a material impact on the fiscal 1999 financial position or consolidated operating results.

MANAGEMENT'S REPORT

AutoZone's management takes responsibility for the integrity and objectivity of the financial statements in this annual report. These financial statements were prepared from accounting records which management believes fairly and accurately reflect the operations and financial position of AutoZone.

The financial statements in this report were prepared in conformity with generally accepted accounting principles. In certain instances, management used its best estimates and judgments based upon currently available information and management's view of current conditions and circumstances.

Management maintains a system of internal controls designed to provide reasonable assurance that assets are protected from improper use and accounted for in accordance with its policies and that transactions are recorded accurately in the Company's records. The concept of reasonable assurance is based upon a recognition that the cost of the controls should not exceed the benefit derived.

The financial statements of AutoZone have been audited by Ernst & Young LLP, independent auditors. Their accompanying report is based on an audit conducted in accordance with generally accepted auditing standards, including a review of internal accounting controls and financial reporting matters.

/s/ Robert J. Hunt

Robert J. Hunt
Executive Vice President - Finance
Chief Financial Officer
Customer Satisfaction

CORPORATE INFORMATION

Transfer Agent and Registrar
First Chicago Trust Company of New York
P.O. Box 2500
Jersey City, New Jersey 07303-2500
(800) 756-8200
(201) 324-0498
http://www.fctc.com/share.html

Stock Exchange Listing
New York Stock Exchange
Ticker Symbol:AZO

Auditors
Ernst & Young LLP
Memphis, Tennessee

Store Support Center
Memphis, Tennessee 38103-3607
(901) 495-6500

AutoZone Web Site
http://www.autozone.com

REPORT OF INDEPENDENT AUDITORS

Stockholders
AutoZone, Inc.,

We have audited the accompanying consolidated balance sheets of AutoZone, Inc. as of August 29, 1998 and August 30, 1997, and the related consolidated statements of income, stockholders' equity and cash flows for each of the three years in the period ended August 29, 1998. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of AutoZone, Inc. at August 29, 1998 and August 30, 1997, and the consolidated results of its operations and its cash flows for each of the three years in the period ended August 29, 1998 in conformity with generally accepted accounting principles.

/s/ Ernst & Young LLP

Memphis, Tennessee
September 30, 1998

Annual Meeting
The Annual Meeting of Stockholders of AutoZone will be held at 10 a.m. on December 17, 1998, at AutoZone's store support center, 123 South Front Street, Memphis, Tennessee.

Form 10-K/Quarterly Reports
Stockholders may obtain free of charge a copy of the Company's annual report on Form 10-K and quarterly reports on 10-Q as filed with the Securities and

Exchange Commission or our quarterly press releases by writing to Stockholder Relations, P.O. Box 2198, Memphis, Tennessee 38101.

Copies of all documents filed by the company with the Securities and Exchange Commission, including Form 10-K and Form 10-Q, are also available at the SEC's EDGAR server at http://www.sec.gov.

Stockholders of Record
As of September 30, 1998, there were 3,218 stockholders of record, excluding the number of beneficial owners whose shares were represented by security position listings.

OFFICERS

JOHN C. ADAMS, JR.
Chairman and CEO
Customer Satisfaction

TIMOTHY D. VARGO
President and COO

Other Corporate Officers
Customer Satisfaction

EMMA JO KAUFFMAN
Assistant Treasurer

DONALD R. RAWLINS
Assistant Secretary

Executive Vice Presidents
Customer Satisfaction

LAWRENCE E. EVANS
Store Development Stores

ROBERT J. HUNT
Chief Financial Officer

Senior Vice Presidents
Customer Satisfaction

GERALD E. COLLEY
Stores

HARRY L. GOLDSMITH
General Counsel
& Secretary

MICHAEL E. LONGO
Distribution

ANTHONY D. ROSE, JR.
Advertising

STEPHEN W. VALENTINE
International

DAVID J. WILHITE
Merchandising

Vice Presidents
Customer Satisfaction

RICHARD F. ADAMS, JR.
Merchandising Analysis
& Support

MICHAEL B. BAIRD
President & COO,
TruckPro

DAVID W. BARCZAK
Real Estate

JON A. BASCOM
Systems Technology
& Support

B. CRAIG BLACKWELL
Stores

MICHAEL E. BUTTERICK
Controller

WILLIAM L. CONE
Loss Prevention

BRETT D. EASLEY
President, ALLDATA

TARA C. ELLIOTT
Treasurer

JAMES A. ETZKORN
Systems Technology
& Support

CLETE FADDIS
Stores

LARRY FUSSY
Stores

WM. DAVID GILMORE
Store Design
& Construction

FRANK B. GOODMAN, III
Business Panning
& Analysis

CLIFFORD E. GREEN
Merchandising

PATRICIA K. GREENBERGER
Financial Planning
& Control

MARK D. HAMM
System Technology
& Support

PHILLIP J. JACKSON
Distribution

WILLIAM R. MCCAWLEy, Jr.
Stores

[Vice Presidents
Customer Satisfaction
continued]

STEVEN R. MCCLANAHAN
Stores

GRANTLAND E. MCGEE, JR.
Stores

JOHN MINERVINI
Business Development

JACK MITCHELL
Supplier Quality

THOMAS NEWBERN
Stores

DAVID W. NICHOLS
Stores

ROBERT F. OSSWALD
AutoZoner Development
& Training

MARK A. PALAZOLA
Purchasing

WILLIAM C. RHODES, III
Operations Analysis
& Support

RICHARD C. SMITH
Stores

DENNIS P. TOLIVAR, SR.
Stores

BOARD OF DIRECTORS

JOHN C. ADAMS, JR.
Chairman and CEO
Customer Satisfaction

ANDREW M. CLARKSON (3*)

Dr. N. GERRY HOUSE (2)
Superintendent
Memphis City Schools

ROBERT J. HUNT

JOSEPH R. HYDE, III
Former Chairman and CEO
Customer Satisfaction

JAMES F. KEEGAN (1*,2)

MICHAEL W. MICHELSON (3)
General Partner
Kohlberg Kravis Roberts
& Co. LLC

GEORGE R. ROBERTS

Chairman Finance Committee Customer Satisfaction	Executive Vice President and CFO Customer Satisfaction	Chairman Staff Line, Inc.	General Partner Kohlberg Kravis Roberts & Co. LLC

RONALD A. TERRY (1,2*)
Retired Chairman
First Tennessee
National Corporation

TIMOTHY D. VARGO
President and COO
Customer Satisfaction

(1) Audit Committee
(2) Compensation Committee
(3) Finance Committee
(*) Committee Chairman

[AUTOZONE(R) Logo]