



AutoZone
STRONG

2020 ANNUAL REPORT

Notice of Annual Meeting of Stockholders and Proxy Statement



Corporate Profile

AutoZone, Inc. is the leading retailer, and a leading distributor, of automotive replacement parts and accessories in the Americas. We began operations in 1979 and at August 29, 2020, operated 5,885 stores in the United States (“U.S.”); 621 stores in Mexico; and 43 stores in Brazil. Each store carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products. At August 29, 2020, in 5,007 of our domestic stores, we also had a commercial sales program that provides commercial credit and prompt delivery of parts and other products to local, regional and national repair garages, dealers, service stations and public sector accounts. We also have commercial programs in all stores in Mexico and Brazil. We also sell the ALLDATA brand automotive diagnostic and repair software through www.alldata.com and [\[alldata.com\]\(http://alldata.com\). Additionally, we sell automotive hard parts, maintenance items, accessories and non-automotive products through \[www.autozone.com\]\(http://www.autozone.com\), and our commercial customers can make purchases through \[www.autozonepro.com\]\(http://www.autozonepro.com\). We also provide product information on our Duralast branded products through \[www.duralastparts.com\]\(http://www.duralastparts.com\). We do not derive revenue from automotive repair or installation services.](http://www.</p>
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- 6,549 stores (5,885 stores in 50 states in the U.S., 621 stores in Mexico, and 43 stores in Brazil)
- 5,007 domestic Commercial programs
- 12 Distribution centers (10 in the United States and two in Mexico)
- 100,000 AutoZoners

Selected Financial Highlights

(Dollars in millions, except per share data)

	2016	2017	2018	2019*	2020
Net Sales	\$10,636	\$10,889	\$11,221	\$11,864	\$12,632
Operating Profit	\$2,060	\$2,080	\$1,811	\$2,216	\$2,418
Diluted Earnings per Share	\$40.70	\$44.07	\$48.77	\$63.43	\$71.93
After-Tax Return on Invested Capital	31.3%	29.9%	32.1%	35.7%	38.1%
Domestic Same Store Sales Growth	2.4%	0.5%	1.8%	3.0%	7.4%
Operating Margin	19.4%	19.1%	16.1%	18.7%	19.1%
Cash Flow from Operations	\$1,641	\$1,571	\$2,080	\$2,129	\$2,720



* FY2019 includes a 53rd week of results



Dear Customers, AutoZoners and Stockholders,

Our company proudly exists to serve the needs of our customers, the motoring public. Whether during times of natural disasters, in the midst of a global pandemic, or as we go about our day-to-day lives, our ability to ensure that our customers can safely and responsibly operate their vehicles is and will always be essential. And, the health, safety and well being of our AutoZoners and customers remains our most important priority.

I give special thanks to our incredible AutoZoners across the company for their commitment, sacrifice and passion for always putting our customers first. On behalf of our 100,000 AutoZoners, I am honored to update you on our record-setting progress during fiscal 2020 and to review our opportunities for 2021 and beyond. The operating theme for AutoZone in 2021 is "AutoZone Strong" and it's all about our ability, as 1Team, to build upon our many successes and enduring culture to deliver second-to-none customer service, high quality parts and products and tremendous value for all our customers.

From the first store we opened in Forrest City, Arkansas, over 41 years ago, to now 6,549 stores spanning the Americas, our AutoZoners have been and will always be committed to providing WOW! Customer Service! and treating every customer like they are our only customer. Even though much has changed during our 41-year journey, our commitment to Customer Satisfaction has, is, and will forever remain the key to our success. I continue to be enthusiastic about our growing consumer demand, the health of our business and remarkable strength of the automotive aftermarket industry. I remain very bullish about our near and long-term future.

Summary of 2020 Results

In no uncertain terms, the spread of COVID-19 served as the defining moment in 2020. It forced us all to make tough decisions and real sacrifices. Yet, the unquestionable character of our AutoZoners, customers and the communities we serve have never been so readily apparent. Our historic financial performance was a direct result of our AutoZoners embodying our FY20 operating theme: “40 Years of WOW! Customer Service!”

For fiscal 2020, we achieved significant growth in both our U.S. Retail and Commercial businesses — which were major points of emphasis for us.

In FY20, we grew domestic same store sales by 7.4% and reached a record \$12.6 billion in sales. We also recorded record average net sales per store, record Commercial sales per program, record earnings per share, and record cash flow from operations.

We opened 138 net new stores and 114 net new domestic Commercial programs. Now, over 85% of our U.S. stores have a Commercial program along with every store in Mexico and Brazil. For fiscal year 2020, we also averaged \$10,600 in weekly sales per Commercial program in the U.S. as compared to \$10,000 for fiscal 2019. We continued to enhance our local market inventory availability by building new and expanding existing facilities, and ended the year with 44 Mega Hubs and 180 regular Hub stores domestically.

During fiscal 2020, we also continued to make significant investments in technology, ecommerce, digital, and benefits. In FY20, we began rolling out our new point-of sale systems with touch-screen capabilities. We also launched our new www.autozone.com website, which is more intuitive and brings the store experience and our website closer together for a better overall customer experience.

We continued to invest in technology to improve the overall shopping experience and reduce non-customer facing tasks for our AutoZoners.

But, of all the decisions our leadership team made in fiscal 2020, I am most proud of our decision to invest in and provide support for our AutoZoners on the front lines with an Emergency Time Off (ETO) benefit.

We made this decision in mid-March, during a period of tremendous uncertainty, and at a time when many businesses and organizations were forced to layoff and furlough hardworking people. While the world was facing all these challenges, our Executive Committee and Board of Directors unanimously decided to provide up to 80 hours of ETO for eligible full-time hourly AutoZoners and up to 40 hours of ETO for eligible part-time AutoZoners — along with other pandemic related expenses, these expenses amounted to an \$84 million decision to support many of our most vulnerable AutoZoners on the front lines.

As our business strengthened into the summer months, we were fortunate to not have to layoff, nor furlough, a single AutoZoner due to the impacts of COVID-19.

Our Future

Our operating theme for 2021, “AutoZone Strong” builds upon our unique and powerful culture and our commitment, as 1Team, to always go the extra mile for our customers. This means performing GOTTCChA (Going Out to the Customer’s Automobile); providing trustworthy advice; adding value; and absolutely practicing WITTDJR (What It Takes To Do The Job Right). We remain committed to staying connected to the customer.

For fiscal 2021, we will build upon our many lessons learned and successes to focus on accelerating growth in both our Retail and Commercial businesses. This upcoming year we are putting a tremendous effort into pushing for growth in our most “mature” business, our Do-It-Yourself (DIY) business. While we have always managed the DIY business well, we believe we can do it better. We are focusing on improving store and online product assortments and doubling down on our in-store AutoZoner efforts to drive sales. While purchasing products online and shipping to home is not a large business for us, we are seeing the buy online and pick up in store option we have in place growing rapidly. We believe this trajectory will only continue in fiscal 2021. We believe our DIY initiatives for fiscal 2021 represent a great opportunity for us to grow sales and take market share at a faster pace than we have in many years. And, regarding our Commercial business, with only 4% market share, we believe that Commercial remains our company’s single largest sales growth opportunity. We are proud of our Commercial share gains this past year, and believe we can build on that success for fiscal 2021.

Regarding international growth in fiscal 2021, we plan to return to a more normalized store opening pace. In fiscal 2020, we opened only 17 stores in Mexico and 8 stores in Brazil for total of 25 new international stores. Our target for FY21 is to double the pace and open approximately 50 stores.

Again, I want to thank all AutoZoners for their dedication and tireless efforts in 2020. The company’s success is entirely due to our AutoZoners solving problems and helping our customers with their needs. I would also like to thank our vendors for their ongoing commitment to our success. Additionally, I would like to thank you, our stockholders, for the confidence you have placed in our team by your decision to invest in AutoZone. We remain committed to managing your capital wisely, achieving an appropriate return on incremental projects and returning excess cash through an orderly share repurchase program.

I would also like to take a moment to give special thanks to Bill Giles, Executive Vice President and Chief Financial Officer, Finance, Information Technology and Store Development, and Bill Hackney, Senior Vice President, Merchandising, for their many contributions and exceptional service to our customers and organization.

After a 14-year AutoZone career for Bill Giles and a 37-year AutoZone career for Bill Hackney, they have decided to retire at the end of December. AutoZone has truly benefited from their innovation, guidance, passion for serving our customers and deep understanding of our businesses. While we will certainly miss them both, they have built organizations that are well prepared to continue moving our company forward into the future. I wish them and their families the very best in their retirements.

I would also like to welcome Jamere Jackson, Executive Vice President and Chief Financial Officer, Finance and Store Development-Elect, and Seong Ohm, Senior Vice President, Merchandising-Elect to the AutoZone family. Both have exceptional backgrounds and experiences and are very well-suited for their positions and contributing to the ongoing success of our company.

We have a wonderful culture that has been built over the past 41 years and counting. We remain passionate about Living our Pledge and Values to earn our customers' trust and business every day. I continue to believe that our best days are ahead. Thank you for staying in the Zone with us for all these years!

Sincerely,

A handwritten signature in black ink that reads "Bill Rhodes". The signature is written in a cursive, flowing style.

Bill Rhodes
Chairman, President and CEO
Customer Satisfaction



AutoZone[®]

**Notice of Annual Meeting of Stockholders
and Proxy Statement**





AUTOZONE, INC.

**NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
DECEMBER 16, 2020**

What: Annual Meeting of Stockholders

When: December 16, 2020, 8:00 a.m. Central Standard Time

Where: In light of health and safety concerns regarding the continuing coronavirus (COVID-19) pandemic and related restrictions, the annual meeting will be held online via live webcast at www.meetingcenter.io/276027987.

Stockholders will vote regarding:

- Election of ten directors
- Ratification of the appointment of Ernst & Young LLP as our independent registered public accounting firm for the 2021 fiscal year
- Approval of advisory vote on executive compensation
- Approval of AutoZone, Inc. 2020 Omnibus Incentive Award Plan
- The transaction of other business that may be properly brought before the meeting

Record Date: Stockholders of record as of October 19, 2020, may vote at the meeting.

By order of the Board of Directors,

/s/ Kristen C. Wright

Kristen C. Wright
Secretary

Memphis, Tennessee
October 26, 2020

We encourage you to vote by telephone or Internet, both of which are convenient, cost-effective and reliable alternatives to returning your proxy card by mail.

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AutoZone, Inc.
123 South Front Street
Memphis, Tennessee 38103

Proxy Statement
for

Annual Meeting of Stockholders
December 16, 2020

The Meeting

The Annual Meeting of Stockholders of AutoZone, Inc. will be held online via live webcast at www.meetingcenter.io/276027987, at 8:00 a.m. CST on December 16, 2020.

About this Proxy Statement

Our Board of Directors has sent you this Proxy Statement to solicit your vote at the Annual Meeting. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters brought before the Meeting. Please read it carefully.

In this Proxy Statement:

- “AutoZone,” “we,” “us,” “our” and “the Company” mean AutoZone, Inc.
- “Annual Meeting” or “Meeting” means the Annual Meeting of Stockholders to be held online via live webcast at www.meetingcenter.io/276027987, at 8:00 a.m. CST on December 16, 2020.
- “Board” means the Board of Directors of AutoZone, Inc.

AutoZone will pay all expenses incurred in this proxy solicitation. We also may make additional solicitations in person, by telephone, facsimile, e-mail, or other forms of communication. Brokers, banks, and others who hold our stock for beneficial owners will be reimbursed by us for their expenses related to forwarding our proxy materials to the beneficial owners.

This Proxy Statement is first being sent or given to security holders on or about October 26, 2020.

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE STOCKHOLDER MEETING TO BE HELD ON DECEMBER 16, 2020. This Proxy Statement and the annual report to security holders are available at Investors.AutoZone.com.

INFORMATION ABOUT VOTING AND ATTENDANCE

How do I attend the Annual Meeting?

Due to health and safety concerns regarding the continuing coronavirus (COVID-19) pandemic and related restrictions, the Annual Meeting will be held entirely online via live webcast at www.meetingcenter.io/276027987. There will be no physical meeting location. Registered shareholders can attend the meeting by accessing the meeting site at www.meetingcenter.io/276027987 and entering the 15-digit control number that can be found on your proxy card mailed with the proxy materials and the meeting password: AZO2020.

If you hold your shares through an intermediary, such as a bank or broker or other nominee, you must register in advance to attend the Annual Meeting. To register, you must obtain a legal proxy from your bank, broker or other nominee and submit your name and a copy of your legal proxy to Computershare. Requests for registration may be submitted by email to legalproxy@computershare.com with “Legal Proxy” in the subject line, or by mail to Computershare, AutoZone, Inc. Legal Proxy, P.O. Box 43001, Providence, RI 02940-3001. Requests for registration must be received no later than 5:00 p.m. (ET) on December 10, 2020. You will receive a confirmation of your registration by email from Computershare. At the time of the Annual Meeting, go to www.meetingcenter.io/276027987 and enter your control number and the meeting password: AZO2020.

What matters will be voted on at the Annual Meeting?

At the Annual Meeting, stockholders will be asked to vote on the following proposals:

1. to elect ten directors;
2. to ratify the appointment of Ernst & Young LLP as our independent registered public accounting firm for the 2021 fiscal year;
3. to approve an advisory vote on executive compensation; and
4. to approve the AutoZone, Inc. 2020 Omnibus Incentive Award Plan.

Stockholders also will transact any other business that may be properly brought before the Meeting.

Who is entitled to vote at the Annual Meeting?

The record date for the Annual Meeting is October 19, 2020. Only stockholders of record at the close of business on that date are entitled to attend and vote at the Annual Meeting. The only class of stock that can be voted at the Meeting is our common stock. Each share of common stock is entitled to one vote on all matters that come before the Meeting. At the close of business on the record date, October 19, 2020, we had 23,175,554 shares of common stock outstanding.

How do I vote my shares?

You may vote your shares by proxy or during the meeting:

By Proxy: You can vote by telephone, on the Internet or by mail. *We encourage you to vote by telephone or Internet, both of which are convenient, cost-effective, and reliable alternatives to returning your proxy card by mail.*

1. *By Telephone:* You may submit your voting instructions by telephone by following the instructions printed on the enclosed proxy card. If you submit your voting instructions by telephone, you do not have to mail in your proxy card.

2. *On the Internet:* You may vote on the Internet by following the instructions printed on the enclosed proxy card. If you vote on the Internet, you do not have to mail in your proxy card.

3. *By Mail:* If you properly complete and sign the enclosed proxy card and return it in the enclosed envelope, it will be voted in accordance with your instructions. The enclosed envelope requires no additional postage if mailed in the United States.

During the Meeting: If you are a registered shareholder with a control number or a beneficial shareholder that has submitted a legal proxy and has received a control number from Computershare, you will be able to vote your shares electronically during the Annual Meeting by clicking on the “Cast Your Vote” link on the Meeting Center site. The electronic voting procedures are designed to authenticate your identity, to allow you to vote your shares and to confirm that your voting instructions have been properly recorded. If you hold your shares through an intermediary, such as a bank or broker or other nominee, you must register in advance as described above to attend and vote at the Annual Meeting.

How will my vote be counted?

Your vote for your shares will be cast as you indicate on your proxy card. If you sign your card without indicating how you wish to vote, your shares will be voted FOR our nominees for director, FOR Ernst & Young LLP as independent registered public accounting firm, FOR the advisory vote on executive compensation, FOR the AutoZone, Inc. 2020 Omnibus Incentive Award Plan, and in the proxies’ discretion on any other matter that may properly be brought before the Meeting or any adjournment of the Meeting. The votes will be tabulated and certified by our transfer agent, Computershare Inc. A representative of Computershare will serve as the inspector of election.

Can I change my vote after I submit my proxy?

Yes, you may revoke your proxy at any time before it is voted at the Meeting by:

- giving written notice to our Secretary that you have revoked the proxy, or
- providing a later-dated proxy.

Any written notice should be sent to the Secretary at 123 South Front Street, Dept. 8074, Memphis, Tennessee 38103 and received no later than 5:00 p.m. Central Standard Time on December 15, 2020.

How many shares must be present to constitute a quorum for the Meeting?

Holders of a majority of the shares of the voting power of the Company’s stock must be present in person or by proxy in order for a quorum to be present. Shares abstaining from voting and shares as to which a broker non-vote occurs are considered present for purposes of determining whether a quorum exists. If a quorum is not present at the scheduled time of the Annual Meeting, we may adjourn the Meeting, without notice other than announcement at the Meeting, until a quorum is present or represented. Any business which could have been transacted at the Meeting as originally scheduled can be conducted at the adjourned meeting.

What are broker non-votes?

Broker non-votes occur when shares held by a brokerage firm are not voted with respect to a proposal because the firm has not received voting instructions from the beneficial owner of the shares and the firm does not have the authority to vote the shares in its discretion.

CORPORATE GOVERNANCE MATTERS

Independence

How many independent directors does AutoZone have?

Our Board has determined that nine of our current ten directors are independent: Douglas H. Brooks, Michael M. Calbert, Linda A. Goodspeed, Earl G. Graves, Jr., Enderson Guimaraes, D. Bryan Jordan, Gale V. King, W. George R. Mrkonjic, Jr and Jill A. Soltau. All of these directors meet the independence standards of our Corporate Governance Principles and the New York Stock Exchange listing standards.

How does AutoZone determine whether a director is independent?

In accordance with AutoZone's Corporate Governance Principles, a director is considered independent if the director meets the independence requirements of the applicable New York Stock Exchange listing standards, and, with respect to the Audit Committee, the applicable Securities and Exchange Commission rules.

In determining the independence of our directors, the Board considers relationships involving directors and their immediate family members that are relevant under applicable laws and regulations, the listing standards of the New York Stock Exchange, and the standards contained in our Corporate Governance Principles. The Board relies on information from Company records and questionnaires completed annually by each director.

As part of its most recent independence determinations, the Board noted that AutoZone does not have, and did not have during fiscal 2020, significant commercial relationships with companies at which Board members served as officers or directors, or in which Board members or their immediate family members held an aggregate of 10% or more direct or indirect interest.

The Board considered the fact that Mr. Jordan is the Chief Executive Officer and a member of the board of directors of First Horizon National Corporation, parent company of First Tennessee Bank, which:

- participates in one of AutoZone's supplier confirmed receivables programs (under which some AutoZone vendors are borrowers, but AutoZone is not);
- has established a Daylight Overdraft line which allows AutoZone to make large payments early in the morning creating a "daylight" overdraft which is rectified at the end of the day;
- acted as Trustee for AutoZone's pension plan;
- offers brokerage services to AutoZone employees exercising stock options, and
- holds various AutoZone deposit accounts.

During fiscal 2020, First Horizon National Corporation did business with AutoZone in arm's length transactions which were not, individually or cumulatively, material to either AutoZone or First Horizon National Corporation and which did not materially benefit Mr. Jordan, either directly or indirectly.

The Board also considered the fact that Mr. Brooks is a member of the board of directors of Southwest Airlines. During fiscal 2020, AutoZone purchased airline tickets from Southwest Airlines which were not,

individually or cumulatively, material to either AutoZone or Southwest Airlines and which did not materially benefit Mr. Brooks, either directly or indirectly.

Additionally, AutoZone did business with J.B. Hunt Transport Services, Inc., for which Ms. King is a member of the board of directors, during fiscal 2020 in arm's length transactions which were not, individually or cumulatively, material to either AutoZone or J.B. Hunt and which did not materially benefit Ms. King, either directly or indirectly.

The Board also reviewed donations made by the Company to not-for-profit organizations with which Board members or their immediate family members were affiliated by membership or service or as directors or trustees.

Based on its review of the above matters, the Board determined that none of Messrs., Brooks, Calbert, Graves, Guimaraes, Jordan, Mrkonic, or Mses. Goodspeed, King, or Soltau has a material relationship with the Company other than in their capacity as a Board member and that all of them are independent within the meaning of the AutoZone Corporate Governance Principles and applicable law and listing standards. The Board also determined that Mr. Rhodes is not independent since he is an employee of the Company.

Board Leadership Structure

Our Board believes that having a combined Chairman/CEO, independent members and chairs for each of our Board committees, and an independent Lead Director currently provides the best board leadership structure for AutoZone. This structure, together with our other corporate governance practices, provides strong independent oversight of management while ensuring clear strategic alignment throughout the Company. Our Lead Director is a non-employee director who is elected by the Board. Earl G. Graves, Jr., a director since 2002, currently serves as our Lead Director.

Our Lead Director:

- Chairs Board meetings when the Chairman is not present, including presiding at all executive sessions of the Board (without management present) at every regularly scheduled Board meeting;
- Works with management to determine the information and materials to be provided to Board members;
- Approves Board meeting agendas, schedules, and other information to be provided to the Board;
- Consults with the Chairman on such other matters as are pertinent to the Board and the Company;
- Has the authority to call meetings of the independent directors;
- Is available for direct communication and consultation with major shareholders upon request; and
- Serves as a liaison between the Chairman and the independent directors.

Board Risk Oversight

Oversight of risk management is a responsibility of the Board and is an integral part of the Board's oversight of AutoZone's business. AutoZone's management takes a variety of calculated risks in order to enhance Company performance and shareholder value. The primary responsibility for the identification, assessment and management of the various risks resides with AutoZone's management. The Board is primarily responsible for ensuring that management has established and adequately resourced processes for identifying and preparing the Company to manage risks effectively. Additionally, the Board reviews the Company's principal strategic and operating risks as part of its regular discussion and consideration of AutoZone's strategy and operating results. The Board also

regularly reviews with the General Counsel legal matters that may have a material adverse impact on the Company's financial statements, the Company's compliance with laws, and any material reports received from regulatory agencies.

The Audit Committee is involved in the Board's oversight of risk management. At each of its regular meetings, the Audit Committee reviews the Company's major financial exposures and the steps management has taken to identify, assess, monitor, control, remediate and report such exposures. The Audit Committee, along with management, also evaluates the effectiveness of the risk avoidance and mitigation processes in place. Such risk-related information is then summarized, reported and discussed at each quarterly Board meeting.

To assist with risk management and oversight, AutoZone has adopted the concept of Enterprise Risk Management ("ERM") using the framework issued in 2004 by the Committee of Sponsoring Organizations of the Treadway Commission. The Company's Vice President of Internal Audit, who reports directly to the Audit Committee, has been charged with leading the Company's ERM processes with the assistance of Company management. The Vice President of Internal Audit presents to the Audit Committee a comprehensive review of the Company's ERM processes quarterly. This presentation includes an overview of all significant risks that have been identified and assessed and the strategies developed by management for managing such risks. The Vice President of Internal Audit leads open discussions with the Audit Committee members to analyze the significance of the risks identified and seeks to verify that the list is all-inclusive. Company management is also involved in these discussions to ensure that the Board gains a full understanding of the risks and the strategies that management has implemented to manage the risks.

Other Board committees also consider significant risks within their areas of oversight responsibility. The Compensation Committee considers risk in connection with the design of AutoZone's compensation programs. The Nominating and Corporate Governance Committee oversees risks related to the Company's governance policies and practices.

Corporate Governance Documents

Our Board has adopted Corporate Governance Principles; charters for its Audit, Compensation, and Nominating & Corporate Governance Committees; a Code of Conduct for directors, officers and employees of AutoZone; and a Code of Ethical Conduct for Financial Executives. Each of these documents is available on our corporate website at Investors.AutoZone.com and is also available, free of charge, in print to any stockholder who requests it. We have also published a Corporate Social Responsibility Report, and the most current version of this report is available on our website. Our website and the information contained therein or linked thereto are not intended to be incorporated into this Proxy Statement.

Meetings and Attendance

How many times did AutoZone's Board meet during the last fiscal year?

During the 2020 fiscal year, the Board held six meetings.

Did any of AutoZone's directors attend fewer than 75% of the meetings of the Board and their assigned committees?

All of our directors attended at least 75% of the meetings of the Board and their assigned committees during the fiscal year.

What is AutoZone’s policy with respect to directors’ attendance at the Annual Meeting?

As a general matter, all directors are expected to attend our Annual Meetings. At our 2019 Annual Meeting, all directors were present.

Do AutoZone’s non-management directors meet regularly in executive session?

The non-management members of our Board regularly meet in executive sessions in conjunction with each regularly scheduled Board meeting. Our Lead Director, Mr. Graves, presides at these sessions.

Committees of the Board

What are the standing committees of AutoZone’s Board?

AutoZone’s Board has three standing committees: Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee, each consisting only of independent directors.

Audit Committee

What is the function of the Audit Committee?

The Audit Committee assists the Board in fulfilling its oversight responsibility of:

- the integrity of the Company’s financial statements,
- the independent auditor’s qualification, independence and performance,
- the performance of the Company’s internal audit function, and
- the Company’s compliance with legal and regulatory requirements.

The Audit Committee performs its duties by:

- evaluating, appointing or dismissing, determining compensation for, and overseeing the work of the independent public accounting firm employed to conduct the annual audit, which reports to the Audit Committee;
- pre-approving all audit and permitted non-audit services performed by the independent auditor, considering issues of auditor independence;
- conducting periodic reviews with Company officers, management, independent auditors, and the internal audit function;
- reviewing and discussing with management and the independent auditor the Company’s annual audited financial statements, quarterly financial statements, internal controls report and the independent auditor’s attestation thereof, and other matters related to the Company’s financial statements and disclosures;
- overseeing the Company’s internal audit function;
- reporting periodically to the Board and making appropriate recommendations; and

- preparing the report of the Audit Committee required to be included in the annual proxy statement.

Who are the members of the Audit Committee?

The Audit Committee consists of Mr. Calbert, Ms. Goodspeed, Mr. Jordan (Chair), and Mr. Mrkonic.

Are all of the members of the Audit Committee independent?

Yes, the Audit Committee consists entirely of independent directors under the standards of AutoZone's Corporate Governance Principles, the listing standards of the New York Stock Exchange and the applicable rules of the Securities and Exchange Commission.

Does the Audit Committee have an Audit Committee Financial Expert?

The Board has determined that Mr. Calbert, Ms. Goodspeed, Mr. Jordan, and Mr. Mrkonic each meet the qualifications of an audit committee financial expert as defined by the Securities and Exchange Commission. All members of the Audit Committee meet the New York Stock Exchange definition of financial literacy.

How many times did the Audit Committee meet during the last fiscal year?

During the 2020 fiscal year, the Audit Committee held ten meetings.

Where can I find the charter of the Audit Committee?

The Audit Committee's charter is available on our corporate website at Investors.AutoZone.com and is also available, free of charge, in print to any stockholder who requests it.

Audit Committee Report

The Audit Committee of the Board (the "Audit Committee") of AutoZone, Inc. has reviewed and discussed AutoZone's audited financial statements for the year ended August 29, 2020, with AutoZone's management. In addition, we have discussed with Ernst & Young LLP, AutoZone's independent registered public accounting firm, the matters required to be discussed by the Statement on Auditing Standards No.1301, *Communications with Audit Committees*, as amended and as adopted by the Public Company Accounting Oversight Board ("PCAOB") in Rule 3200T, the Sarbanes-Oxley Act of 2002, and the charter of the Audit Committee.

The Audit Committee also has received the written disclosures and the letter from Ernst & Young LLP required by the applicable requirements of the PCAOB regarding the firm's communications with the Audit Committee concerning independence, and we have discussed with Ernst & Young LLP their independence from the Company and its management. The Audit Committee has discussed with AutoZone's management and the auditing firm such other matters and received such assurances from them as we deemed appropriate.

As a result of our review and discussions, we have recommended to the Board the inclusion of AutoZone's audited financial statements in the annual report on Form 10-K for the fiscal year ended August 29, 2020 for filing with the Securities and Exchange Commission.

While the Audit Committee has the responsibilities and powers set forth in its charter, the Audit Committee does not have the duty to plan or conduct audits or to determine that AutoZone's financial statements are complete, accurate, or in accordance with generally accepted accounting principles; AutoZone's management and the

independent auditor have this responsibility. Nor does the Audit Committee have the duty to assure compliance with laws and regulations and the policies of the Board.

Michael M. Calbert

Linda A. Goodspeed

D. Bryan Jordan (Chair)

George R. Mrkonic, Jr.

Compensation Committee

What is the function of the Compensation Committee?

The Compensation Committee has the authority, based on its charter and the AutoZone Corporate Governance Principles, to:

- review and approve AutoZone’s compensation philosophy, strategy and objectives;
- review and approve the compensation programs, plans, policies and awards for executive officers, including recommending equity-based plans for stockholder approval;
- lead the independent directors in the evaluation of the performance of the Chief Executive Officer (“CEO”) in meeting established goals and objectives relevant to the compensation of the CEO;
- act as administrator as may be required by AutoZone’s short- and long-term incentive plans and stock or stock-based plans; and
- review the compensation of AutoZone’s non-employee directors from time to time and recommend to the full Board any changes that the Compensation Committee deems necessary.

The Compensation Committee may appoint subcommittees from time to time with such responsibilities as it may deem appropriate; however, the Compensation Committee may not delegate its authority to any other persons.

AutoZone’s processes and procedures for the consideration and determination of executive compensation, including the role of the Compensation Committee and compensation consultants, are described in the “Compensation Discussion and Analysis” on page 30.

Who are the members of the Compensation Committee?

The Compensation Committee consists of Mr. Brooks, Ms. Goodspeed, Ms. King, and Mr. Mrkonic (Chair), all of whom are independent directors under the standards of AutoZone’s Corporate Governance Principles and the listing standards of the New York Stock Exchange, including the additional independence requirements specific to compensation committee membership.

How many times did the Compensation Committee meet during the last fiscal year?

During the 2020 fiscal year, the Compensation Committee held six meetings.

Where can I find the charter of the Compensation Committee?

The Compensation Committee’s charter is available on our corporate website at [Investors.AutoZone.com](https://investors.autozone.com) and is also available, free of charge, in print to any stockholder who requests it.

Nominating and Corporate Governance Committee

What is the function of the Nominating and Corporate Governance Committee?

The Nominating and Corporate Governance Committee ensures that:

- qualified candidates are presented to the Board for election as directors;
- the Board has adopted appropriate corporate governance principles that best serve the practices and objectives of the Board; and
- AutoZone’s Articles of Incorporation and By-Laws are structured to best serve the interests of the stockholders.

Who are the members of the Nominating and Corporate Governance Committee?

The Nominating and Corporate Governance Committee consists of Messrs. Graves (Chair), Guimaraes, Jordan, and Ms. Soltau, all of whom are independent directors under the standards of AutoZone’s Corporate Governance Principles and the listing standards of the New York Stock Exchange.

How many times did the Nominating and Corporate Governance Committee meet during the last fiscal year?

During the 2020 fiscal year, the Nominating and Corporate Governance Committee held three meetings.

Where can I find the charter of the Nominating and Corporate Governance Committee?

The Nominating and Corporate Governance Committee’s charter is available on our corporate website at Investors.AutoZone.com and is also available, free of charge, in print to any stockholder who requests it.

Director Nomination Process

What is the Nominating and Corporate Governance Committee’s policy regarding consideration of director candidates recommended by stockholders? How do stockholders submit such recommendations?

The Nominating and Corporate Governance Committee’s policy is to consider director candidate recommendations from stockholders if they are submitted in writing to AutoZone’s Secretary in accordance with the procedure set forth in Article III, Section 1 of AutoZone’s Seventh Amended and Restated By-Laws (“By-Laws”), including biographical and business experience, information regarding the nominee and other information required by said Article III, Section 1. Copies of the By-Laws will be provided upon written request to AutoZone’s Secretary and are also available on AutoZone’s corporate website at Investors.AutoZone.com.

What qualifications must a nominee have in order to be recommended by the Nominating and Corporate Governance Committee for a position on the Board?

The Board believes each individual director should possess certain personal characteristics, and that the Board as a whole should possess certain core competencies. Such personal characteristics are integrity and accountability, informed judgment, financial literacy, mature confidence, high performance standards, and passion. They should also have demonstrated the confidence to be truly independent, as well as be business savvy, have an owner orientation and have a genuine interest in AutoZone. Core competencies of the Board as a whole are accounting and finance, business judgment, management expertise, crisis response, industry knowledge, international markets,

strategy and vision. These characteristics and competencies are set forth in more detail in AutoZone's Corporate Governance Principles, which are available on AutoZone's corporate website at Investors.AutoZone.com.

How does the Nominating and Corporate Governance Committee identify and evaluate nominees for director?

Prior to each annual meeting of stockholders at which directors are to be elected, the Nominating and Corporate Governance Committee considers incumbent directors and other qualified individuals, if necessary, as potential director nominees. In evaluating a potential nominee, the Nominating and Corporate Governance Committee considers the personal characteristics described above, and also reviews the composition of the full Board to determine the areas of expertise and core competencies needed to enhance the function of the Board. The Nominating and Corporate Governance Committee may also consider other factors such as the size of the Board, whether a candidate is independent, how many other public company directorships a candidate holds and the listing standards requirements of the New York Stock Exchange.

The Nominating and Corporate Governance Committee recognizes the importance of selecting directors from various backgrounds and professions in order to ensure that the Board as a whole has a variety of experiences and perspectives which contribute to a more effective decision-making process. The Board does not have a specific diversity policy, but considers diversity of race, ethnicity, gender, age, cultural background and professional experiences in evaluating candidates for Board membership.

The Nominating and Corporate Governance Committee uses a variety of methods for identifying potential nominees for director. Candidates may come to the attention of the Nominating and Corporate Governance Committee through current Board members, stockholders or other persons. The Nominating and Corporate Governance Committee may retain a search firm or other consulting firm from time to time to identify potential nominees. Nominees recommended by stockholders in accordance with the procedure described above, i.e., submitted in writing to AutoZone's Secretary, accompanied by the biographical and business experience information regarding the nominee and the other information required by Article III, Section 1 of the By-Laws, will receive the same consideration as the Nominating and Corporate Governance Committee's other potential nominees.

Procedure for Communication with the Board of Directors

How can stockholders and other interested parties communicate with the Board?

Stockholders and other interested parties may communicate with the Board by writing to the Board, to any individual director or to the non-management directors as a group c/o Corporate Secretary, AutoZone, Inc., 123 South Front Street, Dept. 8074, Memphis, Tennessee 38103. The Company's General Counsel and Secretary will review all such correspondence and will forward correspondence that, in her opinion, deals with the function of the Board or that she otherwise determines requires the attention of any member, group or committee of the Board. Communications addressed to the Board or to the non-management directors as a group, and determined by the Company's General Counsel and Secretary to merit their attention, will be forwarded to the Chair of the Nominating and Corporate Governance Committee, and communications addressed to a committee of the Board, and determined by the Company's General Counsel and Secretary to merit their attention, will be forwarded to the chair of that committee.

Compensation of Directors

AutoZone's current director compensation program became effective January 1, 2020 (the "Director Compensation Program").

Annual Retainer Fees. Non-employee directors receive an annual retainer fee (the "Annual Retainer"). Furthermore, each director is eligible to receive an additional fee ("Additional Fee"), the amount of which varies

depending on his or her role. The Additional Fees and the Annual Retainer, enumerated below, together comprise the “Director Compensation”. There are no meeting fees.

<u>Director compensation components</u>	<u>(\$)</u>
Annual Retainer	225,000
Additional Fees	
Lead Director	30,000
Audit Committee Chair	25,000
Audit Committee Member	12,500
Compensation Committee Chair	20,000
Nominating & Corporate Governance Committee Chair	15,000

Under the Amended and Restated AutoZone, Inc. 2011 Equity Incentive Award Plan (the “Amended 2011 Equity Plan”) and Director Compensation Program, non-employee directors receive Director Compensation in the form of Restricted Stock Units, which are contractual rights to receive in the future a share of AutoZone common stock. A non-employee director may elect to receive a fixed portion of the Annual Retainer plus any Additional Fees in the form of cash, paid in quarterly installments (the “Cash Election”), with the remainder of the Annual Retainer paid in the form of Restricted Stock Units. The Cash Election during calendar year 2019 and 2020 was \$85,000 and \$95,000, respectively. All Restricted Stock Units are granted on January 1 of the applicable calendar year.

If a non-employee director is elected to the Board, or assumes a different position, after January 1 of the applicable year, he or she will receive the Annual Retainer and/or Additional Fees, prorated based on the number of days remaining in the calendar year, for Restricted Stock Units or quarter, for cash, as appropriate.

Restricted Stock Units granted to non-employee directors are fully vested on the date of grant and become payable, or are settled, on the earlier to occur of (1) the fifth anniversary of the grant date, or (2) the date on which the non-employee director ceases to be a director (the “Payment Date”). Upon timely delivery of an election form, a non-employee director may elect to receive payment on the date on which he or she ceases to be a director. Restricted Stock Units are payable in shares of AutoZone common stock no later than the fifteenth day of the third month following the end of the tax year in which such Payment Date occurs.

Compensation-Setting Process. The Compensation Committee reviews the Board’s compensation on a regular basis to ensure that non-employee directors are reasonably compensated in relation to AutoZone’s peer group companies (discussed in detail under Benchmarking) and to comparable U.S. companies in general. AutoZone’s Amended 2011 Equity Plan contains a dollar limit of \$500,000 on the total amount of annual compensation payable to its non-employee directors. As discussed below, the AutoZone, Inc. 2020 Omnibus Incentive Award Plan, if approved by stockholders, will increase such limit on the total amount of compensation payable to non-employee directors in a calendar year to \$750,000, provided that the Board may make exceptions to this limit under extraordinary circumstances.

Director Compensation Table

This table shows the compensation paid to our non-employee directors during the 2020 fiscal year.

<u>Name (1)</u>	<u>Fees Paid in Cash (\$) (2)</u>	<u>Stock Awards (\$) (3)(4)</u>	<u>Total (\$)</u>
Douglas H. Brooks	92,500	129,996	222,496
Michael M. Calbert	—	237,500	237,500
Linda A. Goodspeed	—	237,500	237,500
Earl G. Graves, Jr.	—	269,999	269,999
Enderson Guimaraes	—	224,991	224,991
D. Bryan Jordan.	—	249,996	249,996
Gale King.	—	224,991	224,991
W. Andrew McKenna (5)	—	—	—
George R. Mrkonic, Jr.	—	257,490	257,490
Luis P. Nieto (5)	24,375	—	24,375
Jill A. Soltau	—	224,991	224,991

- (1) William C. Rhodes, III, our Chairman, President and Chief Executive Officer, serves on the Board but does not receive any compensation for his service as a director. His compensation as an employee of the Company is shown in the Summary Compensation Table on page 45.
- (2) This column represents the portion of the Director Compensation that was paid in cash and earned in fiscal year 2020 pursuant to the Cash Election, as described above. Amounts shown for Mr. Nieto relates to his final quarterly cash payment in 2019, during the Company’s first quarter of fiscal 2020.
- (3) The “Stock Awards” column represents the aggregate grant date fair value computed in accordance with FASB ASC Topic 718 for awards of Restricted Stock Units under the Amended 2011 Equity Plan during fiscal 2020. See Note B Share-Based Payments, to our consolidated financial statements in our Annual Report on Form 10-K for the fiscal year ended August 29, 2020 (the “FY2020 Form 10-K”) for a discussion of our accounting for share-based awards and the assumptions used. The aggregate number of outstanding awards of common stock under the AutoZone, Inc. 2003 Director Compensation Plan (“Stock Units”) and Restricted Stock Units held by each director at the end of fiscal 2020 are shown in the following footnote 4. See “Security Ownership of Management and Board of Directors” on page 15 for more information about our directors’ stock ownership.

- (4) As of August 29, 2020, each current non-employee director had the following aggregate number of outstanding Restricted Stock Units and Stock Units:

<u>Name</u>	<u>Restricted Stock Units (#)</u>	<u>Stock Units (#)</u>
Douglas H. Brooks	1,396	—
Michael M. Calbert	335	—
Linda A. Goodspeed	2,256	—
Earl G. Graves	4,333	3,417
Enderson Guimaraes	2,639	—
D. Bryan Jordan	2,282	—
Gale V. King	653	—
W. Andrew McKenna	—	—
George R. Mrkonic, Jr.	3,645	1,405
Luis P. Nieto	—	—
Jill A. Soltau	571	—
	<u>18,110</u>	<u>4,822</u>

- (5) As Messrs. McKenna’s and Nieto’s last date of service on the Board was December 18, 2019, they did not earn any stock awards during fiscal 2020.

Stock Ownership Requirement

The Board has established a stock ownership requirement for non-employee directors. Each director is required to own AutoZone common stock and/or restricted stock units having a cumulative fair market value in an amount equal to three times the value of the base Annual Retainer payable pursuant to the Director Compensation Program within five years of joining the Board, and to maintain such ownership level thereafter. Exceptions to this requirement may only be made by the Board under compelling mitigating circumstances. Shares, Stock Units and Restricted Stock Units issued under the AutoZone, Inc. Second Amended and Restated Director Compensation Plan, the 2003 Director Compensation Plan, the 2011 Equity Plan and the Amended 2011 Equity Plan count toward this requirement. As of the date of this Proxy Statement, each director meets or exceeds his or her obligations under the requirement.

Other Predecessor Plans

The AutoZone, Inc. Second Amended and Restated Director Compensation Plan was terminated in December 2002 and was replaced by the AutoZone, Inc. First Amended and Restated 2003 Director Compensation Plan (the “2003 Director Compensation Plan”) and the AutoZone, Inc. First Amended and Restated 2003 Director Stock Option Plan (the “2003 Director Stock Option Plan”). The 2003 Director Compensation Plan and the 2003 Director Stock Option Plan were terminated in December 2010 and replaced by the 2011 Equity Plan. The 2011 Equity Plan was terminated in December 2015 and replaced with the Amended 2011 Equity Plan. However, grants made under those plans continue in effect under the terms of the grant made and are included in the aggregate awards outstanding shown above.

OTHER INFORMATION

Security Ownership of Management and Board of Directors

This table shows the beneficial ownership of common stock by each director, the Principal Executive Officer, the Principal Financial Officer and the other three most highly compensated executive officers, and all current directors and executive officers as a group as of October 19, 2020. Unless stated otherwise in the notes to the table, each person named below has sole authority to vote and invest the shares shown.

<u>Name of Beneficial Owner</u>	<u>Shares</u>	<u>Deferred Stock Units (1)</u>	<u>Option Awards (2)</u>	<u>Restricted Stock Units (3)</u>	<u>Total (#)</u>	<u>Ownership Percentage</u>
Douglas H. Brooks	772	—	—	1,396	2,168	*
Michael M. Calbert	2,000	—	—	335	2,335	*
Linda A. Goodspeed	—	—	—	2,256	2,256	*
Earl G. Graves, Jr.	—	3,417	—	4,333	7,750	*
Enderson Guimaraes	—	—	—	2,639	2,639	*
D. Bryan Jordan.	240	—	—	2,282	2,522	*
Gale King.	—	—	—	653	653	*
George R. Mrkonic, Jr.	—	1,405	—	3,645	5,050	*
Jill A. Soltau	—	—	—	571	571	*
William C. Rhodes III (4)	42,070	—	152,825	—	194,895	*
William T. Giles (5)	9,438	—	68,073	—	77,511	*
Mark A. Finestone (6)	4,387	—	46,603	—	50,990	*
Thomas B. Newbern	3,206	—	32,282	—	35,488	*
Philip B. Daniele	270	—	27,581	—	27,851	*
All current directors and executive officers as a group (24) persons	73,579	4,822	551,417	18,110	647,928	2.8%

* Less than 1%.

- (1) Includes shares that may be acquired immediately upon termination as a director by conversion of Stock Units.
- (2) Includes shares that may be acquired upon exercise of stock options either immediately or within sixty (60) days of October 19, 2020.
- (3) Includes fully-vested Restricted Stock Units that may be settled within sixty (60) days of, or five years after, termination of service as a director.
- (4) Includes 847 shares held as custodian for Mr. Rhodes' son, 1,719 shares held as trustee of a trust for Mr. Rhodes' son, 1,720 shares held as trustee of a trust for Mr. Rhodes' daughter, 1,043 shares held as trustee of trusts for Mr. Rhodes' nieces and nephews, 200 shares held as co-trustee of trusts for Mr. Rhodes' siblings, 8,685 shares owned by a trust for Mr. Rhodes' wife and 10,000 shares owned by grantor retained annuity trusts. Also includes 1,911 shares held by a charitable foundation for which Mr. Rhodes is president and a director and for which he shares investment and voting power.
- (5) Includes 4,000 shares owned by a grantor retained annuity trust.
- (6) Includes 86 shares held as trustee of a trust for Mr. Finestone's son, 87 shares held as trustee of a trust for Mr. Finestone's daughter and 1,449 shares owned by a grantor retained annuity trust.

Security Ownership of Certain Beneficial Owners

The following entities are known by us to own more than five percent of our outstanding common stock:

<u>Name and Address of Beneficial Owner</u>	<u>Shares</u>	<u>Ownership Percentage (1)</u>
Vanguard Group, Inc. (2)	2,220,274	9.58%
100 Vanguard Blvd. Malvern, PA 19355		
BlackRock, Inc. (3)	1,774,341	7.66%
55 East 52 nd Street New York, NY 10055		

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- (1) The ownership percentages are calculated based on the number of shares of AutoZone common stock outstanding as of October 19, 2020.
 - (2) Amounts reported in the table are based on information contained in a Form 13F filed by Vanguard Group Inc. on August 14, 2020 for the quarter ending June 30, 2020. Based on information contained in a Schedule 13G/A filed on February 12, 2020 by The Vanguard Group (“Vanguard”), as of December 31, 2019, Vanguard beneficially owned 2,270,528 shares of common stock, including (a) 37,251 shares over which it had sole voting power, (b) 8,141 shares over which it had shared voting power, (c) 2,227,503 shares over which it had sole dispositive power and (d) 43,025 shares over which it had shared dispositive power.
 - (3) Amounts reported in the table are based on information contained in a Form 13F filed by BlackRock, Inc. (“BlackRock”) on August 14, 2020 for the quarter ending June 30, 2020. Based on information contained in a Schedule 13G/A filed on February 5, 2020 by BlackRock, Inc. (“BlackRock”), as of December 31, 2019, BlackRock beneficially owned 1,945,850 shares of common stock, including (a) 1,716,141 shares over which it had sole voting power and (b) 1,945,850 shares over which it had sole dispositive power.

THE PROPOSALS

PROPOSAL 1 — Election of Directors

Ten directors will be elected at the Annual Meeting to serve until the next annual meeting of stockholders in 2021. Pursuant to AutoZone's Seventh Amended and Restated By-Laws, in an uncontested election of directors, a nominee for director is elected to the Board if the number of votes cast for such nominee's election exceed the number of votes cast against such nominee's election. (If the number of nominees were to exceed the number of directors to be elected, i.e., a contested election, directors would be elected by a plurality of the votes cast at the Annual Meeting.) Pursuant to AutoZone's Corporate Governance Principles, incumbent directors must agree to tender their resignation if they fail to receive the required number of votes for re-election, and in such event the Board will act within 90 days following certification of the shareholder vote to determine whether to accept the director's resignation. These procedures are described in more detail in our Corporate Governance Principles, which are available on our corporate website Investors.AutoZone.com. The Board may consider any factors it deems relevant in deciding whether to accept a director's resignation. If a director's resignation offer is not accepted by the Board, that director will continue to serve until AutoZone's next annual meeting of stockholders or until his or her successor is duly elected and qualified, or until the director's earlier death, resignation, or removal.

Any director nominee who is not an incumbent director and who does not receive a majority vote in an uncontested election will not be elected as a director, and a vacancy will be left on the Board. The Board, in its sole discretion, may either fill a vacancy resulting from a director nominee not receiving a majority vote pursuant to the By-Laws or decrease the size of the Board to eliminate the vacancy.

Shares abstaining from voting and shares as to which a broker non-vote occurs are not considered votes cast or shares entitled to vote with respect to such matter. Accordingly, abstentions and broker non-votes will have no effect on the outcome of Proposal 1.

The Board recommends that the stockholders vote FOR each of these nominees. These nominees have consented to serve if elected. Should any nominee be unavailable to serve, your proxy will be voted for a substitute nominee recommended by the Board, or the Board may reduce the number of directors on the Board.

Each of the nominees named below was elected a director at the 2019 annual meeting.

Nominees

The nominees are:

Douglas H. Brooks, 68, has been a director since 2013. He is retired. Until his retirement in 2013, he had held various positions with Brinker International, including serving as Non-Executive Chairman of the Board of Brinker International from January 2013 until December 2013; Chairman, President and Chief Executive Officer of Brinker from 2004 until January 2013, and President and Chief Operating Officer from 1999 to 2004. He served on the Brinker board of directors from 1999 through 2013 and on the Club Corp. board of directors from 2013 through 2017. Mr. Brooks is also a director of Southwest Airlines.

Experience, Skills and Qualifications: The Board believes Mr. Brooks is qualified to serve as a director of the Company based on his strategic and operational business background, his knowledge of international operations, his experience as a chief executive officer of a public company, his experience managing a company with a focus on customer service, his owner orientation, and his board experience as well as his integrity, energy, and willingness to spend time on and interest in AutoZone.

Michael M. Calbert, 58, has been a director since 2019. He has served as Chairman of the Board of Dollar General Corporation since January 2016 and previously served as Chairman of the Board of Dollar General from July 2007 until December 2008 and as Lead Director from March 2013 until his re-appointment as

Chairman in January 2016. Mr. Calbert joined the private equity firm KKR & Co. L.P. (“KKR”) in January 2000. He was directly involved with several KKR portfolio companies until his retirement in January 2014, and served as a consultant to KKR from his retirement until June 2015. Mr. Calbert joined Randall’s Food Markets beginning in 1994 and served as the Chief Financial Officer from 1997 until it was sold in September 1999. Mr. Calbert also previously worked as a certified public accountant and consultant with Arthur Andersen Worldwide from 1985 to 1994, where his primary focus was the retail and consumer industry.

Experience, Skills and Qualifications: The Board believes Mr. Calbert is qualified to serve as a director of the Company based on his executive experience in the retail and consumer industry, his background in finance while serving as a Chief Financial Officer, his board experience, his experience with mergers and acquisitions and capital markets as well as his integrity, energy, and willingness to spend time on and interest in AutoZone.

Linda A. Goodspeed, 58, has been a director since 2013. She retired in 2017 as the Chief Operating Officer and a Managing Partner at WealthStrategies Financial Advisors, positions she had held since 2007. She had served as Senior Vice President and Chief Information Officer of ServiceMaster from 2011 to 2014. From 2008 to September 2011, Ms. Goodspeed served as Vice President, Information Systems and Chief Information Officer for Nissan North America, Inc., a subsidiary of Nissan Motor Company, a global manufacturer of vehicles. From 2001 to 2008, Ms. Goodspeed served as Executive Vice President at Lennox International, Inc., a global manufacturer of air conditioning, heating and commercial refrigeration equipment. She is also a director of American Electric Power Co., Inc., and Darling Ingredients Inc., and was a director of Global Power Equipment Group through April 2018 and Columbus McKinnon Corp. through 2017.

Experience, Skills and Qualifications: The Board believes Ms. Goodspeed is qualified to serve as a director of the Company based on her experience in key strategic and operational roles with several large global companies, her expertise in information technology and previous position as the chief information officer of a service company, her owner orientation, her board experience and her executive management skills, as well as her integrity, energy, and willingness to spend time on and interest in AutoZone.

Earl G. Graves, Jr., 58, has been a director since 2002 and was elected Lead Director in January 2009. He has been the President and Chief Executive Officer of Black Enterprise, publisher of Black Enterprise Magazine, since January 2006, and was President and Chief Operating Officer from 1998 to 2006. Mr. Graves has been employed by the same company in various capacities since 1988.

Experience, Skills and Qualifications: The Board believes Mr. Graves is qualified to serve as a director of the Company based on his business, management and strategic planning experience, his knowledge of advertising and marketing, his owner orientation, and his board experience, as well as his integrity, energy, and willingness to spend time on and interest in AutoZone.

Anderson Guimaraes, 61, has been a director since 2012. In 2017, he retired as the President and Chief Operating Officer for Laureate Education, Inc., positions he had held since 2015. He was Executive Vice President, Global Categories and Operations of PepsiCo, Inc. from January 2015 through July 2015. He served as Chief Executive Officer of PepsiCo Europe and Sub-Sahara Africa from September 2012 through January 2015. He was also President of PepsiCo Global Operations from October 2011 to September 2012. Mr. Guimaraes previously had served as Executive Vice President of Electrolux and Chief Executive Officer of its major appliances business in Europe, Africa and the Middle East from 2008 to 2011. Prior to this, Mr. Guimaraes held various leadership positions during his 10 years at Philips Electronics and also worked in various marketing positions at Danone and Johnson & Johnson. He is also a director of Refresco Group B.V. and Sunshine Top B.V.

Experience, Skills and Qualifications: The Board believes Mr. Guimaraes is qualified to serve as a director of the Company based on his business, management and strategic planning experience, his knowledge of advertising, marketing and international operations, and his owner orientation as well as his integrity, energy, and willingness to spend time on and interest in AutoZone.

D. Bryan Jordan, 58, has been a director since 2013. Since 2008, Mr. Jordan has served as Chief Executive Officer and a director of First Horizon National Corporation, where he also served as Chairman of the Board from 2012 through July 1, 2020 and held the additional position of President from 2008 through July 1, 2020. From May 2007 until September 2008, Mr. Jordan was Executive Vice President and Chief Financial Officer of First Horizon and First Tennessee Bank National Association, and prior to that he served in various positions at Regions Financial Corporation and its subsidiary Regions Bank, including (beginning in 2002) as Chief Financial Officer.

Experience, Skills and Qualifications: The Board believes Mr. Jordan is qualified to serve as a director of the Company based on his extensive experience in the banking and financial services industry, his experience serving as the chief executive officer and the chief financial officer of public companies, his knowledge of corporate finance and management, and his owner orientation, as well as his integrity, energy, and willingness to spend time on and interest in AutoZone.

Gale V. King, 64, has been a director since 2018. She has been the Executive Vice President and Chief Administrative Officer for Nationwide Insurance Company since 2012 and served as the Executive Vice President – Chief Human Resources Officer from 2009 to 2012. Ms. King is also a director of J.B. Hunt Transport Services, Inc.

Experience, Skills and Qualifications: The Board believes Ms. King is qualified to serve as a director of the Company based on her extensive experience in human resources, her owner orientation and her executive management skills, as well as her integrity, energy, and willingness to spend time on and interest in AutoZone.

George R. Mrkonic, Jr., 68, has been a director since 2006. He is the non-Executive Chairman of Maru Group, a London, UK based research, insight and advisory services firm. Previously, he was the Non-Executive Chairman of Paperchase Products Limited, London, UK, a retailer of cards, stationery, wraps and gifts in the UK, Europe and the Middle East, since 2005, and had been a director since 1999. Prior to that, he was President of Borders Group, Inc. from 1994 to 1997 and Vice Chairman of Borders Group, Inc. from 1994 to 2002. He is also a director of Brinker International, Inc., and Ulta Salon, Cosmetics & Fragrance, Inc. Mr. Mrkonic was a director of Syntel, Inc. from 2009 to May 2016.

Experience, Skills and Qualifications: The Board believes Mr. Mrkonic is qualified to serve as a director of the Company based on his experience as a senior executive in retail companies, his knowledge of corporate strategy, finance, and management, his owner orientation, and his board experience, as well as his integrity, energy, and willingness to spend time on and interest in AutoZone.

William C. Rhodes, III, 55, was elected Chairman in June 2007. He has been President, Chief Executive Officer, and a director since 2005. Prior to his appointment as President and Chief Executive Officer, Mr. Rhodes was Executive Vice President–Store Operations and Commercial. Prior to fiscal 2005, he had been Senior Vice President–Supply Chain and Information Technology since fiscal 2002, and prior thereto had been Senior Vice President–Supply Chain since 2001. Prior to that time, he served in various capacities within the Company since 1994. Prior to 1994, Mr. Rhodes was a manager with Ernst & Young LLP. Mr. Rhodes is also a director of Dollar General Corporation.

Experience, Skills and Qualifications: The Board believes Mr. Rhodes, AutoZone’s Chairman, President and Chief Executive Officer, is qualified to serve as a director of the Company based on his 25 plus years’ experience with the Company, which have included responsibility for corporate strategy, executive management, operations, finance, supply chain and information technology; his knowledge and understanding of the automotive aftermarket and retail industries; his financial background and his owner orientation, as well as his integrity and energy.

Jill A. Soltau, 53, has been a director since 2018. She has been the Chief Executive Officer and a member of the Board of Directors of the J.C. Penney Company, Inc., since October 2018. J.C. Penney Company, Inc. filed voluntary petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on May 15, 2020.

She previously served as President and Chief Executive Officer of JOANN Stores from February 2015 to October 2018. Prior to joining JOANN, Ms. Soltau served as President of Shopko Stores and has held senior level positions in national and regional retailers, including Kohl’s and former Saks Inc. subsidiaries.

Experience, Skills and Qualifications: The Board believes Ms. Soltau is qualified to serve as a director of the Company based on her experience as a chief executive officer in the retail industry, her owner orientation, her board experience and her executive management skills, as well as her integrity, energy, and willingness to spend time on and interest in AutoZone.

PROPOSAL 2 — Ratification of Independent Registered Public Accounting Firm

Ernst & Young LLP, our independent auditor for the past thirty-three fiscal years, has been selected by the Audit Committee to be AutoZone’s independent registered public accounting firm for the 2021 fiscal year. Representatives of Ernst & Young LLP will be present at the Annual Meeting to make a statement if they so desire and to answer any appropriate questions.

The Audit Committee recommends that you vote FOR ratification of Ernst & Young LLP as AutoZone’s independent registered public accounting firm.

Under Nevada law and the Company’s By-Laws, if a quorum is present, Ernst & Young LLP will be ratified as AutoZone’s independent registered public accounting firm if the number of votes cast in favor of the matter exceeds the number of votes cast in opposition to the matter. Shares abstaining from voting and shares as to which a broker non-vote occurs are not considered votes cast or shares entitled to vote with respect to such matter. Accordingly, abstentions and broker non-votes will have no effect on the outcome of Proposal 2. The Audit Committee is not bound by a vote either for or against the firm. The Audit Committee will consider a vote against the firm by the stockholders in selecting our independent registered public accounting firm in the future.

During the past two fiscal years, the aggregate fees for professional services rendered by Ernst & Young LLP were as follows:

	<u>2020 (1)</u>	<u>2019</u>
Audit Fees	\$ 2,291,387	\$ 2,088,947
Audit-Related Fees (2)	\$ 12,000	\$ —
Tax and other Non-Audit-Related Fees (3)	\$ 234,813	\$ 390,851

- (1) Includes amounts estimated to be billed for services rendered.
- (2) Audit-Related Fees for 2020 were for attest services rendered for compliance purposes for the Company’s operations in Mexico.
- (3) Tax and other Non-Audit-Related Fees for 2020 and 2019 were for state, local and international tax services.

The Audit Committee pre-approves all services performed by the independent registered public accounting firm under the terms contained in the Audit Committee charter, a copy of which can be obtained at our website at Investors.AutoZone.com. The Audit Committee pre-approved 100% of the services provided by Ernst & Young LLP during the 2020 and 2019 fiscal years. The Audit Committee considers the services listed above to be compatible with maintaining Ernst & Young LLP’s independence.

PROPOSAL 3 — Advisory Vote on Executive Compensation – “Say-on-Pay”

In accordance with Section 14A of the Securities Exchange Act, we are asking stockholders to approve the following advisory resolution on the compensation of our Principal Executive Officer, our Principal Financial

Officer and our other three most highly paid executive officers (collectively, the “Named Executive Officers”) at the Annual Meeting:

“RESOLVED, that the compensation paid to AutoZone’s Named Executive Officers, as disclosed in this Proxy Statement pursuant to the compensation disclosure rules of the Securities and Exchange Commission, including the Compensation Discussion and Analysis, the accompanying compensation tables and the related narrative discussion, is hereby APPROVED.”

This advisory vote, commonly known as a “say-on-pay” proposal, gives our stockholders the opportunity to endorse or not endorse our executive pay program. The Board recommends a vote “FOR” this resolution because it believes that AutoZone’s executive compensation program, described in the Compensation Discussion and Analysis, is effective in achieving the Company’s goals of rewarding financial and operating performance and the creation of stockholder value.

Our Board and Compensation Committee believe that there should be a strong relationship between pay and corporate performance, and our executive compensation program reflects this belief. While the overall level and balance of compensation elements in our compensation program are designed to ensure that AutoZone can retain key executives and, when necessary, attract qualified new executives to the organization, the emphasis of AutoZone’s compensation program is linking executive compensation to business results and intrinsic value creation, which is ultimately reflected in increases in stockholder value.

AutoZone sets appropriate financial and operating goals, and a significant amount of an executive’s annual cash compensation is tied to these objectives and therefore “at risk”—payment is earned only if performance warrants it.

AutoZone’s compensation program is intended to support long-term focus on stockholder value, so it emphasizes long-term rewards. At target levels, the majority of an executive officer’s total compensation package each year is the potential value of his or her stock options, which yield value to the executive only if the stock price appreciates.

Our management stock ownership requirement effectively promotes meaningful and significant stock ownership by our Named Executive Officers and further aligns their interests with those of our stockholders.

We urge you to read the Compensation Discussion and Analysis, as well as the Summary Compensation Table and related compensation tables and narrative, beginning on page 30, which provide detailed information on our compensation philosophy, policies and practices and the compensation of our Named Executive Officers.

Because the vote on this proposal is advisory in nature, it is not binding on AutoZone, the Board or the Compensation Committee. The vote on this proposal will, therefore, not affect any compensation already paid or awarded to any Named Executive Officer and will not overrule any decisions made by the Board or the Compensation Committee. Because we highly value the opinions of our stockholders, however, the Board and the Compensation Committee will consider the results of this advisory vote when making future executive compensation decisions.

Under Nevada law and the Company’s By-Laws, if a quorum is present, this matter will be approved if the number of votes cast in favor of the matter exceeds the number of votes cast in opposition to the matter. Shares abstaining from voting and shares as to which a broker non-vote occurs are not considered votes cast or shares entitled to vote with respect to such matter. Accordingly, abstentions and broker non-votes will have no effect on the outcome of Proposal 3.

The Board recommends that the stockholders vote FOR this proposal.

PROPOSAL 4 — Approval of AutoZone, Inc. 2020 Omnibus Incentive Award Plan

Introduction

We are asking our stockholders to approve the 2020 Omnibus Incentive Award Plan (the “Plan”), which was adopted, subject to stockholder approval, by our Board of Directors on October 7, 2020. The Plan is designed to promote the success and enhance the value of AutoZone by linking the individual interests of Plan participants to those of AutoZone’s stockholders by providing incentive for appropriate performance to generate positive returns to AutoZone’s stockholders.

The Plan will serve as the successor to the Amended and Restated AutoZone, Inc. 2011 Equity Incentive Award Plan (the “Prior Plan”). We are requesting approval of 1,400,000 shares to be available for issuance under the Plan. If approved by stockholders at the 2020 Annual Meeting of Stockholders, the Plan will be effective upon such approval (the “Effective Date”). Following the Effective Date, no further grants will be made under the Prior Plan. However, each outstanding award under the Prior Plan will remain outstanding under such plan and will continue to be governed under the Prior Plan’s terms and any applicable award agreement. If the Plan is not approved by our stockholders, the Plan will not become effective, and the Prior Plan will remain in effect in accordance with its present terms. If the Plan is not approved by our stockholders, we will continue to grant awards under the Prior Plan, subject to its terms, conditions and limitations, using the shares available for issuance thereunder.

A copy of the Plan is attached to this proxy statement as [Appendix A](#) and is incorporated herein by reference. A summary of the material terms of the Plan is set forth below. Such summary does not purport to be a complete description of the Plan and is qualified in its entirety by reference to the complete copy of the Plan in [Appendix A](#).

Rationale

AutoZone is seeking stockholder approval of the Plan at its Annual Meeting. The authorization of additional shares is critical to our ability to continue to issue equity-based awards, which play a key role in attracting, incentivizing, and retaining the high-quality talent we need to successfully execute against the Company’s financial and operating goals and growth strategy.

We grant a significant portion of the compensation paid to our Chief Executive Officer and to our other NEOs and executives in the form of equity. We believe that equity-based awards support our pay-for-performance philosophy by (i) linking executive compensation to business results and intrinsic value creation, which is ultimately reflected in increases in stockholder value, (ii) attracting and retaining talented AutoZoners, (iii) driving high performance by payment being earned only if performance goals and objections are met, and (iv) motivating our executives to create long-term stockholder value.

We believe that the number of shares requested will be adequate to maintain our equity award program for approximately five years based on historical grant levels and potentially longer due to our share repurchase program. We believe that such request is reasonable and consistent with general market practices.

We believe that our compensation practices are competitive and consistent with market practices and that our historical share utilization has been responsible and mindful of stockholder interests. Without the availability of the additional shares of common stock requested by this Plan, the Company will be at a significant competitive disadvantage and we expect that the equity-based components of our compensation program would need to be supplemented with additional cash incentives which we believe may not offer the same benefits with respect to stockholder alignment.

Therefore, the Board believes that the Plan is in the best interests of our stockholders and the Company and recommends that you vote to approve the Plan.

Share Overhang and Availability

Upon approval of the Plan, AutoZone’s share overhang and availability may be summarized as follows:

Total shares of common stock outstanding as of October 19, 2020, the record date:	23,175,554
Shares of AutoZone common stock requested for issuance under the Plan:	1,400,000 (or, assuming all Awards are issued as Full-Value Awards, 700,000)
Shares subject to awards other than Full Value Awards under the Prior Plan:	1,542,222; weighted average exercise price of \$630.41 and weighted average remaining term of 6.25 years
Shares subject to Full Value Awards under the Prior Plan:	34,798 shares

Upon stockholder approval of the Plan, no shares will be available for grant under the Prior Plan.

Summary of Material Features of the Plan

The material features of the Plan are:

- The Share Limit (as defined below) under the Plan is 1,400,000 (or, assuming all Awards are issued as Full-Value Awards, 700,000);
- The award of stock options (both incentive and non-qualified options), stock appreciation rights, restricted stock, restricted stock units, deferred stock, unrestricted stock, cash-based awards, performance-based awards, stock payment awards, dividend equivalent rights, and other incentive awards is permitted;
- Shares tendered or held back for taxes or withheld by AutoZone in payment of the exercise price of an option will not be added back to the Share Limit. Upon the exercise of a stock appreciation right that is settled in shares of common stock, the full number of shares underlying the award will be charged to the Share Limit. Additionally, shares we reacquire on the open market with the cash proceeds from the exercise of options will not be added to the Share Limit;
- Stock options and stock appreciation rights will not be repriced without stockholder approval;
- The value of all awards awarded under the Plan and all other cash compensation paid by us to any non-employee director in any calendar year may not exceed \$750,000. The Board may make exceptions to this limit but only under extraordinary circumstances.
- The Plan maintains a fungible Share Limit, whereby Full-Value Awards (as defined below) reduce the Share Limit by two shares for every share delivered in settlement of a Full-Value Award;
- Awards are subject to AutoZone’s clawback policy as in effect from time to time and any recoupment required by applicable law or the terms of an individual award agreement; and
- No award may be granted or awarded after the ten-year anniversary of the Effective Date.

Based solely on the closing price of our common stock as reported by the New York Stock Exchange on October 19, 2020 and the maximum number of shares that would have been available for awards as of such date under the Plan, the maximum aggregate market value of the common stock that could potentially be issued under the Plan is \$823,494,000. The shares of common stock underlying any awards that are forfeited, canceled or otherwise

terminated, other than by exercise, under the Plan will be added back to the shares of common stock available for issuance under the Plan, as described in greater detail below.

What is the Plan?

The Plan, like the Prior Plan, will continue to allow us to provide equity-based compensation to our non-employee directors and employees for their service to AutoZone or our subsidiaries or affiliates. Under the Plan, participants may receive equity-based compensation in the form of stock options, stock appreciation rights, restricted stock, restricted stock units, dividend equivalents, deferred stock, stock payments, performance based awards, cash based awards and other incentive awards structured by the Compensation Committee and the Board of Directors within parameters set forth in the Plan.

Who is eligible to participate in the Plan?

The Plan allows employees and non-employee directors to participate in the Plan. The actual number of individuals who will receive awards cannot be determined in advance because the Compensation Committee retains the discretion to select the participants. In fiscal year 2020, approximately 294 individuals (including 14 executive officers and 9 non-employee directors) received awards under the Prior Plan.

How will the Plan be administered?

The Plan generally will be administered by the Compensation Committee (which we also refer to as the “Administrator”). The Compensation Committee consists solely of non-employee directors, each of whom is a “non-employee director” as defined in Rule 16b-3 under the Exchange Act and an “independent director” under the rules of the New York Stock Exchange. The Compensation Committee will have the authority to administer the Plan, including the power to determine eligibility, the types and sizes of awards, the price and timing of awards and the acceleration or waiver of any vesting restriction.

Except with respect to awards granted to our senior executives who are subject to Section 16 of the Exchange Act, the Plan allows the Compensation Committee to delegate the authority to grant or amend awards under the Plan to a committee of one or more members of the Board of Directors or one or more of our officers. The full Board of Directors, acting by a majority of its members in office, will conduct the general administration of the Plan with respect to awards granted to non-employee directors.

How many shares of AutoZone common stock will be available for awards under the Plan?

The aggregate number of shares of our common stock available for equity grants pursuant to the Plan is equal to 1,400,000 (the “Share Limit”). Following the Effective Date, no further grants shall be made under the Prior Plan. Any awards under the Prior Plan shall continue to be subject to the terms and conditions of the Prior Plan. The number of shares that may be issued as incentive stock options is an amount of shares equal to the Share Limit.

The Share Limit will be reduced by two shares for every share delivered in settlement of an award other than (i) a stock option, (ii) a stock appreciation right, (iii) a cash-based award or (iv) any other award for which the holder pays the intrinsic value existing as of the date of grant (collectively, “Full Value Awards”). If any shares subject to an award that is not a Full Value Award are forfeited, cancelled, are settled in cash (in whole or in part), or are otherwise terminated without the delivery of shares then the number of shares subject to such forfeiture, cancellation or cash settlement will again be available for future grants under the Plan; if such forfeited, expired or cash-settled award is a Full Value Award, then the number of shares available under the Plan will be increased by two shares for each share subject to such forfeiture, cancellation or cash settlement. In addition, any shares of restricted stock repurchased by AutoZone at the same price paid by the participant, so that such shares are returned to AutoZone, will again be available for awards granted pursuant to the Plan. The payment of dividend equivalents in cash in conjunction with any outstanding awards will not be counted against the shares available for issuance under the Plan.

However, shares tendered by or withheld in payment of the exercise price of an option or in satisfaction of any tax withholding obligations with respect to an award, shares subject to a stock appreciation right that are not issued in connection with the stock settlement of the stock appreciation right on exercise thereof, and shares purchased on the open market with cash proceeds from the exercise of options will not again be available for grant of an award under the Plan.

In the event of a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock, any awards granted under the Plan upon the assumption of, or in substitution for, outstanding equity awards previously granted by another entity, will not reduce the shares authorized for grant under the Plan. Additionally, in the event that AutoZone or our subsidiaries or affiliates acquire or combine with a company that has shares available under a pre-existing plan approved by stockholders (and not in contemplation of such acquisition or combination), the shares available for grant pursuant to the terms of such pre-existing plan may be used for awards under the Plan in certain circumstances and will not reduce the shares authorized for grant under the Plan.

What types of awards are available under the Plan?

Stock Options. The Plan provides for the grant of incentive stock options, as defined under Section 422 of the Code (“ISOs”), and non-qualified stock options (each, an “option”). The option exercise price of all stock options granted pursuant to the Plan may not be less than 100% of the fair market value of our common stock on the date of grant. Stock options may be exercised as determined by the Administrator, but may not have a term beyond the tenth anniversary of the date of grant. ISOs granted to any person who owns, as of the date of grant, more than ten percent of the total combined voting power of all classes of our stock, however, shall have an exercise price not less than 110% of the fair market value of our common stock on the date of grant and may not have a term beyond the fifth anniversary of the date of grant. The Plan prohibits, without stockholder approval: (i) the amendment of options to reduce the exercise price, and (ii) the replacement of an option with cash or any other award when the price per share of the option exceeds the fair market value of the underlying shares.

Restricted Stock. A restricted stock award is the grant of shares of our common stock at a price (if any) determined by the Administrator that may be subject to substantial risk of forfeiture, i.e., certain restrictions or other vesting requirements including continued service or the achievement of certain performance goals. Restricted stock is nontransferable and may not be sold or encumbered until all restrictions are terminated or expire.

Dividend Equivalents. A dividend equivalent is the right to receive the equivalent value of dividends paid on shares of our common stock. If granted, they are credited as of dividend payment dates occurring between the date an award is granted and the date it vests, is exercised, is distributed or expires. Dividend equivalents may be converted to cash or additional shares of our common stock subject to limitations as may be determined by the Administrator. No award may provide for payment of dividend equivalent rights unless and until the underlying award becomes fully vested.

Stock Payments. A stock payment is a payment in the form of shares of our common stock or an option or other right to purchase shares, as part of a bonus, deferred compensation or other arrangement. The number or value of shares of any stock payment will be determined by the Administrator and may be subject to the achievement of performance criteria or other specific criteria determined by the Administrator. Stock payments may, but are not required to, be made in lieu of cash compensation otherwise payable to any individual who is eligible to receive awards under the Plan.

Deferred Stock. Deferred stock is a right to receive shares of our common stock in the future. The number of shares of any deferred stock award will be determined by the Administrator and may be based on the achievement of performance or other specific criteria on a specified date or dates or over any period or periods determined by the Administrator. Deferred stock may constitute or provide for a deferral of compensation subject to Section 409A of the Code and there may be certain tax consequences if the requirements of Section 409A of the Code are not met.

Restricted Stock Units. A restricted stock unit is a contractual right that provides for the issuance of our common stock at a future date upon the satisfaction of specific conditions. The Administrator will specify in an award agreement the dates or conditions under which the restricted stock units will become fully vested and nonforfeitable, and may specify other conditions to vesting. The Administrator will also specify, or permit the holder to elect, the conditions and dates upon which the shares underlying the restricted stock units will be issued, which may not be earlier than the date as of which the restricted stock units vest and which conditions and dates will be subject to compliance with Section 409A of the Code. Restricted stock units may be paid in cash, shares or both, as determined by the Administrator. On the distribution dates, AutoZone will transfer to the holder one unrestricted, fully transferable share of our common stock (or the fair market value of one share in cash) for each restricted stock unit scheduled to be paid out on such date and not previously forfeited. The Administrator may specify a purchase price to be paid by the holder for such shares of our common stock. Restricted stock units may constitute or provide for a deferral of compensation subject to Section 409A of the Code and there may be certain tax consequences if the requirements of Section 409A of the Code are not met.

Stock Appreciation Rights. A stock appreciation right (“SAR”) entitles its holder, upon exercise, to receive from us an amount equal to the difference between the exercise price of the SAR and the fair market value of a share of our common stock on the exercise date, multiplied by the number of shares with respect to which the SAR is being exercised, subject to any limitations imposed by the Administrator. The exercise price per share may not be less than 100% of the fair market value on the date the SAR is granted. The Administrator will determine the vesting period of the SAR and SARs may not have a term beyond ten years from the date of grant. Payment of a SAR may be in cash, shares or a combination of both. The Plan prohibits, without stockholder approval: (i) the amendment of SARs to reduce the exercise price, and (ii) the replacement of a SAR with cash or any other award when the price per share of the SAR exceeds the fair market value of the underlying shares.

Performance Based Awards. Performance based awards are rights to receive a number of shares of our common stock or the cash value of such shares based on the attainment of specified performance goals or other criteria determined by the Administrator.

Cash Based Awards. The Administrator may grant cash-based awards under the Plan to participants. The cash based awards may be subject to the achievement of certain performance goals. At the Administrator’s discretion, cash based awards may be settled in shares.

Other Incentive Awards. The Plan also authorizes the grant of awards other than those enumerated in this summary that are denominated in, linked to or derived from shares of our common stock or value metrics related to our shares, and may remain forfeitable unless and until specified conditions are met.

What are performance awards?

Performance awards include any of the awards above that are granted subject to vesting and/or payment based on the attainment of specified performance goals. The Plan also permits the Administrator to provide for objectively determinable adjustments to the applicable performance criteria in setting performance goals for qualified performance-based compensation awards.

How does vesting of awards occur under the Plan?

The award agreement governing an award under the Plan will specify when the award will vest, in whole or in part, and will denote any events or conditions upon which vesting is contingent or which may accelerate vesting.

In addition, at the time an award is granted or at any time after such grant, the Administrator may specify events, including a change in control, that will accelerate the vesting or exercise date of all or part of the award.

Are awards under the Plan transferable?

With limited exceptions for estate planning, domestic relations orders, certain beneficiary designations and the laws of descent and distribution, awards under the Plan are generally nontransferable prior to vesting and are exercisable (as applicable) only by the participant.

How are tax withholding and payment obligations handled under the Plan?

The Administrator may, in its discretion, accept cash or check, shares of our common stock that meet specified conditions, a “market sell order” or such other consideration as it deems suitable in order to satisfy tax withholding, exercise price and purchase price obligations arising in connection with awards granted under the Plan.

What happens in the event of corporate transactions affecting the common stock?

The Administrator has broad discretion to equitably adjust the provisions of the Plan, as well as the terms and conditions of existing and future awards, to prevent the dilution or enlargement of intended benefits and facilitate necessary or desirable changes in the event of certain transactions and events affecting our common stock, such as stock dividends, stock splits, mergers, acquisitions, consolidations and other corporate transactions. In addition, in the event of certain non-reciprocal transactions with our stockholders known as “equity restructurings,” the Administrator will make equitable adjustments to the Plan and outstanding awards to reflect such transaction. In the event of a change in control (as defined in the Plan) and except as may be determined otherwise by the Board, the surviving entity must assume, continue or substitute with equivalent awards all outstanding awards under the Plan (each, “Assumed Awards”); provided, however, that if a participant’s service with the surviving entity is terminated without cause by the surviving entity, for good reason by the participant, or on account of the participant’s death or disability, in each case within 12 months following the change in control, each then-outstanding and unvested Assumed Award held by the participant shall become fully vested and, as applicable, exercisable, and all forfeiture restrictions on such Assumed Awards shall lapse at such time. If the surviving entity declines to assume, continue or substitute some or all of the outstanding awards, then all such awards will vest in full and be deemed exercised (as applicable) immediately prior to the consummation of such change in control. Notwithstanding the forgoing, cash-based awards and performance-based awards will be vested and nonforfeitable in the Administrator’s discretion upon a change in control. Individual award agreements may provide for additional accelerated vesting and payment provisions if the Administrator so determines.

Are awards under the Plan subject to clawback?

Each participant’s rights, payments, and benefits pursuant to any grant will be subject to mandatory repayment by the participant to AutoZone (i) to the extent set forth in any award agreement, or (ii) to the extent that such participant is, or in the future becomes, subject to (a) any “clawback” or recoupment policy adopted by the Committee, including policies adopted to comply with the requirements of any applicable laws, rules or regulations, including pursuant to final rules adopted by the Securities and Exchange Commission pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or otherwise, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws, including the Sarbanes-Oxley Act of 2002.

Does the Plan contain limits on director compensation?

The Plan provides that the value of all awards awarded under the Plan and all other cash compensation paid by AutoZone to any non-employee director in any calendar year shall not exceed \$750,000.

Can the Plan be amended or terminated?

The Board may terminate, amend, or modify the Plan at any time; however, except to the extent permitted by the Plan in connection with certain changes in capital structure, stockholder approval must be obtained for any amendment to (i) increase the number of shares available for issuance under the Plan, (ii) reduce the per share exercise price of the shares subject to any option or SAR below the per share exercise price as of the date the option or SAR was granted, and (iii) cancel any option or SAR in exchange for cash or another award when the option or SAR price per share exceeds the fair market value of the underlying shares.

In no event may an award be granted pursuant to the Plan after the tenth anniversary of the date the plan is approved by our stockholders, and no ISO may be granted pursuant to the Plan after the tenth anniversary of the date the plan was adopted by the Board of Directors.

New Plan Benefits

The terms and number of awards to be granted in the future under the Plan are to be determined at the discretion of the Board or Compensation Committee. Except with respect to grants of equity awards that we expect to grant to our non-employee directors on January 1, 2021, our Board or Compensation Committee has not made any determination to make future grants to any persons under the Plan as of the date of this Proxy Statement and therefore, except as set forth below, the benefits that will be awarded or paid under the Plan are not currently determinable.

We expect to grant \$2,152,500 in restricted stock units to our non-employee directors as a group, assuming such directors do not elect to receive any compensation in cash. The number of restricted stock units will be determined based on the closing price per share of our common stock on January 1, 2021.

What are the U.S. federal income tax consequences of the Plan?

The following is a general summary under current law of the principal United States federal income tax consequences related to certain awards under the Plan. This summary deals with the general federal income tax principles that apply and is provided only for general information. Some kinds of taxes, such as state, local and foreign income taxes and federal employment taxes, are not discussed. This summary is not intended as tax advice to participants, who should consult their own tax advisors. This summary assumes that all awards granted under the Plan are exempt from or comply with the rules under Section 409A of the Internal Revenue Code relating to nonqualified deferred compensation.

Non-Qualified Stock Options. If an optionee is granted a non-qualified stock option under the Plan, the optionee should not have taxable income on the grant of the option. Generally, the optionee should recognize ordinary income at the time of exercise in an amount equal to the fair market value of the shares acquired on the date of exercise, less the exercise price paid for the shares. The optionee's basis in the common stock for purposes of determining gain or loss on a subsequent sale or disposition of such shares generally will be the fair market value of our common stock on the date the optionee exercises such option. Any subsequent gain or loss will be taxable as a long-term or short-term capital gain or loss, depending on the duration for which the shares are held. We or our subsidiaries or affiliates generally should be entitled to a federal income tax deduction at the time and for the same amount as the optionee recognizes ordinary income.

Incentive Stock Options. A participant receiving ISOs should not recognize taxable income upon grant. Additionally, if applicable holding period requirements are met, the participant should not recognize taxable income at the time of exercise. However, the excess of the fair market value of the shares of our common stock received over the option exercise price is an item of tax preference income potentially subject to the alternative minimum tax. If stock acquired upon exercise of an ISO is held for a minimum of two years from the date of the ISO grant and one year from the date of exercise and otherwise satisfies the ISO requirements, the gain or loss (in an amount equal to the difference between the fair market value on the date of disposition and the exercise price) upon disposition of

the stock will be treated as a long-term capital gain or loss, and we will not be entitled to any deduction. If the holding period requirements are not met, the ISO will be treated as one that does not meet the requirements of the Internal Revenue Code for ISOs and the participant will recognize ordinary income at the time of the disposition equal to the excess of the amount realized over the exercise price, but not more than the excess of the fair market value of the shares on the date the ISO is exercised over the exercise price, with any remaining gain or loss being treated as capital gain or capital loss. We are not entitled to a tax deduction upon either the exercise of an ISO or upon disposition of the shares acquired pursuant to such exercise, except to the extent that the participant recognizes ordinary income on disposition of the shares.

Other Awards. AutoZone generally will be entitled to a tax deduction in connection with other awards under the Plan in an amount equal to the ordinary income realized by the participant at the time the participant recognizes such income. Participants typically are subject to income tax and recognize such tax at the time that an award is exercised, vests or becomes non-forfeitable, unless the award provides for a further deferral.

Section 162(m) of the Internal Revenue Code. Section 162(m) denies a deduction to any publicly held corporation for compensation paid to certain “covered employees” in a taxable year to the extent that compensation to such covered employee exceeds \$1,000,000. It is possible that compensation attributable to awards under the Plan, whether alone or combined with other types of compensation received by a covered employee from us, may cause this limitation to be exceeded in any particular year.

Section 409A of the Internal Revenue Code. Certain types of awards under the Plan may constitute, or provide for, a deferral of compensation subject to Section 409A of the Internal Revenue Code. Unless certain requirements set forth in Section 409A of the Internal Revenue Code are satisfied, holders of such awards may be taxed earlier than would otherwise be the case (e.g., at the time of vesting instead of the time of payment) and may be subject to an additional 20% penalty tax (and, potentially, certain interest penalties and additional state taxes). To the extent applicable, the Plan and awards granted under the Plan are intended to be structured and interpreted in a manner intended to either comply with or be exempt from Section 409A of the Internal Revenue Code and the Department of Treasury regulations and other interpretive guidance that may be issued under Section 409A of the Internal Revenue Code. To the extent determined necessary or appropriate by the plan administrator, the Plan and applicable award agreements may be amended to further comply with Section 409A of the Internal Revenue Code or to exempt the applicable awards from Section 409A of the Internal Revenue Code.

Parachute Payments. The vesting of any portion of an award that is accelerated due to the occurrence of a change in control may cause a portion of the payments with respect to such accelerated awards to be treated as “parachute payments” as defined in the Code. Any such parachute payments may be non-deductible to AutoZone, in whole or in part, and may subject the recipient to a non-deductible 20% federal excise tax on all or a portion of such payment (in addition to other taxes ordinarily payable).

Required Vote

Under Nevada law and AutoZone’s By-Laws, the Plan will be adopted, so long as a quorum is present, if the number of votes cast in favor of adoption of the Plan exceeds the number of votes cast in opposition. Shares abstaining from the voting and shares as to which a broker non-vote occurs are considered present for purposes of determining whether a quorum exists but are not considered votes cast with respect to such matter. Accordingly, abstentions and broker non-votes will have no effect on the outcome of Proposal.

The Board of Directors recommends that the stockholders vote FOR the approval of the AutoZone, Inc. 2020 Omnibus Incentive Award Plan.

Other Matters

We do not know of any matters to be presented at the Annual Meeting other than those discussed in this Proxy Statement. If, however, other matters are properly brought before the Annual Meeting, your proxies will be able to vote those matters in their discretion.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

This Compensation Discussion and Analysis provides a principles-based overview of AutoZone’s executive compensation program. It discusses our rationale for the types and amounts of compensation that our executive officers receive and how compensation decisions affecting these officers are made. It also discusses AutoZone’s total rewards philosophy, the key principles governing our compensation program, and the objectives we seek to achieve with each element of our compensation program.

Our fiscal 2020 Named Executive Officers are (i) our CEO, (ii) our CFO and (iii) each of our three other most highly compensated executive officers who were employed as of the last day of fiscal 2020:

William C. Rhodes III	Chairman, President and Chief Executive Officer
William T. Giles	Executive Vice President, Chief Financial Officer, Finance, IT & Store Development
Mark A. Finestone	Executive Vice President, Merchandising, Supply Chain, Marketing and eCommerce
Thomas B. Newbern	Executive Vice President, Store Operations, Commercial, Loss Prevention & ALLDATA
Philip B. Daniele	Senior Vice President, Commercial

The Company’s 2020 fiscal year was from September 1, 2019 through August 29, 2020 and therefore this Compensation Discussion and Analysis covers that time period. Mr. Rhodes, Mr. Giles, Mr. Finestone and Mr. Newbern were NEOs for fiscal 2019 and remain NEOs in fiscal 2020. Mr. Daniele is a new NEO for fiscal 2020, however Mr. Daniele was appointed to the position of Senior Vice President, Commercial effective November 1, 2015.

Compensation Principles and Objectives

Pay for performance. The primary emphasis of AutoZone’s compensation program is linking executive compensation to business results and intrinsic value creation, which is ultimately reflected in increases in stockholder value. Base salary levels are intended to be competitive in the U.S. marketplace for executives, but the more potentially valuable components of executive compensation are annual cash incentives, which depend on the achievement of pre-determined business goals, and to a greater extent, long-term compensation, which is based on the value of our stock.

The primary driver of long-term compensation is our stock option program. AutoZone grants stock options due to their inherent sensitivity to stock price appreciation. Stock options only have value when AutoZone’s stock price rises above the grant date price; therefore, our executives can realize gains only when the price rises over time.

Attract and retain talented AutoZoners. The overall level and balance of compensation elements in our compensation program are designed to ensure that AutoZone can retain key executives and, when necessary, attract qualified new executives to the organization. We believe that a company which provides quality products and services to its customers, and delivers solid financial results, will generate long-term stockholder returns, and that this is the most important component of attracting and retaining executive talent.

Drive high performance. AutoZone sets appropriate financial and operating goals to advance progress on key strategic initiatives and to position us for future success, and a significant amount of an executive’s annual cash compensation is tied to these objectives and therefore “at risk”—payment is earned only if performance goals and objectives are met.

Drive long-term stockholder value. AutoZone’s compensation program is intended to support long-term focus on stockholder value, so it emphasizes long-term rewards. At target levels, the majority of an executive officer’s total compensation package each year is the potential value of his or her stock options.

The table below illustrates how AutoZone’s compensation program weights the base salary and “at-risk” components of its NEOs’ fiscal 2020 target total compensation. See the Summary Compensation Table for additional details about fiscal 2020 compensation for all of the NEOs.

Executive	Base Salary	Annual Incentive	Long-Term Incentive	Total At-Risk
William C. Rhodes III.	10%	14%	76%	90%
Average of all Other NEOs	22%	16%	62%	78%

Key Elements of Compensation

The Chief Executive Officer and the other NEOs, as well as the other senior executives comprising AutoZone’s Executive Committee, participate in the compensation program outlined in this Compensation Discussion and Analysis. However, many elements of the compensation program also apply to other levels of AutoZone management. The intent is to ensure that management is motivated to pursue, and is rewarded for achieving, the same financial, operating and stockholder objectives.

The table below summarizes the key elements of AutoZone’s executive compensation program and the objectives they are designed to achieve. More details on these elements follow throughout the Compensation Discussion and Analysis and this Proxy Statement, as appropriate.

<u>Compensation Element</u>	<u>Description</u>	<u>Objectives</u>
Base salary	<ul style="list-style-type: none"> Annual fixed cash compensation. 	<ul style="list-style-type: none"> Attract and retain talented executives. Recognize differences in relative size, scope and complexity of positions as well as individual performance over the long term.

<u>Compensation Element</u>	<u>Description</u>	<u>Objectives</u>
Annual cash incentive	<ul style="list-style-type: none"> • Annual variable pay tied to the achievement of short-term economic profit objectives, as operationalized by our primary measures: <ul style="list-style-type: none"> • Earnings before interest and taxes, and • Return on invested capital. • Actual payout depends on the results achieved. Individual potential payout is capped at \$4 million; however, payout is zero if threshold targets are not achieved. • The Compensation Committee may reduce payouts in its discretion when indicated by individual performance or other reasons but does not have discretion to increase payouts beyond established individual Performance Goals and Company incentive payout matrix. 	<ul style="list-style-type: none"> • Communicate key financial and operating objectives. • Drive high levels of performance by ensuring that executives' total cash compensation is linked to achievement of financial and operating objectives. • Support and reward consistent, balanced growth and returns performance with links to stockholder returns. • Drive cross-functional collaboration and a total-company perspective.

<u>Compensation Element</u>	<u>Description</u>	<u>Objectives</u>
<p>Stock options and other equity compensation</p>	<ul style="list-style-type: none"> • Senior executives receive non-qualified stock options (NQSOs). • All stock options are granted at fair market value on the grant date (discounted options are prohibited). • AutoZone’s equity compensation plan prohibits re-pricing of stock options. • AutoZone may grant awards of stock or units with either performance or time-based restrictions. 	<ul style="list-style-type: none"> • Align long-term compensation with stockholder results. Opportunities for significant wealth accumulation by executives are tightly linked to stockholder returns. • Provide retention incentives to ensure business continuity and facilitate succession planning and executive knowledge transfer.
<p>Stock purchase plans</p>	<ul style="list-style-type: none"> • AutoZone maintains a broad-based employee stock purchase plan (ESPP) which is qualified under Section 423 of the Internal Revenue Code. The Employee Stock Purchase Plan allows AutoZoners to make quarterly purchases of AutoZone shares at 85% of the fair market value on the first or last day of the calendar quarter, whichever is lower. The annual contribution limit under the ESPP is 10% of annual earnings up to a max of \$15,000. • The Company has implemented an Executive Stock Purchase Plan so that executives may continue to purchase AutoZone shares beyond the limit the IRS and the Company set for the Employee Stock Purchase Plan. An executive may make purchases using up to 25% of their prior fiscal year’s eligible compensation. 	<ul style="list-style-type: none"> • Allow all AutoZoners to participate in the growth of AutoZone’s stock. • Encourage ownership, and therefore alignment of executive and stockholder interests.
<p>Management stock ownership requirement</p>	<ul style="list-style-type: none"> • Executive officers must meet specified minimum levels of ownership, using a multiple of base salary approach. 	<ul style="list-style-type: none"> • Align with stockholders by requiring executive officers to meet specified levels of ownership. • Alignment of executive and stockholder interests.

<u>Compensation Element</u>	<u>Description</u>	<u>Objectives</u>
Retirement plans	<p>The Company maintains two retirement plans:</p> <ul style="list-style-type: none"> • 401(k) defined contribution plan, • Non-qualified deferred compensation plan <p>Stock options:</p> <ul style="list-style-type: none"> • Retired executives, who meet the definition of retirement, do not receive any additional vesting of their long-term incentives but may hold vested options for the full original term of any given grant. 	<ul style="list-style-type: none"> • Provide competitive executive retirement benefits. • The non-qualified plan enables executives to defer 25% of base salary and 75% of annual cash incentives, independent of the IRS limitations set for the qualified 401(k) plan. • Retirees' vested stock options remain subject to original term to motivate successful succession planning.
Health and other benefits	<p>Executives are eligible for a variety of benefits, including:</p> <ul style="list-style-type: none"> • Medical, dental and vision plans; • Life and disability insurance plans; and • Charitable contribution match program. <p>Senior executives are permitted to use the Company's private aircraft for personal travel as long as they reimburse the Company for the direct, incremental cost of such usage.</p>	<ul style="list-style-type: none"> • Provide competitive benefits. • Minimize perquisites while ensuring a competitive overall rewards package.

Annual cash compensation. Annual cash compensation consists of base salary and annual cash incentives.

Base Salary. Salaries are determined within the context of a targeted total cash compensation level for each position. Base salary is a fixed portion of the targeted annual cash compensation, with the specific portion varying based on differences in the size, scope or complexity of the jobs as well as the tenure and individual performance level of incumbents in the positions. AutoZone utilizes a variety of survey data to monitor the market.

The survey data used to periodically adjust salary ranges is broad-based, including data submitted by hundreds of companies. Examples of the types of information contained in salary surveys include summary statistics (e.g., mean, median, 25th percentile, etc.) related to:

- base salaries
- variable compensation
- total annual cash compensation
- long-term incentive compensation
- total direct compensation

The salary ranges which apply to the NEOs, including the Principal Executive Officer, are part of the structure applicable to thousands of AutoZone’s employees. Each grade in the current salary structure has a salary range associated with it. This range has a midpoint, to which we compare summary market salary data (generally median pay level) of the types discussed above.

Over time, as the median pay levels in the competitive market change, as evidenced by the salary survey data, AutoZone will make appropriate adjustments to salary range midpoints so that on average, these midpoints are positioned at roughly 100% of the market median value for base salaries as revealed by the surveys. This positioning relative to the market allows for competitive base salary levels. This maintains our stated philosophy of delivering competitive total rewards at or above the market median through our performance-based variable compensation. The Compensation Committee, together with its independent compensation consultant, periodically conducts a detailed review of the overall executive compensation program to determine if the program supports the company’s strategic objectives.

In making decisions related to compensation of the NEOs, the Compensation Committee uses the survey data and salary ranges as context in reviewing compensation levels and approving pay actions. Other elements that the Compensation Committee considers are individual performance, Company performance, individual tenure, internal equity, position tenure, and succession planning.

Annual Cash Incentive. Executive officers and certain other employees are eligible to receive annual cash incentives each fiscal year based on the Company’s attainment of certain performance objectives set by the Compensation Committee at the beginning of the fiscal year. The annual cash incentive target for each position, expressed as a percentage of base salary, is based on both salary range and level within the organization, and therefore does not change annually. As a general rule, as an executive’s level of management responsibility increases, the portion of his or her total compensation dependent on Company performance increases.

The threshold and target percentage amounts for the NEOs for fiscal 2020 are shown in the table below.

Principal Position	Threshold	Target
Chairman, President & CEO	65 %	130 %
Executive Vice Presidents	37.5 %	75 %
Senior Vice Presidents	30 %	60 %

Annual cash incentives for executive officers are paid pursuant to the AutoZone, Inc. 2015 Executive Incentive Compensation Plan (“EICP”), our performance-based short-term incentive plan. Pursuant to the plan, the Compensation Committee establishes incentive objectives at the beginning of each fiscal year. For more information about the EICP, see Discussion of Grants of Plan-Based Awards Table on page 42.

The actual incentive amount paid depends on Company performance relative to the target objectives and individual achievement of performance goals established at the beginning of the fiscal year. A minimum pre-established Company goal must be met in order for any incentive award to be paid, and the incentive award as a percentage of annual salary will increase as the Company achieves higher levels of performance. Payouts are further adjusted for individual performance, which this component can range from 0% to 130% based on achievement of performance goals.

The EICP provides that the goal may be different for different executives. The goals can change annually to support our business objectives. After the end of each fiscal year, the Compensation Committee must certify the attainment of goals and direct the amount to be paid to each participant in cash. .

The EICP was designed to be a performance-based compensation plan. The Company’s executive officers, as determined by the Compensation Committee of the Board, are eligible to participate in the EICP. At the beginning

of each fiscal year, the Compensation Committee establishes a goal, which may be a range from a minimum to a maximum attainable bonus, based on one or more of the following measures:

- Earnings
- Earnings per share
- Sales
- Market share
- Operating or net cash flows
- Pre-tax profits
- Earnings before interest and taxes (EBIT)
- Return on invested capital
- Economic value added
- Return on inventory
- EBIT margin
- Sales per square foot
- Comparable store sales

The Compensation Committee may in its sole discretion reduce the calculated incentive awards paid to NEOs. Under the EICP, the Compensation Committee may not exercise discretion in granting awards in cases where no awards are indicated, nor may the Compensation Committee increase any calculated awards. Any such “positive” discretionary changes, were they to occur, would be paid outside of the EICP and to the extent required, reported under the Bonus column in the Summary Compensation Table on page 40; however, the Compensation Committee has not historically exercised this discretion.

The Compensation Committee, as described in the EICP, may (but is not required to) disregard the effect of one-time charges and extraordinary events such as asset write-downs, litigation judgments or settlements, changes in tax laws, accounting principles or other laws or provisions affecting reported results, accruals for reorganization or restructuring, and any other extraordinary non-recurring items, acquisitions or divestitures and any foreign exchange gains or losses on the calculation of performance.

The incentive objectives for fiscal 2020 were set during a Compensation Committee meeting held in October 2019 and were based on the achievement of specified levels of earnings before interest and taxes (“EBIT”) and return on invested capital (“ROIC”). The total incentive award is determined based on the impact of EBIT and ROIC on AutoZone’s economic profit for the year, rather than by a simple allocation of a portion of the award to achievement of the EBIT target and a portion to achievement of the ROIC target. EBIT and ROIC are key inputs to the calculation of economic profit (sometimes referred to as “economic value added”) and have been determined by our Compensation Committee to be important factors in enhancing stockholder value. The specific targets are tied to achievement of the Company’s operating plan for the fiscal year. If both the EBIT and ROIC targets are achieved, the result will be a 100%, or target, payout. However, the payout cannot exceed 100% unless the EBIT target is exceeded (i.e., unless there is “excess EBIT” to fund the additional incentive payout). It is possible to earn EBIT below target but exceed ROIC target to achieve 100% payout. Additionally, when the aggregate incentive amount is calculated, if the resulting payout amount in excess of target exceeds a specified percentage of excess EBIT (currently 20%), then the incentive payout will be reduced until the total amount of the incentive payment in excess of target is within that specified percentage of excess EBIT limit. For purposes of the EICP, ROIC is defined as after-tax operating profit (excluding rent) divided by invested capital (which includes a factor to capitalize operating leases). EBIT is defined as net income plus interest and taxes.

The fiscal 2020 annual incentive payout matrix is as follows:

AutoZone FY20 Incentive Payout Matrix					
EBIT (MMs)	\$2,011.8	\$2,123.5	\$2,235.3	\$2,347.1	\$2,458.8
	90%	95%	100%	105%	110%
	32.3%		86%	107%	129%
	32.8%		90%	111%	132%
	33.3%	51%	93%	115%	136%
R	33.8%	54%	97%	118%	140%
O	34.3%	57%	100%	122%	143%
I	34.8%	59%	100%	125%	147%
C	35.3%	62%	100%	128%	150%
	35.8%	65%	100%	131%	153%
	36.3%	68%	100%	134%	157%

Note: not discrete steps; values are interpolated based on economic value added.

The COVID-19 crisis had a significant impact on sales, SG&A, EBIT and ROIC. Very early in the crisis, we announced that all eligible hourly full- and part-time AutoZoners across the U.S. would receive emergency time off benefits. In addition, all Store Managers and DC Advisors received emergency time off benefits. We felt it was imperative to act swiftly in support of our AutoZoners on the front lines. We provided them with two additional weeks of time off, including for the first time in our history, providing part-timers with paid time off up to 40 hours. This benefit was added back for purposes of calculating the EICP attainment. The 2020 incentive awards for each NEO were based on the following performance:

	EBIT (\$MMs)	ROIC
EICP Target	2,235.3	34.3 %
Actual (as adjusted)	2,489.9	38.8 %
Difference	254.6	4.50 %
EBIT Surplus	11.4%	

Accordingly, the incentive payout for fiscal year 2020, before adjusting for the individual performance component, was 179.6%.

Effect of Performance on Total Annual Cash Compensation. Because AutoZone emphasizes pay for performance, it is only when the Company exceeds its target objectives that an executive's total annual cash compensation begins to climb relative to the median market level.

Stock compensation. To emphasize achievement of long-term stockholder value, AutoZone's senior executives receive a significant portion of their targeted total compensation in the form of non-qualified stock options. Stock Options are granted with an exercise price equal to the closing stock price on the grant date, typically vest 25% annually on October 1 of each of the four fiscal years following the fiscal year in which the grant is made and have a maximum term of ten (10) years and one (1) day. We believe that meeting our long-term strategic goals will increase our stock price.

Although stock options have potential worth at the time they are granted, they only confer actual value if AutoZone's stock price appreciates between the grant date and the exercise date. For this reason, we believe stock options are a highly effective long-term compensation vehicle to reward executives for creating stockholder value. We want our executives to realize total compensation levels well above the market norm, because when they do, such success is the result of achievement of Company financial and operating objectives that leads to growth in the per-share value of AutoZone common stock.

Proxy

AutoZone grants stock options annually, typically made near the beginning of the fiscal year and makes a limited number of promotional or new hire grants during the fiscal year. Currently, the annual grants are reviewed and approved by the Compensation Committee in the meeting (typically in late September or early October) at which it reviews prior year results, determines incentive payouts, and takes other compensation actions affecting its executive officers. The Compensation Committee has not delegated its authority to grant stock options; all grants are directly approved by the Compensation Committee. Option grant amounts for the Chief Executive Officer's direct reports and other senior executives are recommended to the Compensation Committee by the Chief Executive Officer, based on individual performance and the size and scope of the position held.

Newly promoted or hired officers may receive an option or restricted stock grant shortly after their hire or promotion. New hire or promotional grants are individually approved at a regularly scheduled meeting of the Compensation Committee, or via a special called meeting, or by unanimous written consent of the Compensation Committee. The grants are recommended to the Compensation Committee by the Chief Executive Officer based on individual circumstances (e.g., what may be required in order to attract a new executive). Internal promotional grants are prorated based on the time elapsed since the officer received a regular annual grant of stock options or restricted stock.

Stock purchase plans. AutoZone maintains the Seventh Amended and Restated AutoZone, Inc. Employee Stock Purchase Plan ("Employee Stock Purchase Plan") which enables all employees to purchase AutoZone common stock at a discount, subject to IRS-determined limitations. Based on IRS rules, we limit the annual purchases in the Employee Stock Purchase Plan to no more than \$15,000, and no more than 10% of eligible compensation. To support and encourage stock ownership by our executives, AutoZone also established a non-qualified stock purchase plan. The AutoZone, Inc. Sixth Amended and Restated Executive Stock Purchase Plan ("Executive Stock Purchase Plan") permits participants to acquire AutoZone common stock in excess of the purchase limits contained in AutoZone's Employee Stock Purchase Plan. Because the Executive Stock Purchase Plan is not required to comply with the requirements of Section 423 of the Internal Revenue Code of 1986, as amended, or any successor statute thereto and the regulations thereunder (the "Internal Revenue Code"), it has a higher limit on the percentage of a participant's compensation that may be used to purchase shares (25%) and places no dollar limit on the amount of a participant's compensation that may be used to purchase shares under the plan.

The Executive Stock Purchase Plan operates in a similar manner to the tax-qualified Employee Stock Purchase Plan, in that it allows executives to contribute after-tax compensation for use in making quarterly purchases of AutoZone common stock. Options are granted under the Executive Stock Purchase Plan each calendar quarter and consist of two parts: a restricted share option and an unvested share option. Shares are purchased under the restricted share option at 100% of the closing price of AutoZone stock at the end of the calendar quarter (i.e., not at a discount), and a number of shares are issued under the unvested share option at no cost to the executive, so that the total number of shares acquired upon exercise of both options is equivalent to the number of shares that could have been purchased with the contributions at a price equal to 85% of the stock price at the end of the quarter. The unvested shares are subject to forfeiture if the executive does not remain with the company for one year after the grant date. After one year, the shares vest, and the executive owes taxes based on the share price on the vesting date (unless a so-called 83(b) election was made on the date of grant).

The table below can be used to compare and contrast the stock purchase plans. For more information about our stock-based plans, including the Executive Stock Purchase Plan, see Grants of Plan-Based Awards Table on page 42.

	Employee Stock Purchase Plan	Executive Stock Purchase Plan
Contributions	After tax, limited to lower of 10% of eligible compensation or \$15,000	After tax, limited to 25% of eligible compensation
Discount	15% discount based on lowest price at beginning or end of the quarter	15% discount based on quarter-end price
Vesting	None (one-year holding period only)	Shares granted to represent 15% discount vest after one year; one-year holding period for shares purchased at fair market value

Company Aircraft

Senior Executives may periodically use AutoZone’s private aircraft for personal travel pursuant to an agreement with the Company. Under the agreement, the Company must be reimbursed for the direct, incremental cost to the Company arising from the personal use of the aircraft. These expenses include the cost of fuel, aircraft maintenance plan costs related to the trip, ramp fees, pilot expenses (if contract pilots are used on the trip), any special insurance for the trip, and other smaller direct costs to the Company. All of the fixed costs related to the use of the private aircraft, such as regular insurance premiums, hangar fees, depreciation and subscription costs, are paid by the Company, and reimbursement is not required for such costs.

Oversight of the Compensation Program

The Company’s executive compensation program is administered and overseen by the Compensation Committee with assistance from the CEO, the Senior Vice President, Human Resources and other senior leaders, as appropriate. The Compensation Committee in fiscal year 2020 selected and retained an independent compensation consultant, Pearl Meyer, who reports directly to the Compensation Committee to assist it in the performance of its

duties. The following table identifies the roles and responsibilities of the Compensation Committee and management in the oversight of the Company’s executive compensation program:

Compensation Committee	Management
<ul style="list-style-type: none"> • Sets policies and gives direction to management on all aspects of the executive compensation program • Based upon performance, evaluates, determines and approves compensation (salary, bonus and equity awards) for each executive officer • Determines the terms and conditions of equity incentive awards for all award recipients • Reviews succession planning to mitigate the risk of executive departure and to help ensure individual development and bench-strength through different tiers of Company leadership • Evaluates and considers regulatory and legal perspectives on compensation matters, rating agency opinions on executive pay and published investor compensation policies and position parameters. • Coordinates with the other committees of the Board to identify, evaluate and address potential compensation risks, where they exist 	<ul style="list-style-type: none"> • Analyzes competitive information supplied by the independent compensation consultant and others in light of the Company’s financial and operational circumstances • Evaluates market data for each executive position within the context of: <ul style="list-style-type: none"> • Importance of each role to the Company’s business model; • The Company’s organizational structure; • Expected contribution of each executive in light of the responsibilities inherent in his or her position • The risks inherent in the annual operating plan • Considers how other factors may affect pay decision-making, such as the Company’s annual operating plan, targeted earnings, internal pay equity, overall financial performance and the Company’s ability to absorb increases in compensation costs • Uses the data and analysis referenced above to formulate recommendations for the Compensation Committee’s review and consideration

Most of the year’s significant compensation decisions (those pertaining to the setting of base salaries, bonus targets and equity award percentages) are typically made at the meetings of the Compensation Committee and Board that follow the end of the prior fiscal year. In reaching its decisions regarding pay levels, the Compensation Committee does not aim to mirror any other company’s compensation levels or practices. Nonetheless, the Compensation Committee does consider other companies’ practices that might be pertinent to a company with similar margins and to the fact that we operate in multiple geographic locations with differing regulatory obligations and market considerations.

The Compensation Committee selects and engages a compensation consulting firm and authorizes its work. Reports and advice from the consultant may be requested by and are shared between the Compensation Committee, the Board, and management. In June 2020, the Compensation Committee evaluated Pearl Meyer’s independence using the factors set forth in NYSE Rule 303A.05(c) and confirmed Pearl Meyer’s independence.

The Chief Executive Officer attends most meetings of the Compensation Committee and participates in the process by answering Compensation Committee questions about pay philosophy and by ensuring that the Compensation Committee’s requests for information are fulfilled. He also assists the Compensation Committee in determining the compensation of the executive officers by providing recommendations and input about such matters as individual performance, tenure, and size, scope and complexity of their positions. The Chief Executive Officer makes specific recommendations to the Compensation Committee concerning the compensation of his direct reports and other senior executives, including the executive officers. These recommendations usually relate to base salary increases, changes to annual incentive targets and stock option grants. The Chief Executive Officer also recommends pay packages for newly hired executives. Management provides the Compensation Committee with

data, analyses and perspectives on market trends and annually prepares information to assist the Compensation Committee in its consideration of such recommendations. Annual incentive awards are based on achievement of business objectives set by the Compensation Committee, but the Compensation Committee may exercise negative discretion, and if it does so, it is typically in reliance on the Chief Executive Officer's assessment of an individual's performance.

The Chief Executive Officer is not a party to the deliberations of the Compensation Committee regarding his own compensation. The Senior Vice President, Human Resources has direct discussions with the Compensation Committee Chair regarding the Compensation Committee's recommendations on the Chief Executive Officer's compensation. The Compensation Committee also receives input from the independent consultant regarding Chief Executive Officer compensation.

Chief Executive Officer. The Compensation Committee establishes the compensation level for the Chief Executive Officer, including base salary, annual cash incentive compensation, and stock-based awards. The Chief Executive Officer's compensation is reviewed annually by the Compensation Committee in conjunction with a review of his individual performance by the non-management directors, taking into account all forms of compensation, including base salary, annual cash incentive, stock options and other stock-based awards, and the value of other benefits received.

Other Executive Officers. The Compensation Committee reviews and approves base salaries for AutoZone's executive officers (other than the Chief Executive Officer) based on each executive officer's individual performance during the past fiscal year and on the recommendations of the Chief Executive Officer. The Compensation Committee approves the annual cash incentive amounts for the executive officers, which are determined by objectives approved by the Compensation Committee at the beginning of each fiscal year as discussed above. The actual incentive amount paid depends on their annual performance.

The Compensation Committee approves stock-based compensation to many levels of management, including executive officers. Stock options are granted to executive officers upon initial hire or promotion, and thereafter are typically granted annually in accordance with guidelines established by the Compensation Committee as discussed above. The actual grant is determined by the Compensation Committee based on the guidelines and the performance of the individual in the position. The Compensation Committee considers the recommendations of the Chief Executive Officer. Other than grants of stock made pursuant to the stock purchase plans discussed above, from time to time the Compensation Committee has sole authority to approve any other individual awards of stock-based compensation for executive officers.

Management Stock Ownership Requirement. To further reinforce AutoZone's objective of driving long-term stockholder results, AutoZone maintains a stock ownership requirement for all Executive Committee members. Covered executives must attain a specified minimum level of stock ownership, based on a multiple of their base salary, within 5 years of the executive's placement into a covered position. Executives who are promoted into a position with a higher multiple will have an additional 3 years to attain the increased required ownership level. In order to calculate whether each executive meets the ownership requirement, we total the value of each executive's holdings of whole shares of stock, and sixty percent of the intrinsic (or "in-the-money") value of vested stock options, based on the fiscal year-end closing price of AutoZone stock, and compare that value to the appropriate multiple of fiscal year-end base salary. Without giving effect to recently hired executives who are permitted 5 years to comply with stock ownership guidelines, the average EC multiple of base compensation is 27 and all EC members are in compliance with stock ownership requirements.

To encourage full participation in our equity plans, all AutoZone stock acquired under those plans is included in the executive's holdings for purposes of calculating his or her ownership. This includes vested stock options and vested shares which have restrictions on sale.

Key features of the stock ownership requirement are summarized in the table below:

Ownership Requirement	<ul style="list-style-type: none"> • Chief Executive Officer 7 times base salary • Executive Vice President 3 times base salary • Senior Vice President 2 times base salary
Holding Requirements	<ul style="list-style-type: none"> • Individuals who have not achieved the ownership requirement within the specified period will be required to hold 50% of net after-tax shares upon exercise of any stock option and may not sell any shares of AZO. • Guidelines will no longer apply after an executive reaches age 62, in order to facilitate appropriate financial planning as potential retirement approaches. The Compensation Committee may waive the guidelines for any other executive at its discretion.
Ownership Definition	<ul style="list-style-type: none"> • Shares of stock directly owned; • Indirectly held shares reportable as beneficial holdings; • Unvested Shares acquired via the Executive Stock Purchase Plan; and • 60% of vested stock options (based on the “after tax in-the-money” value).

AutoZone has adopted comprehensive and detailed policies that regulate trading in our securities by our officers, directors and employees, including blackout periods when trading in our securities is not permitted. AutoZone’s officers, directors, and employees are strictly prohibited from hedging our securities. Directors, NEOs and other senior executives are strictly prohibited from pledging our securities as collateral.

Incentive Compensation Recovery Policy. AutoZone maintains an incentive compensation recovery, or “clawback”, policy. The purpose of the policy is to enable AutoZone’s Board, at its discretion, to recover excess incentive compensation in the event that the Company is required to prepare an accounting restatement to correct an error that is material to previously issued financial statements. “Excess” compensation is generally the amount of performance-based compensation paid above what would have been received had the statements in question been accurate. The Company will revise and administer this policy in compliance with the Dodd-Frank Act provisions, once the rules implementing those provisions become effective.

Benchmarking

AutoZone reviews publicly-available data from a peer group of companies to help us ensure that our overall compensation remains competitive. The peer group data we use is from proxy filings and other published sources – it is not prepared or compiled especially for AutoZone. AutoZone does not engage in strict benchmarking of compensation levels, i.e., we do not use specific data to support precise targeting of compensation, such as setting an executive’s base pay at the 50th percentile of an identified group of companies.

We periodically review the appropriateness of this peer group. It typically has changed when such events as acquisitions and spin-offs have occurred, and in the event a member company experiences significant performance challenges. The criteria used to select the peer group companies include:

- Direct competitors;
- Companies with which we compete for talent, customers and capital; and
- Companies with key financial measures within a reasonable range compared to those same measures for AutoZone (e.g., revenues between 50% and 200% of AutoZone’s).

AutoZone FY2020 Peer Group

Advance Auto Parts	Gamestop	Ross Stores
Bed Bath & Beyond	Gap Stores	Sherwin Williams
Darden Restaurants	Genuine Parts	Starbucks
Dick’s Sporting Goods	L Brands	Tractor Supply Company
Dollar General	LKQ Corporation	W.W. Grainger
Dollar Tree	O’Reilly Automotive	Yum! Brands
Foot Locker		

AutoZone reviews peer group compensation data as a point of reference but we do not use information from the peer group or other published sources to set precise compensation targets or make individual compensation decisions. We use such data as context in reviewing AutoZone’s overall compensation levels and approving recommendations. Broad survey data and peer group information are just two elements that we find useful in maintaining a reasonable and competitive compensation program. Other elements that we consider are individual performance, Company performance, individual tenure, position tenure, and succession planning.

During fiscal 2020, recognizing the continued growth of the Company, the Compensation Committee reviewed the peer group for fiscal 2021 compensation programs, and upon the recommendation of management and Pearl Meyer, made the following changes for fiscal year 2021

Deleted:

Bed, Bath & Beyond	Gamestop	Starbucks
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Added:

Ulta Beauty

FY21 AutoZone Peer Group

Advance Auto Parts	Gap Stores	Sherwin Williams
Darden Restaurants	Genuine Parts	Tractor Supply Company
Dick’s Sporting Goods	L Brands	Ulta Beauty
Dollar General	LKQ Corporation	W.W. Grainger
Dollar Tree	O’Reilly Automotive	Yum! Brands
Foot Locker	Ross Stores	

Our new peer group reflects a median market capitalization of \$11.5 billion and corporate revenue of \$12.6 billion each as of March 2020.

Taxation of Compensation

Prior to the Tax Cuts and Jobs Act (“Tax Reform”) that was signed into law December 22, 2017, the Compensation Committee considered the provisions of Section 162(m) of the Internal Revenue Code which allowed the Company to take an income tax deduction for compensation up to \$1 million and for certain compensation exceeding \$1 million paid in any taxable year to a “covered employee” as that term is defined in the Code. There was an exception for qualified performance-based compensation, and AutoZone’s compensation program was designed to maximize the tax deductibility of compensation paid to executive officers, where possible. The Tax Reform includes substantial changes to Section 162(m), which generally eliminate tax deductions for any compensation in excess of \$1 million paid to covered employees.

Section 409A of the Internal Revenue Code was created with the passage of the American Jobs Creation Act of 2004. These tax regulations create strict rules related to non-qualified deferred compensation earned and vested on or after January 1, 2005. The Internal Revenue Service periodically releases Notices and other guidance related to Section 409A, and AutoZone continues to take actions necessary to comply with the Section's requirements by the deadlines established by the Internal Revenue Service.

Compensation Committee Report

The Compensation Committee of the Board (the "Committee") has reviewed and discussed with management the Compensation Discussion and Analysis ("CD&A"). Based on the review and discussions, the Committee recommended to the Board of Directors that the CD&A be included in this proxy statement.

Members of the Compensation Committee:

George R. Mrkonic, Jr. (Chair)
Douglas H. Brooks
Linda A. Goodspeed
Gale V. King

Compensation Committee Interlocks and Insider Participation

The Compensation Committee is composed solely of independent, non-employee directors. None of the members of the Compensation Committee (i) was an officer or employee of the Company at any time during or prior to fiscal 2020 or (ii) is or was a participant in a "related person" transaction with the Company since the beginning of fiscal 2020. No executive officer of the Company served on the compensation committee or board of any company that employed any member of the Compensation Committee or Board.

Compensation Program Risk Assessment

AutoZone's management conducts periodic assessments of the compensation plans and programs that apply throughout the Company, including those plans and programs in which our executives participate. The assessments are performed by key members of AutoZone's human resources, finance, operations, and legal teams, and entails thorough discussions of each plan's or program's design and operation. Significant findings are reviewed by senior management prior to being reviewed and discussed with the Compensation Committee.

Plan elements which are reviewed include participants, performance measures, performance and payout curves or formulas, how target level performance is determined (including whether any thresholds and caps exist), how frequently payouts occur, and the mix of fixed and variable compensation which the plan delivers. The plans and programs are also reviewed from the standpoint of reasonableness (e.g., how target and above-target pay levels compare to similar plans for similar populations at other companies, and how payout amounts relate to the results which generate the payment), how well the plans and programs are aligned with AutoZone's goals and objectives, and from an overall standpoint, whether these plans and programs represent an appropriate mix of short- and long-term compensation.

The purpose of these reviews is to determine whether the risks related to the design and operation of these plans and programs, if present, are reasonably likely to have a material adverse effect on the Company. We believe that our compensation plans, policies and practices do not encourage excessive risk-taking and are not reasonably likely to have a material adverse effect on the Company. The various mitigating factors which support this conclusion include:

- Oversight of the management incentive plan and all stock-based compensation by the Compensation Committee of the Board;

- Senior management oversight of key plans and programs, including approving target level payouts, setting financial and operating goals, and approving payouts;
- Administration and oversight of plans and programs by multiple functions within the Company (e.g., finance, operations, legal and human resources);
- Existence of an incentive compensation recovery (“clawback”) policy;
- Interrelationship between measures (e.g., correlation between economic profit performance and appreciation in the per-share price of AutoZone’s stock);
- Vesting and stock ownership requirements for executive officers which encourage long-term perspectives among participants; and
- A preference for performance measures which result in payments only upon achievement of ultimate financial results.

SUMMARY COMPENSATION TABLE

This table shows the compensation paid to the NEOs during the 2020, 2019 and 2018 fiscal years.

<u>Name and Principal Position</u>	<u>Year</u>	<u>Non-Equity</u>						
		<u>Salary</u>	<u>Bonus</u>	<u>Stock</u>	<u>Option</u>	<u>Incentive Plan</u>	<u>All Other</u>	<u>Total</u>
		<u>(\$)(1)</u>	<u>(\$)(2)</u>	<u>Awards</u>	<u>Awards</u>	<u>Compensation</u>	<u>Compensation</u>	<u>(\$)</u>
				<u>(\$)(3)(4)</u>	<u>(\$)(4)</u>	<u>(\$)(5)</u>	<u>(\$)(6)</u>	<u>(\$)</u>
William C. Rhodes III	2020	1,050,000	—	89,399	7,269,523	2,941,849	180,590	11,531,361
Chairman, President &	2019	1,062,500	—	90,187	5,888,287	1,401,417	175,171	8,617,562
Chief Executive Officer	2018	1,000,000	—	89,621	1,735,439	1,250,000	145,559	4,220,619
William T. Giles	2020	678,538	—	28,321	2,031,501	1,096,790	125,013	3,960,163
CFO/Executive Vice President,	2019	674,711	—	28,230	1,822,036	513,422	103,223	3,141,622
Finance & IT	2018	641,923	—	26,717	1,259,639	481,443	98,400	2,508,122
Thomas B. Newbern	2020	576,154	—	—	2,246,944	776,080	68,750	3,667,928
Executive Vice President,	2019	562,058	—	—	1,733,156	513,229	56,137	2,864,580
Store Operations, Commercial,	2018	528,962	—	—	1,068,741	396,722	56,346	2,050,771
Loss Prevention & ALLDATA								
Mark A. Finestone	2020	568,538	—	28,321	1,925,763	765,823	108,687	3,397,132
Executive Vice President,	2019	562,058	—	24,352	1,733,156	427,698	109,267	2,856,531
Merchandising, Supply Chain,	2018	528,962	—	13,663	1,068,741	396,722	90,291	2,098,379
Marketing and eCommerce								
Philip B. Daniele	2020	383,615	—	4,250	1,749,973	413,385	47,107	2,598,330
Senior Vice President,								
Commercial								

- (1) Fiscal year 2019 was a 53-week fiscal year, so the 2019 salary and bonus amounts reflect an extra week of pay.
- (2) Annual incentive awards were paid pursuant to the EICP and therefore appear in the “non-equity incentive plan compensation” column of the table.
- (3) Represents shares acquired pursuant to the Executive Stock Purchase Plan. See “Compensation Discussion and Analysis” on page 30 for more information about the Executive Stock Purchase Plan. See Note B, Share-Based Payments, to our consolidated financial statements in our 2020 Annual Report for a description of the Executive Stock Purchase Plan and the accounting and assumptions used in calculating expenses in accordance with FASB ASC Topic 718.
- (4) The value of stock awards and option awards was determined as required by FASB ASC Topic 718. There is no assurance that these values will be realized. See Note B, Share-Based Payments, to our consolidated financial statements in our 2020 Annual Report for details on assumptions used in the valuation.

- (5) Incentive amounts were earned for the 2020 fiscal year pursuant to the EICP and were paid in October 2020. See “Compensation Discussion and Analysis” on page 30 for more information about this plan. Messrs Rhodes and Giles received an individual rating of “Exceeds Expectations” based on their individual achievement of performance goals established at the beginning of the fiscal year. This rating resulted in their bonus being increased by 20%.
- (6) All Other Compensation includes the following:

<u>Name</u>		<u>Perquisites and Personal Benefits \$(A)</u>	<u>Tax Gross- ups \$(C)</u>	<u>Company Contributions to Defined Contribution Plans \$(D)</u>	<u>Life Insurance Premiums \$(E)</u>
William C. Rhodes III	2020	56,989 (B)	21,276	99,072	3,253
William T. Giles	2020	57,233 (B)	18,205	48,004	1,571
Thomas B. Newbern	2020	8,882	14,833	43,610	1,425
Mark A. Finestone	2020	57,426 (B)	9,817	40,133	1,311
Philip B. Daniele	2020	16,765	2,622	27,062	658

- (A) Perquisites and personal benefits for all NEOs include matching charitable contributions under the AutoZone Matching Gift Program, Company-provided home security system and/or monitoring services, airline club memberships and status upgrades, Company-paid spouse business-related travel, and Company-paid long-term disability insurance premiums.
- (B) The perquisites or personal benefits which exceeded the greater of \$25,000 or 10% of the total amount of perquisites and personal benefits for an executive officer, consisted of matching charitable contributions made under the AutoZone Matching Gift program, under which executives may contribute to qualified charitable organizations and AutoZone provides a matching contribution to the charities in an equal amount, up to \$50,000 in the aggregate for each executive officer annually, are as follows:

<u>Name</u>	<u>2020 (\$)</u>
William C. Rhodes III	50,000
William T. Giles	50,000
Mark A. Finestone	50,000

- (C) Represents amounts related to imputed earnings on taxable life insurance or Company-paid spouse business-related travel.
- (D) Represents employer contributions to the AutoZone, Inc. 401(k) Plan and the AutoZone, Inc. Executive Deferred Compensation Plan.

GRANTS OF PLAN-BASED AWARDS

The following table sets forth information regarding plan-based awards granted to the Company's NEOs during the 2020 fiscal year.

<u>Name</u>	<u>Equity Plans Grant Date</u>	<u>Estimated Future Payments Under Non-equity Incentive Plans (1)</u>			<u>All other Stock Awards: Number of shares of Stock or Units (#) (2)</u>	<u>All other Option Awards: Number of securities underlying options (#) (3)</u>	<u>Exercise or base price of option awards (\$)</u>	<u>Grant date fair value of stock and option awards (\$)</u>
		<u>Threshold (\$)</u>	<u>Target (\$)</u>	<u>Maximum (\$)</u>				
William C. Rhodes III		682,500	1,365,000	N/A				
	10/7/2019					27,500	1,060.81	7,269,523
	9/30/2019				10			10,846
	12/31/2019				47			55,992
	3/31/2020				12			10,152
	6/30/2020				11			12,409
							<u>7,358,922</u>	
William T. Giles		254,452	508,904	N/A				
	10/7/2019					7,685	1,060.81	2,031,501
	9/30/2019				6			6,508
	12/31/2019				6			7,148
	3/31/2020				8			6,768
	6/30/2020				7			7,897
							<u>2,059,822</u>	
Thomas B. Newbern		216,058	432,116	N/A				
	10/7/2019					8,500	1,060.81	2,246,944
								<u>2,246,944</u>
Mark A. Finestone		213,202	426,404	N/A				
	10/7/2019					7,285	1,060.81	1,925,763
	9/30/2019				6			6,508
	12/31/2019				6			7,148
	3/31/2020				8			6,768
	6/30/2020				7			7,897
							<u>1,954,084</u>	
Philip B. Daniele.		115,085	230,169	N/A				
	10/7/2019					6,620	1,060.81	1,749,973
	9/30/2019				1			1,085
	12/31/2019				1			1,191
	3/31/2020				1			846
	6/30/2020				1			1,128
							<u>1,754,223</u>	

- (1) Represents potential threshold, target and maximum incentive compensation for the 2020 fiscal year under the EICP based on each officer's salary on the date the 2020 fiscal year targets were approved. The amounts actually paid for the 2020 fiscal year are described in the "Non-Equity Incentive Plan Compensation" column in the Summary Compensation Table. The "threshold" is the minimum payment level under the EICP which is 50% of the target amount. There is no overall percentage maximum; however, awards paid to any individual pursuant to the EICP may not exceed \$4 million. See "Compensation Discussion and Analysis" at page 30 and the discussion following this table for more information on the EICP.
- (2) Represents shares awarded pursuant to the Executive Stock Purchase Plan. See "Compensation Discussion and Analysis" at page 30 and the discussion following this table for more information on the Executive Stock Purchase Plan.
- (3) Represents options awarded pursuant to the Amended 2011 Equity Plan. See "Compensation Discussion and Analysis" at page 30 and the discussion following this table for more information on equity plans.

Proxy

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR-END

The following table sets forth information regarding outstanding stock option awards under the Amended 2011 Equity Plan, the 2011 Equity Plan, other outstanding equity awards under the Amended 2011 Equity Plan and the 2011 Equity Plan, and unvested shares under the Executive Stock Purchase Plan for the Company's NEOs as of August 29, 2020:

Name	Grant Date	Option Awards				Number of shares of stock that have not vested (2)	Market value of Shares of stock that have not vested (3)
		Number of securities underlying unexercised options (1)		Option Exercise Price	Option Expiration Date		
		Exercisable	Unexercisable				
William C. Rhodes III	9/27/2012	22,500	—	\$ 371.47	9/28/2022		
	10/1/2013	19,200	—	\$ 425.11	10/2/2023		
	9/23/2014	17,400	—	\$ 507.79	9/24/2024		
	10/6/2015	7,850	—	\$ 744.62	10/7/2025		
	10/7/2015	25,000	25,000 (4)	\$ 736.00	10/8/2025		
	9/23/2016	5,062	1,688	\$ 744.85	9/24/2026		
	9/26/2017	6,000	6,000	\$ 587.13	9/27/2027		
	9/25/2018	6,625	19,875	\$ 772.80	9/26/2028		
	10/7/2019	—	27,500	\$ 1,060.81	10/8/2020		
	9/30/2019					10	\$ 11,891
	12/31/2019					47	\$ 55,889
	3/31/2020					12	\$ 14,269
	6/30/2020					11	\$ 13,080
Totals		109,637	80,063			80	\$ 95,130
William T. Giles	9/27/2012	13,600	—	\$ 371.47	9/28/2022		
	10/1/2013	11,600	—	\$ 425.11	10/2/2023		
	9/23/2014	10,600	—	\$ 507.79	9/24/2024		
	10/6/2015	10,600	—	\$ 744.62	10/7/2025		
	9/23/2016	6,840	2,280	\$ 744.85	9/24/2026		
	9/26/2017	4,354	4,356	\$ 587.13	9/27/2027		
	9/25/2018	2,050	6,150	\$ 772.80	9/26/2028		
	10/7/2019	—	7,685	\$ 1,060.81	10/8/2020		
	9/30/2019					6	\$ 7,135
	12/31/2019					6	\$ 7,135
	3/31/2020					8	\$ 9,513
	6/30/2020					7	\$ 8,324
Totals		59,644	20,471			27	\$ 32,106
Thomas B. Newbern	9/23/2014	1,975	—	\$ 507.79	9/24/2024		
	10/6/2015	11,000	—	\$ 744.62	10/7/2025		
	9/23/2016	5,805	1,935	\$ 744.85	9/24/2026		
	9/26/2017	3,694	3,696	\$ 587.13	9/27/2027		
	9/25/2018	1,950	5,850	\$ 772.80	9/26/2028		
	10/7/2019	—	8,500	\$ 1,060.81	10/8/2020		
Totals		24,424	19,981				
Mark A. Finestone	10/1/2013	8,700	—	\$ 425.11	10/2/2023		
	9/23/2014	7,900	—	\$ 507.79	9/24/2024		
	10/6/2015	11,000	—	\$ 744.62	10/7/2025		
	9/23/2016	5,805	1,935	\$ 744.85	9/24/2026		
	9/26/2017	3,694	3,696	\$ 587.13	9/27/2027		
	9/25/2018	1,950	5,850	\$ 772.80	9/26/2028		
	10/7/2019	—	7,285	\$ 1,060.81	10/8/2020		
	9/30/2019					6	\$ 7,135
	12/31/2019					6	\$ 7,135
	3/31/2020					8	\$ 9,513
	6/30/2020					7	\$ 8,324
Totals		39,049	18,766			27	\$ 32,106
Philip B. Daniele	9/27/2012	740	—	\$ 371.47	9/28/2022		
	10/1/2013	3,060	—	\$ 425.11	10/2/2023		
	9/23/2014	2,360	—	\$ 507.79	9/24/2024		
	10/6/2015	2,100	—	\$ 744.62	10/7/2025		
	11/1/2015	4,320	—	\$ 784.41	11/2/2025		
	9/23/2016	4,642	1,548	\$ 744.85	9/24/2026		
	9/26/2017	2,954	2,956	\$ 587.13	9/27/2027		
	9/25/2018	1,362	4,088	\$ 772.80	9/26/2028		
	10/7/2019	—	6,620	\$ 1,060.81	10/8/2020		
	9/30/2019					1	\$ 1,189
	12/31/2019					1	\$ 1,189
	3/31/2020					1	\$ 1,189
	6/30/2020					1	\$ 1,189
Totals		21,538	15,212			4	\$ 4,756

(1) Unless indicated otherwise, stock options vest annually in one-fourth increments over a four-year period.

- (2) Represents shares acquired pursuant to unvested shares granted under the Executive Stock Purchase Plan. Such shares vest on the first anniversary of the date the option was exercised under the plan and will vest immediately upon a participant's termination of employment without cause or the participant's death or disability.
- (3) Based on the closing price of AutoZone common stock on August 29, 2020 (\$1,189.12 per share).
- (4) Represents a one-time grant of non-qualified stock options pursuant to the 2011 Equity Plan. Fifty percent (50%) of the shares vested on the fourth anniversary of the grant, and the other fifty percent (50%) vest on the fifth anniversary of the grant.

OPTION EXERCISES AND STOCK VESTED

The following table sets forth information regarding stock option exercises and vested stock awards for the Company's NEOs during the fiscal year ended August 29, 2020:

<u>Name</u>	<u>Option Awards</u>		<u>Stock Awards</u>	
	Number of shares acquired on exercise (#)	Value realized on exercise (\$ (1))	Number of shares acquired on vesting (#) (2)	Value realized on vesting (\$ (3))
William C. Rhodes III.	20,800	19,044,840	103	116,222
William T. Giles.	12,125	10,886,303	31	33,067
Thomas B. Newbern	10,650	8,217,010	—	—
Mark A. Finestone.	—	—	26	27,644
Philip B. Daniele	—	—	4	4,250

- (1) If the shares were sold immediately upon exercise, the value realized on exercise of the option is the difference between the actual sales price and the exercise price of the option. Otherwise, the value realized is the difference between the closing price of AutoZone common stock on the New York Stock Exchange on the date of exercise and the exercise price of the option.
- (2) Represents shares acquired pursuant to the Executive Stock Purchase Plan. See "Compensation Discussion and Analysis" on page 30 for more information about this plan.
- (3) Based on the closing price of AutoZone common stock on the vesting date.

NONQUALIFIED DEFERRED COMPENSATION

The following table sets forth information regarding nonqualified deferred compensation for the Company's NEOs as of and for the year ended August 29, 2020.

<u>Name</u>	<u>Executive Contributions in Last FY (\$ (1))</u>	<u>Registrant Contributions in Last FY (\$ (2))</u>	<u>Aggregate Earnings in Last FY (\$ (3))</u>	<u>Aggregate withdrawals / distributions (\$)</u>	<u>Aggregate Balance at Last FYE (\$)</u>
William C. Rhodes III.	574,897	87,664	3,191,354	—	18,344,113
William T. Giles.	191,107	36,547	228,301	(149,265)	1,642,567
Thomas B. Newbern	215,359	32,110	153,660	(6,296)	2,168,967
Mark A. Finestone.	122,536	28,633	383,092	—	2,026,694
Philip B. Daniele	66,536	15,435	25,635	—	347,657

- (1) Represents contributions by the NEOs under the AutoZone, Inc. Executive Deferred Compensation Plan (the "EDCP"). Such contributions are included under the appropriate "Salary" and "Non-Equity Incentive Plan Compensation" columns for the NEOs in the Summary Compensation Table.
- (2) Represents matching contributions by the Company under the EDCP. Such contributions are included under the "All Other Compensation" column for the NEOs in the Summary Compensation Table.
- (3) Represents the difference between the aggregate balance at end of fiscal 2020 and the end of fiscal 2019, excluding (i) contributions made by the executive officer and the Company during fiscal 2020 and (ii) any withdrawals or distributions during fiscal 2020. None of the earnings in this column were included in the Summary Compensation Table because they were not preferential or above market.

Officers of the Company with the title of vice president or higher based in the United States are eligible to participate in the EDCP after their first year of employment with the Company. As of August 29, 2020, there were 54 such officers of the Company. The EDCP is a nonqualified plan that allows officers to make a pretax deferral of base salary and bonus compensation. Officers may defer up to 25% of base salary and up to 75% of bonus compensation. The Company match is calculated based on 100% of the first 3% of deferred compensation and 50% of the next 2% deferred, less the maximum value of the Company match available generally to participants in AutoZone's 401(k) Plan. Participants may select among various mutual funds in which to invest their deferral accounts. Participants may elect to receive distribution of their deferral accounts at retirement or starting in a specific future year of choice before or after anticipated retirement (but not later than the year in which the participant reaches age 75). If a participant's employment with AutoZone terminates other than by retirement or death, the account balance will be paid in a lump sum payment six months after termination of employment. There are provisions in the EDCP for withdrawal of all or part of the deferral account balance in the event of an extreme and unforeseen financial hardship.

POTENTIAL PAYMENTS UPON TERMINATION OR CHANGE IN CONTROL

Our NEOs may receive certain benefits if their employment terminates under specified circumstances. These benefits derive from Company policies, plans, agreements and arrangements described below.

Agreement with Mr. Rhodes

In 2008, Mr. Rhodes and AutoZone entered into an agreement (the “Agreement”) providing that if Mr. Rhodes’ employment is terminated by the Company without cause, he will receive severance benefits consisting of an amount equal to 2.99 times his then-current base salary, a lump sum prorated share of any unpaid annual bonus incentive for periods during which he was employed, and AutoZone will pay the cost of COBRA premiums to continue his medical, dental and vision insurance benefits for up to 18 months to the extent such premiums exceed the amount Mr. Rhodes had been paying for such coverage during his employment. The Agreement further provides that Mr. Rhodes will not compete with AutoZone or solicit its employees for a three-year period after his employment with AutoZone terminates.

Executive Officer Agreements (Messrs. Giles, Finestone, Newbern, and Daniele)

AutoZone’s executive officers who do not have written employment agreements, including Messrs. Giles, Finestone, Newbern and Daniele, have entered into agreements (“Severance and Non-Compete Agreements”) with the Company providing that if their employment is involuntarily terminated without cause, and if they sign an agreement waiving certain legal rights, they will receive severance benefits in the form of salary continuation for a period of time ranging from 12 to 24 months, depending on their length of service at the time of termination. The aforementioned executives all have greater than 5 years of service.

<u>Years of Service</u>	<u>Severance Period</u>
Less than 2	12 months
2 – less than 5	18 months
5 or more	24 months

The executives will also receive a lump sum prorated share of their annual bonus incentive when such incentives are paid to similarly-situated executives. Medical, dental and vision insurance benefits generally continue through the severance period up to a maximum of 18 months, with the Company paying the cost of COBRA premiums to the extent such premiums exceed the amount the executive had been paying for such coverage. An appropriate level of outplacement services may be provided based on individual circumstances.

The Severance and Non-Compete Agreement further provides that the executive will not compete with AutoZone or solicit its employees for a two-year period after his or her employment with AutoZone terminates.

Equity Plans

All outstanding, unvested stock options, including those held by the NEOs, will vest immediately upon the option holder’s death pursuant to the terms of the stock option agreements.

Unvested shares under our Executive Stock Purchase Plan, which normally are subject to forfeiture if a participant’s employment terminates prior to the first anniversary of their acquisition, will vest immediately if the termination is by reason of the participant’s death, disability, termination by the Company without cause, or retirement on or after the participant’s normal retirement date. The plan defines “disability,” “cause,” and “normal retirement date.”

Life Insurance

AutoZone provides all salaried employees in active full-time employment in the United States a company-paid life insurance benefit in the amount of two times annual earnings. “Annual earnings” exclude stock compensation and gains realized from stock option exercises but include salary and incentive compensation received. Additionally, salaried employees are eligible to purchase additional life insurance subject to insurability above certain amounts. The maximum benefit of the company-paid and the additional coverage combined is \$5,000,000. All the NEOs are eligible for this benefit.

Disability Insurance

All full-time officers at the level of vice president and above are eligible to participate in two executive long-term disability plans, until age 65. Accordingly, AutoZone purchases individual disability policies for its executive officers that pay 70% of the first \$7,143 of insurable monthly earnings in the event of disability. Additionally, the executive officers are eligible to receive an executive long-term disability plan benefit in the amount of 70% of the next \$35,714 of insurable monthly earnings to a maximum benefit of \$25,000 per month. AutoZone purchases insurance to cover this plan benefit. These two benefits combined provide a maximum benefit of \$30,000 per month. The benefit payment for these plans may be reduced by deductible sources of income and disability earnings.

The following table shows the amounts that the NEOs would have received if their employment had been terminated under specified circumstances on August 29, 2020. This table does not include amounts related to the NEOs' vested benefits under our deferred compensation and pension plans or pursuant to stock option awards, all of which are described in the tables above.

Name	Voluntary or For Cause Termination (\$)	Involuntary Termination Not For Cause (\$)	Change in Control (\$)	Disability (\$)	Death (\$)	Normal Retirement (\$)
William C. Rhodes, III (1)						
Severance Pay	—	3,139,500	—	—	—	—
Annual Incentive	—	2,941,849	—	2,941,849	2,941,849	2,941,849
Benefits Continuation	—	31,099	—	—	3,966	—
Unvested Stock Options	—	—	—	—	27,492,753	—
Unvested Stock Awards	—	95,130	—	95,130	95,130	—
Disability Benefits	—	—	—	3,480,000	—	—
Life Insurance Benefits	—	—	—	—	4,944,000	—
Total	—	6,207,578	—	6,516,979	35,477,698	2,941,849
William T. Giles (2)						
Severance Pay	—	1,357,076	—	—	—	—
Annual Incentive	—	1,096,790	—	1,096,790	1,096,790	1,096,790
Benefits Continuation	—	29,293	—	—	3,649	—
Unvested Stock Options	—	—	—	—	7,181,634	—
Unvested Stock Awards	—	32,106	—	32,106	32,106	—
Disability Benefits	—	—	—	1,440,000	—	—
Life Insurance Benefits	—	—	—	—	2,388,000	—
Total	—	2,515,265	—	2,568,896	10,702,179	1,096,790
Thomas B. Newbern (2)						
Severance Pay	—	1,152,308	—	—	—	—
Annual Incentive	—	776,080	—	776,080	776,080	776,080
Benefits Continuation	—	33,597	—	—	3,649	—
Unvested Stock Options	—	—	—	—	6,610,724	—
Disability Benefits	—	—	—	2,490,000	—	—
Life Insurance Benefits	—	—	—	—	2,166,000	—
Total	—	1,961,985	—	3,266,080	9,556,453	776,080
Mark A. Finestone (2)						
Severance Pay	—	1,137,076	—	—	—	—
Annual Incentive	—	765,823	—	765,823	765,823	765,823
Benefits Continuation	—	19,608	—	—	1,896	—
Unvested Stock Options	—	—	—	—	6,454,828	—
Unvested Stock Awards	—	32,106	—	32,106	32,106	—
Disability Benefits	—	—	—	1,950,000	—	—
Life Insurance Benefits	—	—	—	—	1,992,000	—
Total	—	1,954,613	—	2,747,929	9,246,653	765,823
Philip B. Daniele (2)						
Severance Pay	—	767,230	—	—	—	—
Annual Incentive	—	413,385	—	413,385	413,385	413,385
Benefits Continuation	—	18,162	—	—	3,966	—
Unvested Stock Options	—	—	—	—	5,018,541	—
Unvested Stock Awards	—	4,756	—	4,756	4,756	—
Disability Benefits	—	—	—	4,860,000	—	—
Life Insurance Benefits	—	—	—	—	1,000,000	—
Total	—	1,203,533	—	5,278,141	6,440,648	413,385

(1) Severance Pay, Annual Incentive and Benefits Continuation amounts shown under the “Involuntary Termination Not for Cause” column reflect the terms of Mr. Rhodes’ Agreement described above. Unvested stock options are those outstanding, unvested stock options which will vest immediately upon the option holder’s death. Unvested stock awards are shares under the Executive Stock Purchase Plan, which vest upon involuntary termination not for cause, disability, or death. Annual Incentive is shown at actual annual incentive

amount for the 2020 fiscal year; it would be prorated if the triggering event occurred other than on the last day of the fiscal year. Disability Benefits are benefits under a Company-paid individual long-term disability insurance policy. Life Insurance Benefits are benefits under a Company-paid life insurance policy.

- (2) Severance Pay, Annual Incentive and Benefits Continuation amounts shown under the “Involuntary Termination Not for Cause” column reflect payments to Mr. Giles, Mr. Finestone, Mr. Newbern and Mr. Daniele under the Severance and Non-Compete Agreements described above. Annual Incentive is shown at actual annual incentive amount for the 2020 fiscal year; it would be prorated if the triggering event occurred other than on the last day of the fiscal year. Benefits Continuation refers to medical, dental and vision benefits. Unvested stock options are those outstanding, unvested stock options which will vest immediately upon the option holder’s death. Unvested stock awards are share options under the Executive Stock Purchase Plan, which vest upon involuntary termination not for cause, disability, or death. Disability Benefits are benefits under Company-paid individual long-term disability insurance policy. Life Insurance Benefits are benefits under a Company-paid life insurance policy.

Ratio of the Annual Total Compensation of the Median-Paid Employee to the CEO

Pursuant to Item 402(u) of Regulation S-K, we have conducted an analysis of our global employee population in order to estimate and disclose the total compensation paid to our median paid employee, not including our CEO, as well as the ratio of the total compensation paid to said median employee as compared to the total compensation paid to our CEO. The analysis, which is described below, yielded the following results:

Total compensation for the median employee for fiscal 2020 (not including the CEO):	\$ 26,759
Total compensation for the CEO* :	\$ 11,531,361
Resulting CEO-to-median employee pay ratio:	431:1

* See Summary Compensation Table for details

Measurement date. We identified the median employee from our population as of June 30, 2020.

Compensation measure. The regulations require us to use a “consistently applied compensation measure”, or CACM, to identify the median employee. Based on an analysis of the AutoZone workforce, we determined that fixed or guaranteed compensation, including overtime and earnings for paid time off, plus variable compensation (e.g., bonus or commission pay) closely approximate the annual total direct compensation of our employees. We converted the earnings paid in local (non-U.S.) currency to U.S. dollars using published exchange rates as of June 30, 2020. We did not apply pay adjustments allowed by the rules in order to ensure a conservative estimate (i.e., it is unlikely that the estimate could have been higher than that calculated).

Excluded population. We excluded from the analysis AutoZone employees in Brazil, Canada, China, Germany and the United Kingdom, pursuant to the *de minimus* exemption under the rules. The 571 employees in these locations represent less than 5% of the total employee population of 96,690 as of June 30, 2020.

Related Party Transactions

Our Board has adopted a Related Person Transaction Policy (the “Policy”) which requires the Audit Committee of the Board to review and approve or ratify all Related Person Transactions. The Audit Committee is to consider all of the available relevant facts and circumstances of each transaction, including but not limited to the benefits to the Company; the impact on a director’s independence in the event the Related Person is a director, an immediate family member of a director or an entity in which a director is a partner, shareholder or executive officer; the availability of other sources for comparable products or services; the terms of the transaction; and the terms available to unrelated third parties generally. Related Person Transactions must also comply with the policies and procedures specified in our Code of Conduct and Corporate Governance Principles, as described below.

The Policy also requires disclosure of all Related Person Transactions that are required to be disclosed in AutoZone’s filings with the Securities and Exchange Commission, in accordance with all applicable legal and regulatory requirements.

A “Related Person Transaction” is defined in the Policy as a transaction, arrangement or relationship (or any series of similar transactions, arrangements or relationships) that occurred since the beginning of the Company’s most recent fiscal year in which the Company (including any of its subsidiaries) was, is or will be a participant and the amount involved exceeds \$120,000 and in which any Related Person had, has or will have a direct or indirect material interest. “Related Persons” include a director or executive officer of the Company, a nominee to become a director of the Company, any person known to be the beneficial owner of more than 5% of any class of the Company’s voting securities, any immediate family member of any of the foregoing persons, and any firm, corporation or other entity in which any of the foregoing persons is employed or is a partner or principal or in a similar position or in which such person has a 5% or greater beneficial ownership interest.

Our Board has adopted a Code of Conduct (the “Code of Conduct”) that applies to the Company’s directors, officers and employees. The Code of Conduct prohibits directors and executive officers from engaging in activities that create conflicts of interest, taking corporate opportunities for personal use or competing with the Company, among other things. Our Board has also adopted a Code of Ethical Conduct for Financial Executives (the “Financial Code of Conduct”) that applies to the Company’s officers and employees who hold the position of principal executive officer, principal financial officer, principal accounting officer or controller as well as to the Company’s officers and employees who perform similar functions (“Financial Executives”). The Financial Code of Conduct requires the Financial Executives to, among other things, report any actual or apparent conflicts of interest between personal or professional relationships involving the Company’s management or any other Company employee with a role in financial reporting disclosures or internal controls. Additionally, our Corporate Governance Principles require each director who is faced with an issue that presents, or may give the appearance of presenting, a conflict of interest to disclose that fact to the Chairman of the Board and the Secretary, and to refrain from participating in discussions or votes on such issue unless a majority of the Board determines, after consultation with counsel, that no conflict of interest exists as to such matter.

We have concluded there are no material Related Party Transactions or agreements that were entered into during the fiscal year ended August 29, 2020, and through the date of this proxy statement requiring disclosure under these policies.

Equity Compensation Plans

The following table sets forth certain information as of August 29, 2020, with respect to compensation plans under which shares of AutoZone common stock may be issued.

<u>Plan Category</u>	<u>Number of securities to be issued upon exercise of outstanding options, warrants and rights</u>	<u>Weighted-average exercise price of outstanding options, warrants and rights</u>	<u>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in the first column)</u>
Equity compensation plans approved by security holders (1)	1,379,461	\$ 677.17	725,895
Equity compensation plans not approved by security holders (2)	438	74.21	—
Total	1,379,899	\$ 676.98	725,895

- (1) Consists of the Amended 2011 Equity Plan, the Employee Stock Purchase Plan, the Executive Stock Purchase Plan and the 2003 Director Compensation Plan. Column (a) consists of shares of common stock issuable upon exercise of outstanding options and upon vesting and payment of outstanding restricted stock units, stock appreciation rights and deferred shares under each of the foregoing plans. Restricted stock units and deferred shares are settled for shares of common stock on a one-for-one basis and have no exercise price. Accordingly, they have been excluded for purposes of computing the weighted-average exercise price in column (b). Column (c) consists of shares available for issuance pursuant to the Amended 2011 Equity Plan, the Employee Stock Purchase Plan and the Executive Stock Purchase Plan. As described above, following the stockholder approval of the AutoZone, Inc. 2020 Omnibus Incentive Award Plan, no further grants may be made under Amended 2011 Equity Plan.
- (2) Consists of the AutoZone, Inc. Second Amended and Restated Director Compensation Plan, which was approved by the Board but was not submitted for approval by the stockholders as then permitted under the rules of the New York Stock Exchange. This plan was terminated in December 2002. Any outstanding awards consist of stock appreciation rights that may be converted into shares immediately upon termination as a director.

Delinquent Section 16(a) Reports

Securities laws require our executive officers, directors, and beneficial owners of more than ten percent of our common stock to file insider trading reports (Forms 3, 4, and 5) with the Securities and Exchange Commission and the New York Stock Exchange relating to the number of shares of common stock that they own, and any changes in their ownership. To our knowledge, based solely on our records and certain written representations received from our executive officers and directors, during the fiscal year ended August 29, 2020, all persons related to AutoZone that are required to file these insider trading reports have filed them in a timely manner, except for a Form 4 filed on June 1, 2020 for each of Kristen C. Wright and Mitch Major relating to two and four transactions, respectively, each dated May 27, 2020, and a Form 5 filed on October 21, 2020, for William C. Rhodes, III, relating to two transactions dated June 12, 2020 arising out of the settlement of an estate. Copies of the insider trading reports can be found on the AutoZone corporate website at Investors.AutoZone.com.

STOCKHOLDER PROPOSALS FOR 2021 ANNUAL MEETING

Stockholder proposals for inclusion in the Proxy Statement for the Annual Meeting in 2021 must be received by June 28, 2021. In accordance with our By-Laws, stockholder proposals received after August 18, 2021, but before September 17, 2021, may be presented at the Annual Meeting, but will not be included in the Proxy Statement. Any stockholder proposal received on or after September 17, 2021, will not be eligible to be presented for a vote to the stockholders in accordance with our By-Laws. Any proposals must be mailed to AutoZone, Inc., Attention: Secretary, Post Office Box 2198, Dept. 8074, Memphis, Tennessee 38101-2198.

ANNUAL REPORT

A copy of our Annual Report is being mailed with this Proxy Statement to all stockholders of record.

By order of the Board of Directors,

/s/ Kristen C. Wright

Kristen C. Wright
Secretary

Memphis, Tennessee
October 26, 2020

**AUTOZONE, INC.
2020 OMNIBUS INCENTIVE AWARD PLAN**

ARTICLE 1.

PURPOSE

The purpose of the AutoZone, Inc. 2020 Omnibus Incentive Award Plan (as may be amended from time to time, the “Plan”) is to promote the success and enhance the value of AutoZone, Inc., a Nevada corporation, (the “Company”) by linking the individual interests of the members of the Board and Employees to those of the Company’s stockholders and by providing such individuals with an incentive for outstanding performance to generate superior returns to the Company’s stockholders. The Plan is further intended to provide flexibility to the Company in its ability to motivate, attract, and retain the services of members of the Board and Employees upon whose judgment, interest, and special effort the successful conduct of the Company’s operation is largely dependent.

ARTICLE 2.

DEFINITIONS AND CONSTRUCTION

Wherever the following terms are used in the Plan they shall have the meanings specified below, unless the context clearly indicates otherwise. The singular pronoun shall include the plural where the context so indicates.

2.1 “Administrator” shall mean the entity that conducts the general administration of the Plan as provided in Article 12 hereof. With reference to the duties of the Committee under the Plan which have been delegated to one or more persons pursuant to Section 12.6 hereof, or which the Board has assumed, the term “Administrator” shall refer to such person(s) unless the Committee or the Board has revoked such delegation or the Board has terminated the assumption of such duties.

2.2 “Affiliate” shall mean any Parent or Subsidiary.

2.3 “Applicable Accounting Standards” shall mean Generally Accepted Accounting Principles in the United States, International Financial Reporting Standards or such other accounting principles or standards as may apply to the Company’s financial statements under United States federal securities laws from time to time.

2.4 “Award” shall mean an Option, a Restricted Stock award, a Restricted Stock Unit award, a Dividend Equivalent award, a Deferred Stock award, a Stock Payment award, a Stock Appreciation Right, an Other Incentive Award, Cash-Based Award, or a Performance-Based Award, which may be awarded or granted under the Plan.

2.5 “Award Agreement” shall mean any written notice, agreement, contract or other instrument or document evidencing an Award, including through electronic medium, which shall contain such terms and conditions with respect to an Award as the Administrator shall determine, consistent with the Plan.

2.6 “Board” shall mean the Board of Directors of the Company.

2.7 “Cash-Based Award” means an award entitling the recipient to receive a cash-denominated payment.

2.8 “Cause” means, unless otherwise defined in an applicable Award Agreement or other contractual agreement between the Participant and the Company, the willful engagement by Participant in conduct which is demonstrably or materially injurious to the Company, monetarily or otherwise. For this purpose, no act or failure to

act by the Participant shall be considered “willful” unless done, or omitted to be done, by the Participant not in good faith and without reasonable belief that his action or omission was in the best interest of the Company.

2.9 “Change in Control” shall mean the occurrence of any of the following events:

(a) The consummation of a reorganization, merger, consolidation, or other business combination pursuant to which the holders of the Company’s outstanding voting power and outstanding stock immediately prior to such transaction do not (either directly or indirectly) own a majority of the outstanding voting power and outstanding stock or other equity interests of the resulting or successor entity (or its ultimate parent, if applicable) immediately upon completion of such transaction;

(b) The sale, transfer, exchange or other disposition of all or substantially all of the assets of the Company in complete liquidation or dissolution of the Company;

(c) During any period of twelve (12) months, individuals who at the beginning of such period constituted the Board (together with any new directors whose election by such Board or whose nomination for election by the shareholders of the Company was approved by a vote of a majority of the directors of the Company, then still in office, who were either directors on the Effective Date or whose election or nomination for election was previously so approved, excluding any new directors if such individual’s election or appointment to the Board occurs as a result of an actual or threatened election contest as described in Rule 14a-12(c) of the Exchange Act with respect to the election or removal of directors or other actual or threatened solicitation of proxies or consents by or on behalf of a person other than the Board) cease for any reason to constitute a majority of the Board then in office; or

(d) Any “person” (as such term is used in Section 13(d) and 14(d) of the Exchange Act) shall have acquired or obtained “beneficial ownership” (as determined for purposes of Rule 13d-3 of the Exchange Act), directly or indirectly, of securities of the Company representing more than twenty five percent (25%) of the total voting power represented by the Company’s then-outstanding voting securities.

Notwithstanding the foregoing, if a Change in Control constitutes a payment event with respect to any Award which provides for the deferral of compensation that is subject to Section 409A of the Code, to the extent required to avoid the imposition of additional taxes under Section 409A of the Code, the transaction or event described in subsection (a), (b) or (c) with respect to such Award shall only constitute a Change in Control for purposes of the payment timing of such Award if such transaction also constitutes a “change in control event,” as defined in Treasury Regulation §1.409A-3(i)(5).

Consistent with the terms of this Section 2.9, the Administrator shall have full and final authority to determine conclusively whether a Change in Control of the Company has occurred pursuant to the above definition, the date of the occurrence of such Change in Control and any incidental matters relating thereto. A transaction the principal purpose of which is to change the state in which the Company is incorporated, form a holding company or effect a similar reorganization as to form whereupon this Plan and all Awards are assumed by the successor entity shall not be deemed to be a Change in Control.

2.10 “Code” shall mean the Internal Revenue Code of 1986, as amended from time to time, together with the regulations and official guidance promulgated thereunder, whether issued prior or subsequent to the grant of any Award.

2.11 “Committee” shall mean the Compensation Committee of the Board, or another committee or subcommittee of the Board described in Article 12 hereof.

2.12 “Common Stock” shall mean the common stock of the Company, par value \$0.01 per share.

2.13 “Company” shall mean AutoZone, Inc., a Nevada corporation.

2.14 “Deferred Stock” shall mean a right to receive Shares awarded under Section 9.3 hereof.

- 2.15 “Director” shall mean a member of the Board, as constituted from time to time.
- 2.16 “Disability” means, unless otherwise defined in an applicable Award Agreement or other contractual agreement between the Participant and the Company, a determination by the Company that the Participant is “totally disabled,” within its meaning in the Company’s long term disability plan as in effect from time to time.
- 2.17 “Dividend Equivalent” shall mean a right to receive the equivalent value (in cash or Shares) of dividends paid on Shares, awarded under Section 9.1 hereof.
- 2.18 “DRO” shall mean a “domestic relations order” as defined by the Code or Title I of the Employee Retirement Income Security Act of 1974, as amended from time to time, or the rules thereunder.
- 2.19 “Effective Date” shall mean the date the Plan is approved by the Company’s stockholders. Notwithstanding the forgoing, the Prior Plan shall remain in effect on its existing terms unless and until the Plan is approved by the Company’s stockholders.
- 2.20 “Eligible Individual” shall mean any person who is an Employee or a Non-Employee Director, as determined by the Administrator.
- 2.21 “Employee” shall mean any officer or other employee (as determined in accordance with Section 3401(c) of the Code) of the Company or of any Affiliate.
- 2.22 “Equity Restructuring” shall mean a nonreciprocal transaction between the Company and its stockholders, such as a stock dividend, stock split, spin-off, rights offering or recapitalization through a large, nonrecurring cash dividend, that affects the number or kind of shares of Common Stock (or other securities of the Company) or the share price of Common Stock (or other securities) and causes a change in the per share value of the Common Stock underlying outstanding Awards.
- 2.23 “Exchange Act” shall mean the Securities Exchange Act of 1934, as amended from time to time.
- 2.24 “Fair Market Value” shall mean, as of any given date, the value of a Share determined as follows:
- (a) If the Common Stock is (i) listed on any established securities exchange (such as the New York Stock Exchange, the NASDAQ Global Market and the NASDAQ Global Select Market), (ii) listed on any national market system or (iii) listed, quoted or traded on any automated quotation system, its Fair Market Value shall be the closing sales price for a share of Common Stock as quoted on such exchange or system for such date or, if there is no closing sales price for a share of Common Stock on the date in question, the closing sales price for a share of Common Stock on the last preceding date for which such quotation exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable;
- (b) If the Common Stock is not listed on an established securities exchange, national market system or automated quotation system, but the Common Stock is regularly quoted by a recognized securities dealer, its Fair Market Value shall be the mean of the high bid and low asked prices for such date or, if there are no high bid and low asked prices for a share of Common Stock on such date, the high bid and low asked prices for a share of Common Stock on the last preceding date for which such information exists, as reported in *The Wall Street Journal* or such other source as the Administrator deems reliable; or
- (c) If the Common Stock is neither listed on an established securities exchange, national market system or automated quotation system nor regularly quoted by a recognized securities dealer, its Fair Market Value shall be established by the Administrator in good faith in a manner that is consistent with applicable tax and accounting rules.
- 2.25 “Full Value Award” shall mean any Award other than (i) an Option, (ii) a Stock Appreciation Right, (iii) a Cash-Based Award or (iv) any other Award for which a Participant pays the intrinsic value existing as of the date of grant (whether directly or by forgoing a right to receive a payment from the Company or any Affiliate).

2.26 “Good Reason” means, unless otherwise defined in an applicable Award Agreement or other contractual agreement between the Participant and the Company, (i) a material diminution in the Participant’s base salary except for across-the-board salary reductions similarly affecting all or substantially all similarly situated employees of the Company, (ii) a material diminution in the Participant’s duties and responsibilities, or (iii) a change of more than 50 miles in the geographic location at which the Participant provides services to the Company, so long as the Participant provides at least 90 days’ notice to the Company following the initial occurrence of any such event and the Company fails to cure such event within 30 days thereafter.

2.27 “Greater Than 10% Stockholder” shall mean an individual then-owning (within the meaning of Section 424(d) of the Code) more than 10% of the total combined voting power of all classes of stock of the Company or any “parent corporation” or “subsidiary corporation” (as defined in Sections 424(e) and 424(f) of the Code, respectively).

2.28 “Incentive Stock Option” shall mean an Option that is intended to qualify as an incentive stock option and conforms to the applicable provisions of Section 422 of the Code.

2.29 “Non-Employee Director” shall mean a Director of the Company who is not an Employee.

2.30 “Non-Qualified Stock Option” shall mean an Option that is not an Incentive Stock Option or which is designated as an Incentive Stock Option but does not meet the applicable requirements of Section 422 of the Code.

2.31 “Option” shall mean a right to purchase Shares at a specified exercise price, granted under Article 6 hereof. An Option shall be either a Non-Qualified Stock Option or an Incentive Stock Option; provided, however, that Options granted to Non-Employee Directors shall only be Non-Qualified Stock Options.

2.32 “Other Incentive Award” shall mean an Award denominated in, linked to or derived from Shares or value metrics related to Shares, granted pursuant to Section 9.6 hereof.

2.33 “Parent” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities ending with the Company if each of the entities other than the Company beneficially owns, at the time of the determination, securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

2.34 “Participant” shall mean a person who has been granted an Award.

2.35 “Performance-Based Awards” shall have the meaning assigned to in Section 5.1.

2.36 “Performance Criteria” means the performance objective or objectives established pursuant to this Plan for Participants who have received grants of Performance-Based Awards. The potential Performance Criteria that may be used for Awards under this Plan may be any objective, metric, or goal established by the Committee. If the Committee determines that a change in the business, operations, corporate structure or capital structure of the Company, the manner in which it conducts its business, the economy or any other events or circumstances deemed relevant by the Committee render the Performance Criteria unsuitable, including but not limited to force majeure events such as Acts of God, acts of terrorism, natural disasters, epidemics or pandemics, the Committee may in its discretion modify such Performance Criteria or the acceptable levels of achievement, in whole or in part, as the Committee deems appropriate and equitable.

2.37 “Performance Period” shall mean one or more periods of time, which may be of varying and overlapping durations, as the Administrator may select, over which the attainment of one or more Performance Criteria will be measured for the purpose of determining a Participant’s right to, and the payment of, a Performance-Based Award.

2.38 “Permitted Transferee” shall mean, with respect to a Participant, any “family member” of the Participant, as defined under the instructions to use of the Form S-8 Registration Statement under the Securities Act,

or any other transferee specifically approved by the Administrator after taking into account any state, federal, local or foreign tax and securities laws applicable to transferable Awards. In addition, the Administrator, in its sole discretion, may determine to permit a Participant to transfer Incentive Stock Options to a trust that constitutes a Permitted Transferee if, under Section 671 of the Code and applicable state law, the Participant is considered the sole beneficial owner of the Incentive Stock Option while it is held in the trust.

2.39 “Plan” shall mean this AutoZone, Inc. 2020 Omnibus Incentive Award Plan, as it may be amended from time to time.

2.40 “Prior Plan” shall mean the Amended and Restated AutoZone, Inc. 2011 Equity Incentive Award Plan, as may be amended from time to time.

2.41 “Program” shall mean any program adopted by the Administrator pursuant to the Plan containing the terms and conditions intended to govern a specified type of Award granted under the Plan and pursuant to which such type of Award may be granted under the Plan.

2.42 “Restricted Stock” shall mean Common Stock awarded under the Plan hereof that is subject to certain restrictions and may be subject to risk of forfeiture or repurchase.

2.43 “Restricted Stock Unit” shall mean a contractual right awarded under the Plan to receive in the future a Share or the cash value of a Share.

2.44 “Securities Act” shall mean the Securities Act of 1933, as amended.

2.45 “Share Limit” shall have the meaning provided in Section 3.1(a) hereof.

2.46 “Shares” shall mean shares of Common Stock.

2.47 “Stock Appreciation Right” or “SAR” shall mean a stock appreciation right granted under the Plan.

2.48 “Stock Payment” shall mean a payment in the form of Shares awarded under Section 9.2 hereof.

2.49 “Stockholder Approval Date” shall mean the date on which the Company’s stockholders approve the Plan.

2.50 “Subsidiary” shall mean any entity (other than the Company), whether domestic or foreign, in an unbroken chain of entities beginning with the Company if each of the entities other than the last entity in the unbroken chain beneficially owns, at the time of the determination, securities or interests representing more than fifty percent (50%) of the total combined voting power of all classes of securities or interests in one of the other entities in such chain.

2.51 “Substitute Award” shall mean an Award granted under the Plan in connection with a corporate transaction, such as a merger, combination, consolidation or acquisition of property or stock, in any case, upon the assumption of, or in substitution for, an outstanding equity award previously granted by a company or other entity; provided, however, that in no event shall the term “Substitute Award” be construed to refer to an award made in connection with the cancellation and repricing of an Option or Stock Appreciation Right.

2.52 “Termination of Service” shall mean

(a) As to a Non-Employee Director, the time when a Participant who is a Non-Employee Director ceases to be a Director for any reason, including, without limitation, a termination by resignation, failure to be elected, death or retirement, but excluding terminations where the Participant simultaneously commences or remains in employment or service with the Company or any Affiliate.

(b) As to an Employee, the time when the employee-employer relationship between a Participant and the Company and its Affiliates is terminated for any reason, including, without limitation, a termination by resignation, discharge, death, disability or retirement; but excluding terminations where the Participant simultaneously commences or remains in employment or service with the Company or any Affiliate.

The Administrator, in its sole discretion, shall determine the effect of all matters and questions relating to Terminations of Service, including, without limitation, the question of whether a Termination of Service has occurred, whether any Termination of Service resulted from a discharge for Cause and all questions of whether particular leaves of absence constitute a Termination of Service; provided, however, that, with respect to Incentive Stock Options, unless the Administrator otherwise provides in the terms of any Program, Award Agreement or otherwise, a leave of absence or change in the employee-employer relationship shall constitute a Termination of Service only if, and to the extent that, such leave of absence or change in status interrupts employment for the purposes of Section 422(a)(2) of the Code. For purposes of the Plan, a Participant's employee-employer relationship shall be deemed to be terminated in the event that the Affiliate employing or contracting with such Participant ceases to remain an Affiliate following any merger, sale of stock or other corporate transaction or event (including, without limitation, a spin-off).

ARTICLE 3.

SHARES SUBJECT TO THE PLAN

3.1 Number of Shares. Subject to Sections 3, 13.1 and 13.2 hereof, the aggregate number of Shares which may be issued or transferred pursuant to Awards under the Plan shall be equal to 1,400,000 (the "Share Limit"). Following the Effective Date, no further grants shall be made under the Prior Plan. Any awards under the Prior Plan shall continue to be subject to the terms and conditions of the Prior Plan. The number of Shares subject to the Share Limit is the limit on Shares that may be issued as Incentive Stock Options. Notwithstanding the foregoing, to the extent permitted under applicable law and applicable stock exchange rules, Awards that provide for the delivery of Shares subsequent to the applicable grant date may be granted in excess of the Share Limit if such Awards provide for the forfeiture or cash settlement of such Awards to the extent that insufficient Shares remain under the Share Limit at the time that Shares would otherwise be issued in respect of such Award.

(a) The Share Limit shall be reduced by two (2) Shares for each Share delivered in settlement of an Award that is a Full Value Award and by one (1) Share for each Share delivered in settlement of an that is not a Full Value Award.

(b) Awards under the Plan that expire unexercised or are forfeited, settled for cash, canceled or otherwise terminated without the delivery of Shares (in each case in whole or in part), shall immediately become available for new Awards to the extent of such cancellation, forfeiture, expiration, termination or cash settlement. Any Share that again becomes available for grant pursuant to the preceding sentence shall be added back as one (1) Share if such Share was subject to an Option or SAR, and as two (2) Shares if such Share was subject to the grant of a Full Value Award.

(c) Notwithstanding anything to the contrary contained herein, the following Shares shall not be added to the Share Limit: (i) Shares tendered by a Participant or withheld by the Company in payment of the exercise price of an Option; (ii) Shares tendered by a Participant or withheld by the Company to satisfy any tax withholding obligation with respect to an Award; (iii) Shares subject to a Stock Appreciation Right that are not issued in connection with the stock settlement of the Stock Appreciation Right on exercise thereof; and (iv) Shares purchased on the open market with the cash proceeds from the exercise of Options. Any Shares repurchased by the Company under Section 8.4 at the same price paid by the Participant so that such shares are returned to the Company will again be available for Awards. The payment of Dividend Equivalents in cash in conjunction with any outstanding Awards shall not be counted against the shares available for issuance under the Plan. Notwithstanding the provisions of this Section 3.1(c), no Shares may again be optioned, granted or awarded if such action would cause an Incentive Stock Option to fail to qualify as an incentive stock option under Section 422 of the Code.

(d) Substitute Awards shall not reduce the Shares authorized for grant under the Plan. Additionally, in the event that a company acquired by the Company or any Affiliate or with which the Company or

any Affiliate combines has shares available under a pre-existing plan approved by stockholders and not adopted in contemplation of such acquisition or combination, the shares available for grant pursuant to the terms of such pre-existing plan (as adjusted, to the extent appropriate, using the exchange ratio or other adjustment or valuation ratio or formula used in such acquisition or combination to determine the consideration payable to the holders of common stock of the entities party to such acquisition or combination) may be used for Awards under the Plan in the Board's discretion at the time of such acquisition or combination and shall not reduce the Shares authorized for grant under the Plan; provided, however, that Awards using such available shares shall not be made after the date awards or grants could have been made under the terms of the pre-existing plan, absent the acquisition or combination, and shall only be made to individuals who were not employed by or providing services to the Company or its Affiliates immediately prior to such acquisition or combination.

3.2 Stock Distributed. Any Shares distributed pursuant to an Award may consist, in whole or in part, of authorized and unissued Common Stock, treasury Common Stock or Common Stock purchased on the open market.

ARTICLE 4.

GRANTING OF AWARDS

4.1 Participation. The Administrator may, from time to time, select from among all Eligible Individuals, those to whom one or more Awards shall be granted and shall determine the nature and amount of each Award, which shall not be inconsistent with the requirements of the Plan. No Eligible Individual shall have any right to be granted an Award pursuant to the Plan.

4.2 Award Agreement. Each Award shall be evidenced by an Award Agreement stating the terms and conditions applicable to such Award, consistent with the requirements of the Plan and any applicable Program.

4.3 Limitations Applicable to Section 16 Persons. Notwithstanding anything contained herein to the contrary, with respect to any Award granted or awarded to any individual who is then subject to Section 16 of the Exchange Act, the Plan, any applicable Program and the applicable Award Agreement shall be subject to any additional limitations set forth in any applicable exemptive rule under Section 16 of the Exchange Act (including Rule 16b-3 of the Exchange Act and any amendments thereto) that are requirements for the application of such exemptive rule, and such additional limitations shall be deemed to be incorporated by reference into such Award to the extent permitted by applicable law.

4.4 At-Will Service. Nothing in the Plan or in any Program or Award Agreement hereunder shall confer upon any Participant any right to continue as an Employee or a Director of the Company or any Affiliate, or shall interfere with or restrict in any way the rights of the Company and any Affiliate, which rights are hereby expressly reserved, to discharge any Participant at any time for any reason whatsoever, with or without Cause, and with or without notice, or to terminate or change all other terms and conditions of service or engagement, except to the extent expressly provided otherwise in a written agreement between the Participant and the Company or any Affiliate.

4.5 Foreign Participants. Notwithstanding any provision of the Plan to the contrary, in order to comply with the laws in other countries in which the Company and its Affiliates operate or have Employees or Non-Employee Directors, or in order to comply with the requirements of any foreign securities exchange, the Administrator, in its sole discretion, shall have the power and authority to: (a) determine which Affiliates shall be covered by the Plan; (b) determine which Eligible Individuals outside the United States are eligible to participate in the Plan; (c) modify the terms and conditions of any Award granted to Eligible Individuals outside the United States to comply with applicable foreign laws or listing requirements of any such foreign securities exchange; (d) establish subplans and modify exercise procedures and other terms and procedures, to the extent such actions may be necessary or advisable (any such subplans and/or modifications shall be attached to the Plan as appendices); provided, however, that no such subplans and/or modifications shall increase the Share Limit; and (e) take any action, before or after an Award is made, that it deems advisable to obtain approval or comply with any necessary local governmental regulatory exemptions or approvals or listing requirements of any such foreign securities exchange. Notwithstanding the foregoing, the Administrator may not take any actions hereunder, and no Awards shall be granted, that would violate

the Code, the Exchange Act, the Securities Act, the rules of the securities exchange or automated quotation system on which the Shares are listed, quoted or traded or any other applicable law.

4.6 Stand-Alone and Tandem Awards. Awards granted pursuant to the Plan may, in the sole discretion of the Administrator, be granted either alone, in addition to, or in tandem with, any other Award granted pursuant to the Plan. Awards granted in addition to or in tandem with other Awards may be granted either at the same time as or at a different time from the grant of such other Awards.

4.7 Maximum Awards to Non-Employee Directors. Notwithstanding anything to the contrary in this Plan, the value of all Awards awarded under this Plan and all other cash compensation paid by the Company to any Non-Employee Director in any calendar year shall not exceed \$750,000. For the purpose of this limitation, the value of any Award shall be its grant date fair value, as determined in accordance with ASC 718 or successor provision but excluding the impact of estimated forfeitures related to service-based vesting provisions. The Board may make exceptions to the applicable limit in this Section 4.7 for individual Non-Employee Directors in extraordinary circumstances, such as where any such individual Non-Employee Directors are serving on a special litigation or transactions committee of the Board, as the Board may determine in its discretion, provided that the Non-Employee Director receiving such additional compensation may not participate in the decision to award such compensation involving such Non-Employee Director.

ARTICLE 5.

GRANTING OF PERFORMANCE-BASED AWARDS

5.1 Granting of Performance-Based Awards to Eligible Individuals. The Committee, in its sole discretion, may make Awards which are denominated in Shares or cash subject to Performance Criteria (such grants, “Performance-Based Awards”). Such Performance-Based Awards shall be in such form, and dependent on such conditions, as the Committee shall determine, including, without limitation, the right to receive, or vest with respect to, one or more Shares or the cash value of the Award upon the completion of a specified period of service, the occurrence of an event and/or the attainment of Performance Criteria. Performance-Based Awards may be granted alone or in addition to any other grants granted under the Plan. A Participant’s Performance-Based Award shall be determined based on the attainment of Performance Criteria approved by the Committee for a Performance Period established by the Committee while the outcome for that Performance Period is substantially uncertain.

5.2 Applicability. The grant of an Award to an Eligible Individual for a particular Performance Period shall not require the grant of an Award to such Eligible Individual in any subsequent Performance Period and the grant of an Award to any one Eligible Individual shall not require the grant of an Award to any other Eligible Individual in such period or in any other period.

5.3 Payment of Performance-Based Awards. Unless otherwise provided herein or in the applicable Program or Award Agreement, the holder of a Performance-Based Award must be employed by the Company or an Affiliate throughout the applicable Performance Period. The Committee shall determine whether, with respect to a Performance Period, the applicable Performance Criteria have been met with respect to a given Participant. The amount of the Performance-Based Award determined by the Committee for a Performance Period shall be paid to the Participant at such time as determined by the Committee in its sole discretion after the end of such Performance Period; provided, however, that a Participant may, if and to the extent permitted by the Committee and consistent with the provisions of Section 409A of the Code, to the extent applicable, elect to defer payment of a Performance-Based Award.

ARTICLE 6.

GRANTING OF OPTIONS

6.1 Granting of Options to Eligible Individuals. The Administrator is authorized to grant Options to Eligible Individuals from time to time, in its sole discretion, on such terms and conditions as it may determine which shall not be inconsistent with the Plan.

6.2 Qualification of Incentive Stock Options. No Incentive Stock Option shall be granted to any person who is not an Employee of the Company or any “parent corporation” or “subsidiary corporation” of the Company (as defined in Sections 424(e) and 424(f) of the Code, respectively). No person who qualifies as a Greater Than 10% Stockholder may be granted an Incentive Stock Option unless such Incentive Stock Option conforms to the applicable provisions of Section 422 of the Code. Any Incentive Stock Option granted under the Plan may be modified by the Administrator, with the consent of the Participant, to disqualify such Option from treatment as an “incentive stock option” under Section 422 of the Code. To the extent that the aggregate fair market value of stock with respect to which “incentive stock options” (within the meaning of Section 422 of the Code, but without regard to Section 422(d) of the Code) are exercisable for the first time by a Participant during any calendar year under the Plan and all other plans of the Company and any Affiliate corporation thereof exceeds \$100,000, the Options shall be treated as Non-Qualified Stock Options to the extent required by Section 422 of the Code. The rule set forth in the preceding sentence shall be applied by taking Options and other “incentive stock options” into account in the order in which they were granted and the Fair Market Value of stock shall be determined as of the time the respective options were granted. In addition, to the extent that any Options otherwise fail to qualify as Incentive Stock Options, such Options shall be treated as Nonqualified Stock Options.

6.3 Option Exercise Price. Except as provided in Section 6.6 hereof, the exercise price per Share subject to each Option shall be set by the Administrator, but shall not be less than 100% of the Fair Market Value of a Share on the date the Option is granted (or, as to Incentive Stock Options, on the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code). In addition, in the case of Incentive Stock Options granted to a Greater Than 10% Stockholder, such price shall not be less than 110% of the Fair Market Value of a Share on the date the Option is granted (or the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code).

6.4 Option Term. The term of each Option shall be set by the Administrator in its sole discretion; provided, however, that the term (a) with respect to Incentive Stock Options shall not be more than ten (10) years from the date of grant, or five (5) years from the date an Incentive Stock Option is granted to a Greater Than 10% Stockholder and (b) with respect to Non-Qualified Stock Options shall not be more than ten (10) years from the date of grant. The Administrator shall determine the time period, including the time period following a Termination of Service, during which the Participant has the right to exercise vested Options, which time period may not extend beyond the stated term of the Option. Except as limited by the requirements of Section 409A or Section 422 of the Code, the Administrator may extend the term of any outstanding Option, and may extend the time period during which vested Options may be exercised, in connection with any Termination of Service of the Participant, and, subject to Section 13.1 hereof, may amend any other term or condition of such Option relating to such a Termination of Service.

6.5 Option Vesting.

(a) The terms and conditions pursuant to which an Option vests in the Participant and becomes exercisable shall be determined by the Administrator and set forth in the applicable Award Agreement. Such vesting may be based on service with the Company or any Affiliate, any of the Performance Criteria, or any other criteria selected by the Administrator. At any time after grant of an Option, the Administrator may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the vesting of the Option.

(b) No portion of an Option which is unexercisable at a Participant’s Termination of Service shall thereafter become exercisable, except as may be otherwise provided by the Administrator either in a Program, the applicable Award Agreement or by action of the Administrator following the grant of the Option.

6.6 Substitute Awards. Notwithstanding the foregoing provisions of this Article 6 to the contrary, in the case of an Option that is a Substitute Award, the price per share of the shares subject to such Option may be less than the Fair Market Value per share on the date of grant, provided, however, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the Shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate Fair Market Value (as of the time immediately preceding the transaction giving rise to the Substitute Award) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

6.7 Substitution of Stock Appreciation Rights. The Administrator may provide in an applicable Program or the applicable Award Agreement evidencing the grant of an Option that the Administrator, in its sole discretion, shall have the right to substitute a Stock Appreciation Right for such Option at any time prior to or upon exercise of such Option; provided, however, that such Stock Appreciation Right shall be exercisable with respect to the same number of Shares for which such substituted Option would have been exercisable, and shall also have the same exercise price and remaining term as the substituted Option.

ARTICLE 7.

EXERCISE OF OPTIONS

7.1 Partial Exercise. An exercisable Option may be exercised in whole or in part. However, an Option shall not be exercisable with respect to fractional shares and the Administrator may require that, by the terms of the Option, a partial exercise must be with respect to a minimum number of shares.

7.2 Manner of Exercise. All or a portion of an exercisable Option shall be deemed exercised upon delivery of all of the following to the Secretary of the Company, or such other person or entity designated by the Administrator, or his, her or its office, as applicable:

(a) A written or electronic notice complying with the applicable rules established by the Administrator stating that the Option, or a portion thereof, is exercised. The notice shall be signed by the Participant or other person then entitled to exercise the Option or such portion of the Option;

(b) Such representations and documents as the Administrator, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act, the Exchange Act, any other federal, state or foreign securities laws or regulations, the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded or any other applicable law. The Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance including, without limitation, placing legends on share certificates and issuing stop-transfer notices to agents and registrars;

(c) In the event that the Option shall be exercised pursuant to Section 11.3 hereof by any person or persons other than the Participant, appropriate proof of the right of such person or persons to exercise the Option, as determined in the sole discretion of the Administrator; and

(d) Full payment of the exercise price and applicable withholding taxes to the stock administrator of the Company for the Shares with respect to which the Option, or portion thereof, is exercised, in a manner permitted by Sections 11.1 and 11.2 hereof.

7.3 Notification Regarding Disposition. The Participant shall give the Company prompt written or electronic notice of any disposition of shares of Common Stock acquired by exercise of an Incentive Stock Option which occurs within (a) two years from the date of granting (including the date the Option is modified, extended or renewed for purposes of Section 424(h) of the Code) such Option to such Participant, or (b) one year after the transfer of such shares to such Participant.

ARTICLE 8.

RESTRICTED STOCK

8.1 Award of Restricted Stock.

(a) The Administrator is authorized to grant Restricted Stock to Eligible Individuals, and shall determine the terms and conditions, including the restrictions applicable to each award of Restricted Stock, which terms and conditions shall not be inconsistent with the Plan, and may impose such conditions on the issuance of such Restricted Stock as it deems appropriate.

(b) The Administrator shall establish the purchase price, if any, and form of payment for Restricted Stock; provided, however, that if a purchase price is charged, such purchase price shall be no less than the par value of the Shares to be purchased, unless otherwise permitted by applicable law. In all cases, legal consideration shall be required for each issuance of Restricted Stock to the extent required by applicable law.

8.2 Rights as Stockholders. Subject to Section 8.4 hereof, upon issuance of Restricted Stock, the Participant shall have, unless otherwise provided by the Administrator, all the rights of a stockholder with respect to said shares, subject to the restrictions in an applicable Program or in the applicable Award Agreement, including the right to receive dividends and other distributions paid or made with respect to the shares; provided, however, that any Shares, cash or any other property distributed as a dividend or otherwise with respect to any Restricted Stock as to which the restrictions have not yet lapsed shall be accumulated or credited, and shall be subject to the same restrictions and risk of forfeiture as such Restricted Stock and shall not be paid until and unless the underlying Award vests.

8.3 Restrictions. All shares of Restricted Stock (including any shares received by Participants thereof with respect to shares of Restricted Stock as a result of stock dividends, stock splits or any other form of recapitalization) shall, in the terms of an applicable Program or in the applicable Award Agreement, be subject to such restrictions and vesting requirements as the Administrator shall provide. Such restrictions may include, without limitation, restrictions concerning voting rights and transferability and such restrictions may lapse separately or in combination at such times and pursuant to such circumstances or based on such criteria as selected by the Administrator, including, without limitation, criteria based on the Participant's duration of employment or directorship with the Company, the Performance Criteria, Company or Affiliate performance, individual performance or other criteria selected by the Administrator. Restricted Stock may not be sold or encumbered until all restrictions are terminated or expire.

8.4 Repurchase or Forfeiture of Restricted Stock. If no price was paid by the Participant for the Restricted Stock, upon a Termination of Service, the Participant's rights in unvested Restricted Stock then subject to restrictions shall lapse, and such Restricted Stock shall be surrendered to the Company and cancelled without consideration. If a price was paid by the Participant for the Restricted Stock, upon a Termination of Service, the Company shall have the right to repurchase from the Participant the unvested Restricted Stock then subject to restrictions at a cash price per share equal to the price paid by the Participant for such Restricted Stock or such other amount as may be specified in an applicable Program or the applicable Award Agreement. The Administrator in its sole discretion may provide that, upon certain events, including without limitation a Change in Control, the Participant's death, retirement or disability, any other specified Termination of Service or any other event, the Participant's rights in unvested Restricted Stock shall not lapse, such Restricted Stock shall vest and cease to be forfeitable and, if applicable, the Company cease to have a right of repurchase.

8.5 Certificates for Restricted Stock. Restricted Stock granted pursuant to the Plan may be evidenced in such manner as the Administrator shall determine. Certificates or book entries evidencing shares of Restricted Stock must include an appropriate legend referring to the terms, conditions, and restrictions applicable to such Restricted Stock, and the Company may, in its sole discretion, retain physical possession of any stock certificate until such time as all applicable restrictions lapse.

8.6 Section 83(b) Election. If a Participant makes an election under Section 83(b) of the Code to be taxed with respect to the Restricted Stock as of the date of transfer of the Restricted Stock rather than as of the date or dates upon which the Participant would otherwise be taxable under Section 83(a) of the Code, the Participant shall be required to deliver a copy of such election to the Company promptly after filing such election with the Internal Revenue Service.

ARTICLE 9.**DIVIDEND EQUIVALENTS, STOCK PAYMENTS, DEFERRED STOCK, RESTRICTED STOCK UNITS;
CASH-BASED AWARDS, OTHER INCENTIVE AWARDS**9.1 Dividend Equivalents.

(a) Subject to Section 9.1(b) hereof, Dividend Equivalents may be granted by the Administrator, either alone or in tandem with another Award, based on dividends declared on the Common Stock, to be credited as of dividend payment dates during the period between the date the Dividend Equivalents are granted to a Participant and the date such Dividend Equivalents terminate or expire, as determined by the Administrator. Such Dividend Equivalents shall be converted to cash or additional shares of Common Stock by such formula and at such time and subject to such limitations as may be determined by the Administrator. In addition, Dividend Equivalents with respect to Shares covered by an Award shall only be paid out to the Participant at the same time or times and to the same extent that the vesting conditions, if any, are subsequently satisfied and the Award vests with respect to such Shares.

(b) Notwithstanding the foregoing, no Dividend Equivalents shall be payable with respect to Options or Stock Appreciation Rights, unless otherwise determined by the Administrator.

9.2 Stock Payments. The Administrator is authorized to make one or more Stock Payments to any Eligible Individual. The number or value of shares of any Stock Payment shall be determined by the Administrator and may be based upon one or more Performance Criteria or any other specific criteria, including service to the Company or any Affiliate, determined by the Administrator. Stock Payments may, but are not required to be made in lieu of base salary, bonus, fees or other cash compensation otherwise payable to such Eligible Individual.

9.3 Deferred Stock. The Administrator is authorized to grant Deferred Stock to any Eligible Individual. The number of shares of Deferred Stock shall be determined by the Administrator and may be based on one or more Performance Criteria or other specific criteria, including service to the Company or any Affiliate, as the Administrator determines, in each case on a specified date or dates or over any period or periods determined by the Administrator, subject to compliance with Section 409A of the Code or an exemption therefrom. Shares underlying a Deferred Stock Award which is subject to a vesting schedule or other conditions or criteria set by the Administrator will not be issued until those conditions have been satisfied. Unless otherwise provided by the Administrator, a holder of Deferred Stock shall have no rights as a Company stockholder with respect to such Deferred Stock until such time as the Award has vested and the Shares underlying the Award have been issued to the Participant.

9.4 Restricted Stock Units. The Administrator is authorized to grant Restricted Stock Units to any Eligible Individual. The number and terms and conditions of Restricted Stock Units shall be determined by the Administrator. The Administrator shall specify the date or dates on which the Restricted Stock Units shall become fully vested and nonforfeitable, and may specify such conditions to vesting as it deems appropriate, including conditions based on one or more Performance Criteria or other specific criteria, including service to the Company or any Affiliate, in each case on a specified date or dates or over any period or periods, as determined by the Administrator. The Administrator shall specify, or, in the Administrator's sole discretion, permit the Participant to elect, the conditions and dates upon which the Shares underlying the Restricted Stock Units which shall be issued, which dates shall not be earlier than the date as of which the Restricted Stock Units vest and become nonforfeitable and which conditions and dates shall be subject to compliance with Section 409A of the Code or an exemption therefrom. On the distribution dates, the Company shall issue to the Participant one unrestricted, fully transferable Share (or the Fair Market Value of one such Share in cash) for each vested and nonforfeitable Restricted Stock Unit.

9.5 Grant of Cash-Based Awards. The Administrator may grant Cash-Based Awards under the Plan or pursuant to a Program. A Cash-Based Award is an Award that entitles the Participant to a payment in cash upon the attainment of Performance Criteria. The Administrator shall determine the maximum duration of the Cash-Based Award, the amount of cash to which the Cash-Based Award pertains, the conditions upon which the Cash-Based Award shall become vested or payable, and such other provisions as the Administrator shall determine. Unless otherwise determined by the Administrator, each Cash-Based Award shall specify a cash-denominated payment

amount, formula or payment ranges as determined by the Administrator. At the Administrator's discretion, Cash-Based Awards may be settled in Shares.

9.6 Other Incentive Awards. The Administrator is authorized to grant Other Incentive Awards to any Eligible Individual, which Awards may cover Shares or the right to purchase Shares or have a value derived from the value of, or an exercise or conversion privilege at a price related to, or that are otherwise payable in or based on, Shares, shareholder value or shareholder return, in each case on a specified date or dates or over any period or periods determined by the Administrator. Other Incentive Awards may be linked to any one or more of the Performance Criteria or other specific criteria determined appropriate by the Administrator.

9.7 Cash Settlement. Without limiting the generality of any other provision of the Plan, the Administrator may provide, in an Award Agreement or subsequent to the grant of an Award, in its discretion, that any Award may be settled in cash, Shares or a combination thereof.

9.8 Other Terms and Conditions. All applicable terms and conditions of each Award described in this Article 9, including without limitation, as applicable, the term, vesting and exercise/purchase price applicable to the Award, shall be set by the Administrator in its sole discretion, provided, however, that the value of the consideration paid by a Participant for an Award shall not be less than the par value of a Share, unless otherwise permitted by applicable law.

9.9 Exercise upon Termination of Service. Awards described in this Article 9 are exercisable or distributable, as applicable, only while the Participant is an Employee or a Director, as applicable. The Administrator, however, in its sole discretion, may provide that such Award may be exercised or distributed subsequent to a Termination of Service as provided under an applicable Program, Award Agreement, payment deferral election and/or in certain events, including a Change in Control, the Participant's death, retirement or disability or any other specified Termination of Service.

ARTICLE 10.

STOCK APPRECIATION RIGHTS

10.1 Grant of Stock Appreciation Rights.

(a) The Administrator is authorized to grant Stock Appreciation Rights to Eligible Individuals from time to time, in its sole discretion, on such terms and conditions as it may determine consistent with the Plan.

(b) A Stock Appreciation Right shall entitle the Participant (or other person entitled to exercise the Stock Appreciation Right pursuant to the Plan) to exercise all or a specified portion of the Stock Appreciation Right (to the extent then exercisable pursuant to its terms) and to receive from the Company an amount determined by multiplying the difference obtained by subtracting the exercise price per share of the Stock Appreciation Right from the Fair Market Value on the date of exercise of the Stock Appreciation Right by the number of Shares with respect to which the Stock Appreciation Right shall have been exercised, subject to any limitations the Administrator may impose. Except as described in Section 10.1(c) hereof, the exercise price per Share subject to each Stock Appreciation Right shall be set by the Administrator, but shall not be less than 100% of the Fair Market Value on the date the Stock Appreciation Right is granted.

(c) Notwithstanding the foregoing provisions of Section 10.1(b) hereof to the contrary, in the case of a Stock Appreciation Right that is a Substitute Award, the price per share of the shares subject to such Stock Appreciation Right may be less than the Fair Market Value per share on the date of grant; provided, however, that the excess of: (a) the aggregate Fair Market Value (as of the date such Substitute Award is granted) of the Shares subject to the Substitute Award, over (b) the aggregate exercise price thereof does not exceed the excess of: (x) the aggregate Fair Market Value (as of the time immediately preceding the transaction giving rise to the Substitute Award) of the shares of the predecessor entity that were subject to the grant assumed or substituted for by the Company, over (y) the aggregate exercise price of such shares.

10.2 Stock Appreciation Right Vesting.

(a) The Administrator shall determine the period during which a Participant shall vest in a Stock Appreciation Right and have the right to exercise such Stock Appreciation Right in whole or in part. Such vesting may be based on service with the Company or any Affiliate, or any other criteria selected by the Administrator. At any time after grant of a Stock Appreciation Right, the Administrator may, in its sole discretion and subject to whatever terms and conditions it selects, accelerate the period during which a Stock Appreciation Right vests.

(b) No portion of a Stock Appreciation Right which is unexercisable at Termination of Service shall thereafter become exercisable, except as may be otherwise provided by the Administrator either in an applicable Program or Award Agreement or by action of the Administrator following the grant of the Stock Appreciation Right.

10.3 Manner of Exercise. All or a portion of an exercisable Stock Appreciation Right shall be deemed exercised upon delivery of all of the following to the stock administrator of the Company, or such other person or entity designated by the Administrator, or his, her or its office, as applicable:

(a) A written or electronic notice complying with the applicable rules established by the Administrator stating that the Stock Appreciation Right, or a portion thereof, is exercised. The notice shall be signed by the Participant or other person then-entitled to exercise the Stock Appreciation Right or such portion of the Stock Appreciation Right;

(b) Such representations and documents as the Administrator, in its sole discretion, deems necessary or advisable to effect compliance with all applicable provisions of the Securities Act and any other federal, state or foreign securities laws or regulations. The Administrator may, in its sole discretion, also take whatever additional actions it deems appropriate to effect such compliance; and

(c) In the event that the Stock Appreciation Right shall be exercised pursuant to this Section 10.3 by any person or persons other than the Participant, appropriate proof of the right of such person or persons to exercise the Stock Appreciation Right.

10.4 Stock Appreciation Right Term. The term of each Stock Appreciation Right shall be set by the Administrator in its sole discretion; provided, however, that the term shall not be more than ten (10) years from the date the Stock Appreciation Right is granted. The Administrator shall determine the time period, including the time period following a Termination of Service, during which the Participant has the right to exercise any vested Stock Appreciation Rights, which time period may not extend beyond the expiration date of the Stock Appreciation Right term. Except as limited by the requirements of Section 409A of the Code, the Administrator may extend the term of any outstanding Stock Appreciation Right, and may extend the time period during which vested Stock Appreciation Rights may be exercised in connection with any Termination of Service of the Participant, and, subject to Section 13.1 hereof, may amend any other term or condition of such Stock Appreciation Right relating to such a Termination of Service.

ARTICLE 11.

ADDITIONAL TERMS OF AWARDS

11.1 Payment. The Administrator shall determine the methods by which payments by any Participant with respect to any Awards granted under the Plan shall be made, including, without limitation: (a) cash or check, (b) Shares (including, in the case of payment of the exercise price of an Award, Shares issuable pursuant to the exercise of the Award) held for such period of time as may be required by the Administrator in order to avoid adverse accounting consequences, in each case, having a Fair Market Value on the date of delivery equal to the aggregate payments required, (c) delivery of a written or electronic notice that the Participant has placed a market sell order with a broker with respect to Shares then issuable upon exercise or vesting of an Award, and that the broker has been directed to pay a sufficient portion of the net proceeds of the sale to the Company in satisfaction of the aggregate payments required; provided, however, that payment of such proceeds is then made to the Company upon settlement of such sale, (d) with respect to Options that are not Incentive Stock Options, by a “net exercise” arrangement pursuant

to which the Company will reduce the number of Shares issuable upon exercise by the largest whole number of shares with a Fair Market Value that does not exceed the aggregate exercise price or (e) other form of legal consideration acceptable to the Administrator. The Administrator shall also determine the methods by which Shares shall be delivered or deemed to be delivered to Participants. Notwithstanding any other provision of the Plan to the contrary, no Participant who is a Director or an “executive officer” of the Company within the meaning of Section 13(k) of the Exchange Act shall be permitted to make payment with respect to any Awards granted under the Plan, or continue any extension of credit with respect to such payment with a loan from the Company or a loan arranged by the Company in violation of Section 13(k) of the Exchange Act.

11.2 Tax Withholding. The Company and its Affiliates shall have the authority and the right to deduct or withhold, or require a Participant to remit to the Company or an Affiliate, an amount sufficient to satisfy federal, state, local and foreign taxes (including the Participant’s social security, Medicare and any other employment tax obligation) required by law to be withheld with respect to any taxable event concerning a Participant arising as a result of the Plan. The Administrator may in its sole discretion and in satisfaction of the foregoing requirement allow a Participant to elect to have the Company or an Affiliate withhold Shares otherwise issuable under an Award (or allow the surrender of Shares). Unless determined otherwise by the Administrator, the number of Shares which may be so withheld or surrendered shall be limited to the number of shares which have a Fair Market Value on the date of withholding or repurchase no greater than the aggregate amount of such liabilities based on the minimum statutory withholding rates or federal, state, local and foreign income tax and payroll tax purposes that are applicable to such supplemental taxable income. The Administrator shall determine the fair market value of the Shares, consistent with applicable provisions of the Code, for tax withholding obligations due in connection with a broker-assisted cashless Option or Stock Appreciation Right exercise involving the sale of shares to pay the Option or Stock Appreciation Right exercise price or any tax withholding obligation.

11.3 Transferability of Awards.

(a) Except as otherwise provided in Section 11.3(b) or (c) hereof:

(i) No Award under the Plan may be sold, pledged, assigned or transferred in any manner other than by will or the laws of descent and distribution or, subject to the consent of the Administrator, pursuant to a DRO, unless and until such Award has been exercised, or the shares underlying such Award have been issued, and all restrictions applicable to such shares have lapsed;

(ii) No Award or interest or right therein shall be liable for the debts, contracts or engagements of the Participant or his successors in interest or shall be subject to disposition by transfer, alienation, anticipation, pledge, hypothecation, encumbrance, assignment or any other means whether such disposition be voluntary or involuntary or by operation of law by judgment, levy, attachment, garnishment or any other legal or equitable proceedings (including bankruptcy) unless and until such Award has been exercised, or the Shares underlying such Award have been issued, and all restrictions applicable to such Shares have lapsed, and any attempted disposition of an Award prior to the satisfaction of these conditions shall be null and void and of no effect, except to the extent that such disposition is permitted by clause (i) of this provision; and

(iii) During the lifetime of the Participant, only the Participant may exercise an Award (or any portion thereof) granted to such Participant under the Plan, unless it has been disposed of pursuant to a DRO; after the death of the Participant, any exercisable portion of an Award may, prior to the time when such portion becomes unexercisable under the Plan or the applicable Program or Award Agreement, be exercised by his personal representative or by any person empowered to do so under the deceased Participant’s will or under the then applicable laws of descent and distribution.

(b) Notwithstanding Section 11.3(a) hereof, the Administrator, in its sole discretion, may determine to permit a Participant or a Permitted Transferee of such Participant to transfer an Award other than an Incentive Stock Option to any one or more Permitted Transferees of such Participant, subject to the following terms and conditions: (i) an Award transferred to a Permitted Transferee shall not be assignable or transferable by the Permitted Transferee (other to another Permitted Transferee of the applicable Participant) other than by will or the laws of descent and distribution; (ii) an Award transferred to a Permitted Transferee shall continue to be subject to all

the terms and conditions of the Award as applicable to the original Participant (other than the ability to further transfer the Award); and (iii) the Participant (or transferring Permitted Transferee) and the Permitted Transferee shall execute any and all documents requested by the Administrator, including without limitation, documents to (A) confirm the status of the transferee as a Permitted Transferee, (B) satisfy any requirements for an exemption for the transfer under applicable federal, state and foreign securities laws and (C) evidence the transfer.

(c) Notwithstanding Section 11.3(a) hereof, a Participant may, in the manner determined by the Administrator, designate a beneficiary to exercise the rights of the Participant and to receive any distribution with respect to any Award upon the Participant's death or Disability. A beneficiary, legal guardian, legal representative, or other person claiming any rights pursuant to the Plan is subject to all terms and conditions of the Plan and any Program or Award Agreement applicable to the Participant, except to the extent the Plan, the Program and the Award Agreement otherwise provide, and to any additional restrictions deemed necessary or appropriate by the Administrator. If the Participant is married or a domestic partner in a domestic partnership qualified under applicable law and resides in a "community property" state, a designation of a person other than the Participant's spouse or domestic partner, as applicable, as his or her beneficiary with respect to more than 50% of the Participant's interest in the Award shall not be effective without the prior written or electronic consent of the Participant's spouse or domestic partner; provided that such consent is required by applicable state law. If no beneficiary has been designated or survives the Participant, payment shall be made to the person entitled thereto pursuant to the Participant's will or the laws of descent and distribution. Subject to the foregoing, a beneficiary designation may be changed or revoked by a Participant at any time provided the change or revocation is filed with the Administrator prior to the Participant's death or Disability.

11.4 Conditions to Issuance of Shares.

(a) Notwithstanding anything herein to the contrary, neither the Company nor its Affiliates shall be required to issue or deliver any certificates or make any book entries evidencing Shares pursuant to the exercise of any Award, unless and until the Administrator has determined, with advice of counsel, that the issuance of such Shares is in compliance with all applicable laws, regulations of governmental authorities and, if applicable, the requirements of any exchange on which the Shares are listed or traded, and the Shares are covered by an effective registration statement or applicable exemption from registration. In addition to the terms and conditions provided herein, the Administrator may require that a Participant make such reasonable covenants, agreements, and representations as the Administrator, in its discretion, deems advisable in order to comply with any such laws, regulations, or requirements.

(b) All Share certificates delivered pursuant to the Plan and all shares issued pursuant to book entry procedures are subject to any stop-transfer orders and other restrictions as the Administrator deems necessary or advisable to comply with federal, state, or foreign securities or other laws, rules and regulations and the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted, or traded. The Administrator may place legends on any Share certificate or book entry to reference restrictions applicable to the Shares.

(c) The Administrator shall have the right to require any Participant to comply with any timing or other restrictions with respect to the settlement, distribution or exercise of any Award, including a window-period limitation, as may be imposed in the sole discretion of the Administrator.

(d) No fractional Shares shall be issued and the Administrator shall determine, in its sole discretion, whether cash shall be given in lieu of fractional shares or whether such fractional shares shall be eliminated by rounding down.

(e) Notwithstanding any other provision of the Plan, unless otherwise determined by the Administrator or required by any applicable law, rule or regulation, the Company and/or its Affiliates may, in lieu of delivering to any Participant certificates evidencing Shares issued in connection with any Award, record the issuance of Shares in the books of the Company (or, as applicable, its transfer agent or stock plan administrator).

11.5 Forfeiture Provisions. Pursuant to its general authority to determine the terms and conditions applicable to Awards under the Plan, the Administrator shall have the right to provide, in the terms of Awards made under the Plan, or to require a Participant to agree by separate written or electronic instrument, that: (a)(i) any proceeds, gains or other economic benefit actually or constructively received by the Participant upon any receipt or exercise of the Award, or upon the receipt or resale of any Shares underlying the Award, must be paid to the Company, and (ii) the Award shall terminate and any unexercised portion of the Award (whether or not vested) shall be forfeited, if (b)(i) a Termination of Service occurs prior to a specified date, or within a specified time period following receipt or exercise of the Award, or (ii) the Participant at any time, or during a specified time period, engages in any activity in competition with the Company, or which is inimical, contrary or harmful to the interests of the Company, as further defined by the Administrator or (iii) the Participant incurs a Termination of Service for Cause.

11.6 Repricing. Subject to Section 13.2 hereof, the Administrator shall not, without the approval of the stockholders of the Company, (i) authorize the amendment of any outstanding Option or Stock Appreciation Right to reduce its price per share, or (ii) cancel any Option or Stock Appreciation Right in exchange for cash or another Award when the Option or Stock Appreciation Right price per share exceeds the Fair Market Value of the underlying Shares. Subject to Section 13.2 hereof, the Administrator shall have the authority, without the approval of the stockholders of the Company, to amend any outstanding Award to increase the price per share or to cancel and replace an Award with the grant of an Award having a price per share that is greater than or equal to the price per share of the original Award.

ARTICLE 12.

ADMINISTRATION

12.1 Administrator. The Committee (or another committee or a subcommittee of the Board assuming the functions of the Committee under the Plan) shall administer the Plan (except as otherwise permitted herein) and, unless otherwise determined by the Board, shall consist solely of two or more Non-Employee Directors appointed by and holding office at the pleasure of the Board, each of whom is intended to qualify as a “non-employee director” as defined by Rule 16b-3 of the Exchange Act and an “independent director” under the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded, in each case, to the extent required under such provision; provided, however, that any action taken by the Committee shall be valid and effective, whether or not members of the Committee at the time of such action are later determined not to have satisfied the requirements for membership set forth in this Section 12.1 or otherwise provided in any charter of the Committee. Except as may otherwise be provided in any charter of the Committee, appointment of Committee members shall be effective upon acceptance of appointment. Committee members may resign at any time by delivering written or electronic notice to the Board. Vacancies in the Committee may only be filled by the Board. Notwithstanding the foregoing, (a) the full Board, acting by a majority of its members in office, shall conduct the general administration of the Plan with respect to Awards granted to Non-Employee Directors and (b) the Board or Committee may delegate its authority hereunder to the extent permitted by Section 12.6 hereof.

12.2 Duties and Powers of Administrator. It shall be the duty of the Administrator to conduct the general administration of the Plan in accordance with its provisions. The Administrator shall have the power to interpret the Plan and all Programs and Award Agreements, and to adopt such rules for the administration, interpretation and application of the Plan and any Program as are not inconsistent with the Plan, to interpret, amend or revoke any such rules and to amend any Program or Award Agreement provided that the rights or obligations of the holder of the Award that is the subject of any such Program or Award Agreement are not affected adversely by such amendment, unless the consent of the Participant is obtained or such amendment is otherwise permitted under Section 13.10 hereof. Any such grant or award under the Plan need not be the same with respect to each Participant. Any such interpretations and rules with respect to Incentive Stock Options shall be consistent with the provisions of Section 422 of the Code. In its sole discretion, the Board may at any time and from time to time exercise any and all rights and duties of the Committee under the Plan except with respect to matters which under Rule 16b-3 under the Exchange Act or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded are required to be determined in the sole discretion of the Committee.

12.3 Action by the Committee. Unless otherwise established by the Board or in any charter of the Committee, a majority of the Committee shall constitute a quorum and the acts of a majority of the members present at any meeting at which a quorum is present, and acts approved in writing by all members of the Committee in lieu of a meeting, shall be deemed the acts of the Committee. Each member of the Committee is entitled to, in good faith, rely or act upon any report or other information furnished to that member by any officer or other employee of the Company or any Affiliate, the Company's independent certified public accountants, or any executive compensation consultant or other professional retained by the Company to assist in the administration of the Plan.

12.4 Authority of Administrator. Subject to any specific designation in the Plan, the Administrator has the exclusive power, authority and sole discretion to:

- (a) Designate Eligible Individuals to receive Awards;
- (b) Determine the type or types of Awards to be granted to each Eligible Individual;
- (c) Determine the number of Awards to be granted and the number of Shares to which an Award will relate;
- (d) Determine the terms and conditions of any Award granted pursuant to the Plan, including, but not limited to, the exercise price, grant price, or purchase price, any performance criteria, any restrictions or limitations on the Award, any schedule for vesting, lapse of forfeiture restrictions or restrictions on the exercisability of an Award, and accelerations or waivers thereof, and any provisions related to non-competition and recapture of gain on an Award, based in each case on such considerations as the Administrator in its sole discretion determines;
- (e) Determine whether, to what extent, and pursuant to what circumstances an Award may be settled in, or the exercise price of an Award may be paid in cash, Shares, other Awards, or other property, or an Award may be canceled, forfeited, or surrendered;
- (f) Prescribe the form of each Award Agreement, which need not be identical for each Participant;
- (g) Decide all other matters that must be determined in connection with an Award, including resolution of any disputes;
- (h) Establish, adopt, or revise any rules and regulations as it may deem necessary or advisable to administer the Plan;
- (i) Interpret the terms of, and any matter arising pursuant to, the Plan, any Program or any Award Agreement;
- (j) Grant Substitute Awards on such terms and conditions as the Administrator may prescribe, subject to compliance with the incentive stock option rules under Section 422 of the Code and the nonqualified deferred compensation rules under Section 409A of the Code, where applicable;
- (k) Make all other decisions and determinations that may be required pursuant to the Plan or as the Administrator deems necessary or advisable to administer the Plan; and
- (l) Establish a Program or Programs under the Plan, as may be adopted or amended from time to time.

12.5 Decisions Binding. The Administrator's interpretation of the Plan, any Awards granted pursuant to the Plan, any Program, any Award Agreement and all decisions and determinations by the Administrator with respect to the Plan are final, binding and conclusive on all parties.

12.6 Delegation of Authority. To the extent permitted by applicable law or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded, the Board or Committee may from time to time delegate to a committee of one or more members of the Board or one or more officers of the Company the authority to grant or amend Awards or to take other administrative actions pursuant to this Article 12; provided, however, that in no event shall an officer of the Company be delegated the authority to grant awards to, or amend awards held by the following individuals: (a) individuals who are subject to Section 16 of the Exchange Act or (b) officers of the Company (or Directors) to whom authority to grant or amend Awards has been delegated hereunder; provided further, that any delegation of administrative authority shall only be permitted to the extent it is permissible applicable securities laws or the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded. Any delegation hereunder shall be subject to the restrictions and limits that the Board or the Committee specifies at the time of such delegation, and the Board may at any time rescind the authority so delegated or appoint a new delegatee. At all times, the delegatee appointed under this Section 12.6 shall serve in such capacity at the pleasure of the Board and the Committee.

ARTICLE 13.

MISCELLANEOUS PROVISIONS

13.1 Amendment, Restatement, Suspension or Termination of the Plan. Except as otherwise provided in this Section 13.1, the Plan may be wholly or partially amended, restated or otherwise modified, suspended or terminated at any time or from time to time by the Board. However, without approval of the Company's stockholders given within twelve (12) months before or after the action by the Administrator, no action of the Administrator may, except as provided in Section 13.2 hereof, (i) increase the Share Limit, (ii) reduce the price per share of any outstanding Option or Stock Appreciation Right granted under the Plan, or (iii) cancel any Option or Stock Appreciation Right in exchange for cash or another Award in violation of Section 11.6 hereof. Except as provided in Section 13.10 hereof, no amendment, restatement, suspension or termination of the Plan shall, without the consent of the Participant, materially impair any rights or obligations under any Award theretofore granted or awarded, unless the Award itself otherwise expressly so provides. No Awards may be granted or awarded during any period of suspension or after termination of the Plan, and in no event may any Award be granted under the Plan after the tenth (10th) anniversary of the Effective Date. In addition, in no event may any Incentive Stock Option be granted under the Plan after the tenth (10th) anniversary of the date on which the Board adopted the Plan (subject to shareholder approval).

13.2 Changes in Common Stock or Assets of the Company, Acquisition or Liquidation of the Company and Other Corporate Events.

(a) In the event of any stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of the Company's stock or the share price of the Company's stock other than an Equity Restructuring, the Administrator shall make equitable adjustments, if any, to reflect such change with respect to (i) the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments of the Share Limit); (ii) the number and kind of shares of Common Stock (or other securities or property) subject to outstanding Awards; (iii) the terms and conditions of any outstanding Awards (including, without limitation, any applicable performance targets or criteria with respect thereto); and/or (iv) the grant or exercise price per share for any outstanding Awards under the Plan.

(b) In the event of any transaction or event described in Section 13.2(a) hereof or any unusual or nonrecurring transactions or events affecting the Company, any Affiliate of the Company, or the financial statements of the Company or any Affiliate, or of changes in applicable laws, regulations or accounting principles, the Administrator, in its sole discretion, and on such terms and conditions as it deems appropriate, either by the terms of the Award or by action taken prior to the occurrence of such transaction or event and either automatically or upon the Participant's request, is hereby authorized to take any one or more of the following actions whenever the Administrator determines that such action is appropriate in order to prevent dilution or enlargement of the benefits or potential

benefits intended to be made available under the Plan or with respect to any Award under the Plan, to facilitate such transactions or events or to give effect to such changes in laws, regulations or principles:

(i) To provide for either (A) termination of any such Award in exchange for an amount of cash, if any, equal to the amount that would have been attained upon the exercise of such Award or realization of the Participant's rights (and, for the avoidance of doubt, if as of the date of the occurrence of the transaction or event described in this Section 13.2, the Administrator determines in good faith that no amount would have been attained upon the exercise of such Award or realization of the Participant's rights, then such Award may be terminated by the Company without payment) or (B) the replacement of such Award with other rights or property selected by the Administrator in its sole discretion having an aggregate value not exceeding the amount that could have been attained upon the exercise of such Award or realization of the Participant's rights had such Award been currently exercisable or payable or fully vested;

(ii) To provide that such Award be assumed by the successor or survivor corporation, or a parent or subsidiary thereof, or shall be substituted for by similar options, rights or awards covering the stock of the successor or survivor corporation, or a parent or subsidiary thereof, with appropriate adjustments as to the number and kind of shares and prices;

(iii) To make adjustments in the number and type of securities subject to outstanding Awards and Awards which may be granted in the future and/or in the terms, conditions and criteria included in such Awards (including the grant or exercise price, as applicable);

(iv) To provide that such Award shall be exercisable or payable or fully vested with respect to all securities covered thereby, notwithstanding anything to the contrary in the Plan or an applicable Program or Award Agreement; and

(v) To provide that the Award cannot vest, be exercised or become payable after such event.

(c) In connection with the occurrence of any Equity Restructuring, and notwithstanding anything to the contrary in Sections 13.2(a) and 13.2(b) hereof:

(i) The number and type of securities subject to each outstanding Award and/or the exercise price or grant price thereof, if applicable, shall be equitably adjusted. The adjustment provided under this Section 13.2(c)(i) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company.

(ii) The Administrator shall make such equitable adjustments, if any, as the Administrator in its discretion may deem appropriate to reflect such Equity Restructuring with respect to the aggregate number and kind of shares that may be issued under the Plan (including, but not limited to, adjustments to the Share Limit). The adjustments provided under this Section 13.2(c) shall be nondiscretionary and shall be final and binding on the affected Participant and the Company.

(d) Change in Control. Except as may be determined otherwise by the Board, the following terms shall govern in the event of a Change in Control.

(i) In the event of a Change in Control, each outstanding Award shall be assumed, continued or an equivalent award substituted, with appropriate adjustment as to the number and kind of shares and, if appropriate, the per share exercise prices, as such parties shall agree (each, an "Assumed Award"), by the successor entity or a parent or subsidiary of the successor entity ("Successor"); provided, however, that if the Participant's service with the Successor is terminated without Cause by the Successor, for Good Reason by the Participant, or on account of the Participant's death or Disability, in each case within 12 months following such Change in Control, each then-outstanding and unvested Assumed Award held by such Participant shall become fully vested and, as applicable, exercisable, and all forfeiture restrictions on such Assumed Awards shall lapse at such time.

(ii) In the event that a Successor refuses to assume, continue or substitute for any Award in accordance with Section 13.2(d)(i) hereof, each such Award shall become fully vested and, as applicable, exercisable and shall be deemed exercised, immediately prior to the consummation of such transaction, and all forfeiture restrictions on any or all such Awards shall lapse at such time. If an Award vests and, as applicable, is exercised in lieu of assumption, continuation or substitution in connection with a Change in Control, the Administrator shall notify the Participant of such vesting and any applicable exercise, and the Award shall terminate upon the Change in Control. For the avoidance of doubt, if the value of an Award that is terminated in connection with this Section 13.2(d)(ii) is zero or negative at the time of such Change in Control, such Award shall be terminated upon the Change in Control without payment of consideration therefor.

(iii) Notwithstanding Section 13.2(d)(i) and (ii), upon a Change in Control, all Performance-Based Awards and Cash-Based Awards shall become vested and nonforfeitable in the Administrator's discretion or to the extent specified in the relevant Award Agreement.

(e) The Administrator may, in its sole discretion, include such further provisions and limitations in any Award, agreement or certificate, as it may deem equitable and in the best interests of the Company that are not inconsistent with the provisions of the Plan.

(f) No adjustment or action described in this Section 13.2 or in any other provision of the Plan shall be authorized to the extent that such adjustment or action would cause the Plan to violate Section 422(b)(1) of the Code. Furthermore, no such adjustment or action shall be authorized with respect to any Award to the extent such adjustment or action would result in short-swing profits liability under Section 16 or violate the exemptive conditions of Rule 16b-3 unless the Administrator determines that the Award is not to comply with such exemptive conditions.

(g) The existence of the Plan, the Program, the Award Agreement and the Awards granted hereunder shall not affect or restrict in any way the right or power of the Company or the stockholders of the Company to make or authorize any adjustment, recapitalization, reorganization or other change in the Company's capital structure or its business, any merger or consolidation of the Company, any issue of stock or of options, warrants or rights to purchase stock or of bonds, debentures, preferred or prior preference stocks whose rights are superior to or affect the Common Stock or the rights thereof or which are convertible into or exchangeable for Common Stock, or the dissolution or liquidation of the Company, or any sale or transfer of all or any part of its assets or business, or any other corporate act or proceeding, whether of a similar character or otherwise.

(h) No action shall be taken under this Section 13.2 which shall cause an Award to fail to comply with Section 409A of the Code or an exemption therefrom, in either case, to the extent applicable to such Award, unless the Administrator determines any such adjustments to be appropriate.

(i) In the event of any pending stock dividend, stock split, combination or exchange of shares, merger, consolidation or other distribution (other than normal cash dividends) of Company assets to stockholders, or any other change affecting the shares of Common Stock or the share price of the Common Stock including any Equity Restructuring, for reasons of administrative convenience, the Company in its sole discretion may refuse to permit the exercise of any Award during a period of thirty (30) days prior to the consummation of any such transaction.

13.3 Approval of Plan by Stockholders. The Plan will be submitted for the approval of the Company's stockholders within twelve (12) months after the date of the Board's initial adoption of the Plan. If the Plan is not approved by the stockholders within twelve (12) months after its adoption by the Board, then the Prior Plan shall continue on its existing terms and conditions and the Plan shall be of no force or effect.

13.4 No Stockholders Rights. Except as otherwise provided herein or in an Award Agreement, a Participant shall have none of the rights of a stockholder with respect to shares of Common Stock covered by any Award until the Participant becomes the record owner of such shares of Common Stock.

13.5 Paperless Administration. In the event that the Company establishes, for itself or using the services of a third party, an automated system for the documentation, granting or exercise of Awards, such as a system

using an internet website or interactive voice response, then the paperless documentation, granting or exercise of Awards by a Participant may be permitted through the use of such an automated system.

13.6 Effect of Plan upon Other Compensation Plans. Except as set forth in Section 3.1(a) above, the adoption of the Plan shall not affect any other compensation or incentive plans in effect for the Company or any Affiliate. Nothing in the Plan shall be construed to limit the right of the Company or any Affiliate: (a) to establish any other forms of incentives or compensation for Employees or Directors of the Company or any Affiliate, or (b) to grant or assume options or other rights or awards otherwise than under the Plan in connection with any proper corporate purpose including without limitation, the grant or assumption of options in connection with the acquisition by purchase, lease, merger, consolidation or otherwise, of the business, stock or assets of any corporation, partnership, limited liability company, firm or association.

13.7 Compliance with Laws. The Plan, the granting and vesting of Awards under the Plan and the issuance and delivery of Shares and the payment of money under the Plan or under Awards granted or awarded hereunder are subject to compliance with all applicable federal, state, local and foreign laws, rules and regulations (including but not limited to state, federal and foreign securities law and margin requirements), the rules of any securities exchange or automated quotation system on which the Shares are listed, quoted or traded, and to such approvals by any listing, regulatory or governmental authority as may, in the opinion of counsel for the Company, be necessary or advisable in connection therewith. Any securities delivered under the Plan shall be subject to such restrictions, and the person acquiring such securities shall, if requested by the Company, provide such assurances and representations to the Company as the Company may deem necessary or desirable to assure compliance with all applicable legal requirements. To the extent permitted by applicable law, the Plan and Awards granted or awarded hereunder shall be deemed amended to the extent necessary to conform to such laws, rules and regulations.

13.8 Titles and Headings, References to Sections of the Code or Exchange Act. The titles and headings of the sections in the Plan are for convenience of reference only and, in the event of any conflict, the text of the Plan, rather than such titles or headings, shall control. References to sections of the Code or the Exchange Act shall include any amendment or successor thereto.

13.9 Governing Law. The Plan and any agreements hereunder shall be administered, interpreted and enforced under the internal laws of the State of Nevada without regard to conflicts of laws thereof.

13.10 Section 409A. The Plan is intended to comply with the requirements of Section 409A of the Code or an exemption or exclusion therefrom and, with respect to amounts that are subject to Section 409A of the Code, it is intended that this Plan be administered in all respects in accordance with Section 409A of the Code. To the extent that the Administrator determines that any Award granted under the Plan is subject to Section 409A of the Code, the Plan, any applicable Program and the Award Agreement covering such Award shall be interpreted in accordance with Section 409A of the Code. Notwithstanding any provision of the Plan to the contrary, in the event that, following the Effective Date, the Administrator determines that any Award may be subject to Section 409A of the Code, the Administrator may adopt such amendments to the Plan, any applicable Program and the Award Agreement or adopt other policies and procedures (including amendments, policies and procedures with retroactive effect), or take any other actions, that the Administrator determines are necessary or appropriate to avoid the imposition of taxes on the Award under Section 409A of the Code, either through compliance with the requirements of Section 409A of the Code or with an available exemption therefrom. In the event that it is reasonably determined by the Administrator that, as a result of Section 409A of the Code and the regulations thereunder, payments in respect of any Award under the Plan may not be made at the time contemplated by the terms of the Plan or the relevant Award agreement, as the case may be, without causing the Participant holding such Award to be subject to taxation under Section 409A of the Code, the Company may make such payment on the first day that would not result in the Participant incurring any tax liability under Section 409A of the Code; which, if the Participant is a "specified employee" within the meaning of the Section 409A, shall be the first day following the six-month period beginning on the date of Participant's termination of employment. Unless otherwise provided in an Award Agreement or other document governing the issuance of such Award, payment of any Performance-Based Award intended to qualify as a "short term deferral" within the meaning of Section 1.409A-1(b)(4)(i) of the U.S. Treasury Regulations shall be made between the first day following the close of the applicable Performance Period and the last day of the "applicable 2 ½ month period" as defined therein. Although the Company intends to administer the Plan so that Awards will be exempt from, or will comply with, the

requirements of Section 409A, the Company does not warrant that any Award under the Plan will qualify for favorable tax treatment under Section 409A or any other provision of federal, state, local or foreign law. The Company shall not be liable to any Participant for any tax, interest, or penalties that Participant might owe as a result of the grant, holding, vesting, exercise, or payment of any Award under the Plan.

13.11 No Rights to Awards. No Eligible Individual or other person shall have any claim to be granted any Award pursuant to the Plan, and neither the Company nor the Administrator is obligated to treat Eligible Individuals, Participants or any other persons uniformly.

13.12 Unfunded Status of Awards. The Plan is intended to be an “unfunded” plan for incentive compensation. With respect to any payments not yet made to a Participant pursuant to an Award, nothing contained in the Plan or any Program or Award Agreement shall give the Participant any rights that are greater than those of a general creditor of the Company or any Affiliate.

13.13 Indemnification. To the extent allowable pursuant to applicable law, each member of the Board and any officer or other employee to whom authority to administer any component of the Plan is delegated shall be indemnified and held harmless by the Company from any loss, cost, liability, or expense that may be imposed upon or reasonably incurred by such member in connection with or resulting from any claim, action, suit, or proceeding to which he or she may be a party or in which he or she may be involved by reason of any action or failure to act pursuant to the Plan and against and from any and all amounts paid by him or her in satisfaction of judgment in such action, suit, or proceeding against him or her; provided, however, that he or she gives the Company an opportunity, at its own expense, to handle and defend the same before he or she undertakes to handle and defend it on his or her own behalf. The foregoing right of indemnification shall not be exclusive of any other rights of indemnification to which such persons may be entitled pursuant to the Company’s Certificate of Incorporation or Bylaws, as a matter of law, or otherwise, or any power that the Company may have to indemnify them or hold them harmless.

13.14 Relationship to other Benefits. No payment pursuant to the Plan shall be taken into account in determining any benefits under any pension, retirement, savings, profit sharing, group insurance, welfare or other benefit plan of the Company or any Affiliate except to the extent otherwise expressly provided in writing in such other plan or an agreement thereunder.

13.15 Data Privacy. As a condition of receipt of any Award, each Participant explicitly and unambiguously consents to the collection, use and transfer, in electronic or other form, of personal data as described in this paragraph by and among, as applicable, the Company and its Subsidiaries and Affiliates for the exclusive purpose of implementing, administering and managing the Participant’s participation in the Plan. The Company and its Subsidiaries and Affiliates may hold certain personal information about a Participant, including but not limited to, the Participant’s name, home address and telephone number, date of birth, social security or other identification number, salary, nationality, job title(s), any shares of stock held in the Company or any of its Subsidiaries and Affiliates, details of all Awards, in each case, for the purpose of implementing, managing and administering the Plan and Awards (the “Data”). The Company and its Subsidiaries and Affiliates may transfer the Data amongst themselves as necessary for the purpose of implementation, administration and management of a Participant’s participation in the Plan, and the Company and its Subsidiaries and Affiliates may each further transfer the Data to any third parties assisting the Company in the implementation, administration and management of the Plan. These recipients may be located in the Participant’s country, or elsewhere, and the Participant’s country may have different data privacy laws and protections than the recipients’ country. Through acceptance of an Award, each Participant authorizes such recipients to receive, possess, use, retain and transfer the Data, in electronic or other form, for the purposes of implementing, administering and managing the Participant’s participation in the Plan, including any requisite transfer of such Data as may be required to a broker or other third party with whom the Company or the Participant may elect to deposit any Shares. The Data related to a Participant will be held only as long as is necessary to implement, administer, and manage the Participant’s participation in the Plan. A Participant may, at any time, view the Data held by the Company with respect to such Participant, request additional information about the storage and processing of the Data with respect to such Participant, recommend any necessary corrections to the Data with respect to the Participant or refuse or withdraw the consents herein in writing, in any case without cost, by contacting his or her local human resources representative. The Company may cancel Participant’s ability to participate in the Plan and, in the Committee’s discretion, the Participant may forfeit any outstanding Awards if the Participant refuses or withdraws his

or her consents as described herein. For more information on the consequences of refusal to consent or withdrawal of consent, Participants may contact their local human resources representative.

13.16 Clawback. Any Award granted pursuant to this Plan shall be subject to mandatory repayment by the Participant to the Company (i) to the extent set forth in any Award Agreement, (ii) to the extent that such Participant is, or in the future becomes, subject to (a) any “clawback” or recoupment policy adopted by the Company or any Affiliate thereof to comply with the requirements of any applicable laws, rules or regulations, including pursuant to final rules adopted by the SEC pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act, or otherwise, or (b) any applicable laws which impose mandatory recoupment, under circumstances set forth in such applicable laws, including the Sarbanes-Oxley Act of 2002.

13.17 Expenses. The expenses of administering the Plan shall be borne by the Company and its Affiliates.

[signature page follows]

* * * * *

The foregoing Plan was duly adopted by the Board of Directors of AutoZone, Inc. on October 7, 2020.

* * * * *

The foregoing Plan was approved by the stockholders of AutoZone, Inc. on [____], 2020.

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AutoZone®

Form 10-K





UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

(Mark One)

Annual Report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the fiscal year ended August 29, 2020.

OR

Transition report pursuant to section 13 or 15(d) of the Securities Exchange Act of 1934

For the transition period from _____ to _____.

Commission file number 1-10714



AUTOZONE, INC.

(Exact name of registrant as specified in its charter)

Nevada
(State or other jurisdiction of
incorporation or organization)

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

123 South Front Street, Memphis, Tennessee
(Address of principal executive offices)

38103
(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Trading Symbol(s)	Name of Each Exchange on which Registered
Common Stock (\$0.01 par value)	AZO	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant has filed a report on and attestation to its management's assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. Yes No

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

The aggregate market value of the voting and non-voting common equity held by non-affiliates computed by reference to the price at which the common equity was last sold, or the average bid and asked price of such common equity, as of the last business day of the registrant's most recently completed second fiscal quarter was \$24,661,503,822.

The number of shares of Common Stock outstanding as of October 19, 2020, was 23,175,554.

Documents Incorporated By Reference

Portions of the definitive Proxy Statement to be filed within 120 days of August 29, 2020, pursuant to Regulation 14A under the Securities Exchange Act of 1934 for the Annual Meeting of Stockholders to be held December 16, 2020, are incorporated by reference into Part III.

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Forward-Looking Statements

Certain statements contained in this annual report constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements typically use words such as “believe,” “anticipate,” “should,” “intend,” “plan,” “will,” “expect,” “estimate,” “project,” “positioned,” “strategy,” “seek,” “may,” “could” and similar expressions. These are based on assumptions and assessments made by our management in light of experience and perception of historical trends, current conditions, expected future developments and other factors that we believe to be appropriate. These forward-looking statements are subject to a number of risks and uncertainties, including without limitation: product demand; energy prices; weather; competition; credit market conditions; cash flows; access to available and feasible financing; future stock repurchases; the impact of recessionary conditions; consumer debt levels; changes in laws or regulations; risks associated with self-insurance; war and the prospect of war, including terrorist activity; the impact of public health issues, such as the ongoing global pandemic of a novel strain of the coronavirus (“COVID-19”); inflation; the ability to hire, train and retain qualified employees; construction delays; the compromising of confidentiality, availability or integrity of information, including cyber-attacks; historic growth rate sustainability; downgrade of our credit ratings; damages to our reputation; challenges in international markets; failure or interruption of our information technology systems; origin and raw material costs of suppliers; disruption in our supply chain, due to public health epidemics or otherwise; impact of tariffs; anticipated impact of new accounting standards; and business interruptions. Certain of these risks and uncertainties are discussed in more detail in the “Risk Factors” section contained in Item 1A under Part 1 of this Annual Report on Form 10-K for the year ended August 29, 2020, and these Risk Factors should be read carefully. Forward-looking statements are not guarantees of future performance and actual results, developments and business decisions may differ from those contemplated by such forward-looking statements, and events described above and in the “Risk Factors” could materially and adversely affect our business. However, it should be understood that it is not possible to identify or predict all such risks and other factors that could affect these forward-looking statements. Forward-looking statements speak only as of the date made. Except as required by applicable law, we undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business

Introduction

AutoZone, Inc. (“AutoZone,” the “Company,” “we,” “our” or “us”) is the leading retailer, and a leading distributor, of automotive replacement parts and accessories in the Americas. We began operations in 1979 and at August 29, 2020, operated 5,885 stores in the United States (“U.S.”), 621 stores in Mexico and 43 stores in Brazil. Each store carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products. At August 29, 2020, in 5,007 of our domestic stores, we also had a commercial sales program that provides commercial credit and prompt delivery of parts and other products to local, regional and national repair garages, dealers, service stations and public sector accounts. We also have commercial programs in all stores in Mexico and Brazil. We also sell the ALLDATA brand automotive diagnostic and repair software through www.alldata.com and www.alldatadiy.com. Additionally, we sell automotive hard parts, maintenance items, accessories and non-automotive products through www.autozone.com, and our commercial customers can make purchases through www.autozonepro.com. We also provide product information on our Duralast branded products through www.duralastparts.com. We do not derive revenue from automotive repair or installation services.

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At August 29, 2020, our stores were in the following locations:

	<u>Store Count</u>
Alabama	118
Alaska	8
Arizona	159
Arkansas	67
California	631
Colorado	93
Connecticut	49
Delaware	16
Florida	379
Georgia	204
Hawaii	11
Idaho	31
Illinois	241
Indiana	158
Iowa	32
Kansas	54
Kentucky	100
Louisiana	127
Maine	14
Maryland	81
Massachusetts	82
Michigan	203
Minnesota	58
Mississippi	95
Missouri	116
Montana	15
Nebraska	23
Nevada	66
New Hampshire	23
New Jersey	111
New Mexico	63
New York	204
North Carolina	226
North Dakota	7
Ohio	274
Oklahoma	82
Oregon	50
Pennsylvania	205
Puerto Rico	48
Rhode Island	17
Saint Thomas	1
South Carolina	95
South Dakota	9
Tennessee	169
Texas	637
Utah	61
Vermont	2
Virginia	141
Washington	95
Washington, DC	5
West Virginia	45
Wisconsin	75
Wyoming	9
Total Domestic stores	<u>5,885</u>
Mexico	621
Brazil	43
Total stores	<u><u>6,549</u></u>

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Marketing and Merchandising Strategy

We are dedicated to providing customers with superior service and trustworthy advice as well as quality automotive parts and products at a great value in conveniently located, well-designed stores. Key elements of this strategy are:

Customer Service

Customer service is the most important element in our marketing and merchandising strategy, which is based upon consumer marketing research. We emphasize that our AutoZoners (employees) should always put customers first by providing prompt, courteous service and trustworthy advice. Our electronic parts catalog assists in the selection of parts as well as identifying any associated warranties that are offered by us or our vendors. We sell automotive hard parts, maintenance items, accessories and non-automotive parts through www.autozone.com, for pick-up in store or to be shipped directly to a customer's home or business, with next day delivery covering approximately 80% of the U.S. population. Additionally, we offer a smartphone application that provides customers with store locations, driving directions, operating hours, product availability and the ability to purchase products.

We also provide specialty tools through our suite of free services. Through our Loan-A-Tool program customers can borrow a specialty tool, such as a steering wheel puller, for which a do-it-yourself ("DIY") customer or a repair shop would have little or no use other than for a single job. AutoZoners also provide free diagnostic and related services, including check engine light readings through our AutoZone Fix Finder service, testing of starters, alternators and batteries, battery charging and the collection of used oil for recycling.

Merchandising

The following tables show some of the types of products we sell by major category of items:

<u>Failure</u>	<u>Maintenance</u>	<u>Discretionary</u>
A/C Compressors	Antifreeze & Windshield Washer Fluid	Air Fresheners
Batteries & Accessories	Brake Drums, Rotors, Shoes & Pads	Cell Phone Accessories
Bearings	Chemicals, including Brake & Power	Drinks & Snacks
Belts & Hoses	Steering Fluid, Oil & Fuel Additives	Floor Mats & Seat Covers
Calipers	Oil & Transmission Fluid	Interior & Exterior Accessories
Chassis	Oil, Cabin, Air, Fuel & Transmission	Mirrors
Clutches	Filters	Performance Products
CV Axles	Oxygen Sensors	Protectants & Cleaners
Engines	Paint & Accessories	Sealants & Adhesives
Fuel Pumps	Refrigerant & Accessories	Steering Wheel Covers
Fuses	Shock Absorbers & Struts	Stereos & Radios
Ignition	Spark Plugs & Wires	Tools
Lighting	Windshield Wipers	Towing
Mufflers		Wash & Wax
Radiators		
Starters & Alternators		
Thermostats		
Tire Repair		
Water Pumps		

We believe that customer satisfaction is often impacted by our ability to promptly provide specific automotive products as requested. Each store carries the same basic products, but we tailor our hard parts inventory to the makes and models of the vehicles in each store's trade area, and our sales floor products are tailored to the local store's demographics. Our hub stores (including mega hubs, which carry an even broader assortment) carry a larger assortment of products that are delivered to local satellite stores. We are constantly updating the products we offer to ensure that our inventory matches the products our customers need or desire.

Pricing

We want to be the value leader in our industry, by consistently providing quality merchandise at the right price, backed by a satisfactory warranty and outstanding customer service. For many of our products, we offer multiple value choices in a good/better/best assortment, with appropriate price and quality differences from the “good” products to the “better” and “best” products. A key differentiating component versus our competitors is our exclusive line of in-house brands, which includes Duralast and the family of Duralast brands, ProElite, ShopPro, SureBilt, TruGrade and Valucraft. We believe that our overall value compares favorably to that of our competitors.

Brand Marketing: Marketing and Loyalty

We believe that targeted advertising and promotions play important roles in succeeding in today’s environment. We are constantly working to understand our customers’ wants and needs so that we can build long-lasting, loyal relationships. We utilize advertising, direct marketing, loyalty programs and promotions primarily to highlight our great value, the availability of high quality parts and develop a relationship with an expanding base of customers. Broadcast and digital media are our primary advertising methods of driving retail traffic to our stores, while we leverage a dedicated sales force and our ProVantage loyalty program to drive commercial sales.

Store Design, Visual Merchandising and Promotional Execution

We design and build stores for high visual impact. The typical store utilizes colorful exterior and interior signage, exposed beams and ductwork and brightly lit interiors. Maintenance products, accessories and non-automotive items are attractively displayed for easy browsing by customers. In-store signage and special displays promote products on floor displays, end caps and shelves. We utilize in-store signage, in-store circulars, and creative product placement and promotions to help educate customers about products that they need.

Commercial

Our commercial sales program operates in a highly fragmented market, and we are a leading distributor of automotive parts and other products to local, regional and national repair garages, dealers, service stations and public sector accounts in the Americas. As a part of the domestic store program, we offer credit and delivery to our customers, as well as online ordering through www.autozonepro.com. Through our hub stores, we offer a greater range of parts and products desired by professional technicians. We have dedicated sales teams focused on independent repair shops as well as national, regional and public sector commercial accounts.

Store Operations

Store Formats

Substantially all stores are based on standard store formats, resulting in generally consistent appearance, merchandising and product mix. Approximately 90% to 99% of each store’s square footage is selling space. In our satellite stores, approximately 40% to 50% of our space is dedicated to hard parts inventory, while our hub stores and mega hubs have 70% to 85% of their space utilized for hard parts. The hard parts inventory area is generally fronted by counters or pods that run the depth or length of the store, dividing the hard parts area from the remainder of the store. The remaining selling space contains displays of maintenance, accessories and non-automotive items.

We believe that our stores are “destination stores,” generating their own traffic rather than relying on traffic created by adjacent stores. Therefore, we situate most stores on major thoroughfares with easy access and good parking.

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Store Personnel and Training

We provide on-the-job training as well as formal training programs, including an annual national sales meeting with related cascading meetings at our distribution centers, regional offices and stores; store meetings on specific sales and product topics; standardized computer-based training to support culture, safety, salesmanship, compliance and product and job knowledge; and several specialist, vendor and third-party programs to support learning and development in areas requiring technical expertise and specific job knowledge. All domestic AutoZoners are encouraged to complete our in-house product knowledge program and Parts Expert certification, which is developed in partnership with our key suppliers. Training is supplemented with frequent store visits by management. Advanced leadership training is an additional area of investment that is used to deepen bench strength and support succession planning.

Store managers, commercial sales managers and managers at various levels across the organization receive financial incentives through performance-based bonuses. In addition, our growth has provided opportunities for the promotion of qualified AutoZoners. We believe these opportunities are important to attract, motivate and retain high quality AutoZoners.

All store support functions are centralized in our store support centers located in Memphis, Tennessee; Monterrey, Mexico; Chihuahua, Mexico and Sao Paulo, Brazil. We believe that this centralization enhances consistent execution of our merchandising and marketing strategies at the store level, while reducing expenses and cost of sales.

Store Automation

All of our stores have Z-net, our proprietary electronic catalog that enables our AutoZoners to efficiently look up the parts that our customers need and to provide complete job solutions, advice and information for customer vehicles. Z-net provides parts information based on the year, make, model and engine type of a vehicle and also tracks inventory availability at the store, at other nearby stores and through special order. The Z-net display screens are placed on the hard parts counter or pods, where both the AutoZoner and customer can view the screen.

Our stores utilize our computerized proprietary Point-of-Sale System, which includes bar code scanning and point-of-sale data collection terminals. Our proprietary Store Management System provides administrative assistance, as well as enhanced merchandising information and improved inventory control. We believe the Point-of-Sale System also enhances customer service through faster processing of transactions, while the Store Management System provides simplified warranty and product return procedures.

Store Development

The following table reflects our location development during the past five fiscal years:

	Fiscal Year				
	2020	2019	2018	2017	2016
Locations:					
Beginning	6,411	6,202	6,029	5,814	5,609
Sold ⁽¹⁾	—	—	26	—	—
New	138	209	201	215	205
Closed	—	—	2	—	—
Net new	<u>138</u>	<u>209</u>	<u>199</u>	<u>215</u>	<u>205</u>
Relocated	<u>5</u>	<u>2</u>	<u>7</u>	<u>5</u>	<u>6</u>
Ending	<u>6,549</u>	<u>6,411</u>	<u>6,202</u>	<u>6,029</u>	<u>5,814</u>

(1) 26 Interamerican Motor Corporation (“IMC”) branches sold on April 4, 2018. See “Note M – Sale of Assets” for more information.

We believe expansion opportunities exist in markets we do not currently serve, as well as in markets where we can achieve a larger presence. We undertake substantial research prior to entering new markets. The most important criteria for opening a new store are the projected future profitability and the ability to achieve our required investment hurdle rate. Key factors in selecting new site and market locations for stores include population, demographics, vehicle profile, customer buying trends, commercial businesses, number and strength of competitors' stores and the cost of real estate. In reviewing the vehicle profile, we also consider the number of vehicles that are seven years old and older, or "our kind of vehicles"; these vehicles are generally no longer under the original manufacturers' warranties and require more maintenance and repair than newer vehicles. We seek to open new stores in high visibility sites in high traffic locations within or contiguous to existing market areas and attempt to cluster development in markets in a relatively short period of time. In addition to continuing to lease or develop our own locations, we evaluate and may make strategic acquisitions.

Purchasing and Supply Chain

Merchandise is selected and purchased for all stores through our store support centers located in Memphis, Tennessee; Monterrey, Mexico and Sao Paulo, Brazil. Additionally, we have an office in Shanghai, China to support our sourcing efforts in Asia. In fiscal 2020, one class of similar products accounted for approximately 12 percent of our total sales, and one vendor supplied approximately 12 percent of our purchases. No other class of similar products accounted for 10 percent or more of our total sales, and no other individual vendor provided more than 10 percent of our total purchases. We believe that alternative sources of supply exist, at similar costs, for most types of product sold. Most of our merchandise flows through our distribution centers to our stores by our fleet of tractors and trailers or by third-party trucking firms. The distribution centers replenish all stores up to multiple times per week depending on store sales volumes.

We ended fiscal 2020 with 224 total domestic hub stores, which have a larger assortment of products as well as regular replenishment items that can be delivered to a store in its network within 24 hours. Hub stores are generally replenished from distribution centers multiple times per week. Hub stores have increased our ability to distribute products on a timely basis to many of our stores and to expand our product assortment.

As a subset of our domestic hub stores, we ended fiscal 2020 with 44 domestic mega hubs, an increase of 9 since the end of fiscal 2019. Mega hubs work in concert with our hubs to drive customer satisfaction through improved local parts availability and expanded product assortments. A mega hub store carries inventory of 70,000 to 110,000 unique SKUs, approximately twice what a hub store carries. Mega hubs provide coverage to both surrounding stores and other hub stores multiple times a day or on an overnight basis. Currently, we have over 5,700 domestic stores with access to mega hub inventory. A majority of these 5,700 stores currently receive their service same day.

Competition

The sale of automotive parts, accessories and maintenance items is highly competitive due to numerous factors, including name recognition, product availability, customer service, store location and price. AutoZone competes in the aftermarket auto parts industry, which includes both the retail DIY and commercial do-it-for-me ("DIFM") auto parts and products markets.

Our competitors include national, regional and local auto parts chains, independently owned parts stores, online automotive parts stores or marketplaces, wholesale distributors, jobbers, repair shops, car washes and auto dealers, in addition to discount and mass merchandise stores, hardware stores, supermarkets, drugstores, convenience stores, home stores and other retailers that sell aftermarket vehicle parts and supplies, chemicals, accessories, tools and maintenance parts. AutoZone competes on the basis of customer service, including the knowledge and expertise of our AutoZoners; merchandise quality, selection and availability; product warranty; store layouts, location and convenience; price; and the strength of our AutoZone brand name, trademarks and service marks.

Trademarks and Patents

We have registered several service marks and trademarks in the United States Patent and Trademark Office as well as in certain other countries, including our service marks: “AutoZone,” “AutoZone Rewards,” “Get in the Zone,” “Parts Are Just Part of What We Do,” “ProVantage,” “The Best Parts in Auto Parts,” “Zone” and trademarks: “ALLDATA Collision,” “ALLDATA Manage,” “ALLDATA Mobile,” “ALLDATA Repair,” “ALLDATA Tech-Assist,” “AutoZone,” “AutoZone & Design,” “Duralast,” “Duralast Aero Blade,” “Duralast Flex Blade,” “Duralast Gold,” “Duralast Gold Cmax,” “Duralast GT,” “Duralast Platinum,” “Duralast ProPower,” “Duralast ProPower Plus,” “Duralast ProPower Ultra,” “Duralast ProPower AGM,” “Duralast Max,” “Econocraft,” “Loan-A-Tool,” “ProElite,” “ProElite & Design,” “SureBilt,” “TruGrade,” “Valucraft,” “V & Design” and “Z-net.” We believe that these service marks and trademarks are important components of our marketing and merchandising strategies.

Employees

As of August 29, 2020, we employed approximately 100,000 persons, approximately 60 percent of whom were employed full-time. About 91 percent of our AutoZoners were employed in stores or in direct field supervision, approximately 6 percent in distribution centers and approximately 3 percent in store support and other functions. Included in the above numbers are approximately 10,000 persons employed in our Mexico and Brazil operations.

We have never experienced any material labor disruption and believe that relations with our AutoZoners are good.

Seasonality

Our business is somewhat seasonal in nature, with the highest sales typically occurring in the spring and summer months of February through September, in which average weekly per-store sales historically have been about 10% to 25% higher than in the slower months of December and January. During short periods of time, a store’s sales can be affected by weather conditions. Extremely hot or extremely cold weather may enhance sales by causing parts to fail; thereby increasing 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. Over the longer term, we believe the effects of weather balance out, as we have locations throughout the Americas.

AutoZone Websites

AutoZone’s primary website is at www.autozone.com. We make available, free of charge, at www.autozone.com, by clicking “Investor Relations” located at the bottom of the page, our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, proxy statements, registration statements and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities and Exchange Act of 1934, as amended, as soon as reasonably feasible after we electronically file such material with, or furnish it to, the Securities and Exchange Commission (“the SEC”). Our website and the information contained therein or linked thereto are not intended to be incorporated into this Annual Report on Form 10-K.

Information about our Executive Officers

The following list describes our executive officers, which are elected by and serve at the discretion of the Board of Directors. The title of each executive officer includes the words “Customer Satisfaction” which reflects our commitment to customer service.

William C. Rhodes, III, 55—Chairman, President and Chief Executive Officer, Customer Satisfaction
 William C. Rhodes, III, was named Chairman of AutoZone during fiscal 2007 and has been President, Chief Executive Officer and a director since March 2005. Prior to his appointment as President and Chief Executive Officer, Mr. Rhodes was Executive Vice President – Store Operations and Commercial. Previously, he held several key management positions with the Company. Prior to 1994, Mr. Rhodes was a manager with Ernst & Young LLP. Mr. Rhodes is a member of the Board of Directors for Dollar General Corporation.

William T. Giles, 61—Chief Financial Officer and Executive Vice President – Finance, Information Technology and Store Development, Customer Satisfaction

William T. Giles was named Chief Financial Officer during May 2006 and has notified the Company of his intent to retire, effective December 31, 2020. He has also held other responsibilities at various times including Executive Vice President of Finance, Information Technology, ALLDATA and Store Development. From 1991 to May 2006, he held several positions with Linens N’ Things, Inc., most recently as the Executive Vice President and Chief Financial Officer. Prior to 1991, he was with Melville, Inc. and PricewaterhouseCoopers. Mr. Giles is a member of the Board of Directors for Brinker International.

Jamere Jackson, 51—Chief Financial Officer and Executive Vice President – Finance and Store Development-Elect, Customer Satisfaction

Jamere Jackson was named Executive Vice President and Chief Financial Officer-Elect on September 13, 2020 and Chief Financial Officer and Executive Vice President – Finance and Store Development effective January 1, 2021. Mr. Jackson served as Executive Vice President and Chief Financial Officer of Hertz Global Holdings, Inc., a worldwide rental company, since 2018. Hertz Global Holdings, Inc. filed Chapter 11 bankruptcy on May 22, 2020. From 2014 to 2018, Mr. Jackson served as Chief Financial Officer of Nielsen Holdings plc, an information, data and measurement company. Prior to 2014, Mr. Jackson held a variety of leadership roles at General Electric Company, including Vice President and Chief Financial Officer of a division of General Electric Oil and Gas. Mr. Jackson serves on the Board of Directors for Eli Lilly & Co. and Hibbett Sports, Inc.

Mark A. Finestone, 59—Executive Vice President – Merchandising, Supply Chain and Marketing, Customer Satisfaction

Mark A. Finestone was named Executive Vice President – Merchandising, Supply Chain and Marketing during October 2015. Previously, he was Senior Vice President – Merchandising and Store Development since 2014, Senior Vice President – Merchandising from 2008 to 2014, and Vice President – Merchandising from 2002 to 2008. Prior to joining AutoZone in 2002, Mr. Finestone worked for May Department Stores for 19 years where he held a variety of leadership roles which included Divisional Vice President, Merchandising.

Thomas B. Newbern, 58—Executive Vice President – Store Operations, Commercial, Loss Prevention and ALLDATA, Customer Satisfaction

Thomas B. Newbern was named Executive Vice President – Store Operations, Commercial, Loss Prevention and ALLDATA during February 2017. Prior to that, he was Executive Vice President – Store Operations, Commercial and Loss Prevention since October 2015. Previously, he held the titles Senior Vice President – Store Operations and Loss Prevention from 2014 to 2015, Senior Vice President – Store Operations and Store Development from 2012 to 2014, Senior Vice President – Store Operations from 2007 to 2012 and Vice President – Store Operations from 1998 to 2007. Prior thereto, he served in various capacities within the Company.

Philip B. Daniele, 51—Senior Vice President – Commercial, Customer Satisfaction

Philip B. Daniele was elected Senior Vice President – Commercial during November 2015. Prior to that, he was Vice President – Commercial since 2013 and Vice President – Merchandising from 2008 to 2013. Previously, he was Vice President – Store Operations from 2005 to 2008. From 1993 until 2008, Mr. Daniele served in various capacities within the Company.

Preston B. Frazer, 44—Senior Vice President – Store Operations, Customer Satisfaction

Preston B. Frazer was named Senior Vice President, Store Operations in October 2019. Prior to that he was Vice President, Stores and Store Operations Support since 2018 and Vice President, Loss Prevention from 2015 to 2018. Previously, he was Vice President, Internal Audit from 2010 to 2015. From 2006 to 2010, Mr. Frazer served in various capacities within the Company. Prior to joining AutoZone, Mr. Frazer was a senior manager with KPMG, LLP.

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Ronald B. Griffin, 66—Senior Vice President and Chief Information Officer, Customer Satisfaction

Ronald B. Griffin was elected Senior Vice President and Chief Information Officer during June 2012. Prior to that, he was Senior Vice President, Global Information Technology at Hewlett-Packard Company. During his tenure at Hewlett-Packard Company, he also served as the Chief Information Officer for the Enterprise Business Division. Prior to that, Mr. Griffin was Executive Vice President and Chief Information Officer for Fleming Companies, Inc. He also spent over 12 years with The Home Depot, Inc., with the last eight years in the role of Chief Information Officer. Mr. Griffin also served at Deloitte & Touche LLP and Delta Air Lines, Inc.

William R. Hackney, 55—Senior Vice President – Merchandising, Customer Satisfaction

William R. Hackney was named Senior Vice President, Merchandising in October 2015 and has notified the Company of his intent to retire, effective December 31, 2020. His career with AutoZone began in 1983, and he has held several key management roles within the Company, including Vice President – Store Operations Support and Vice President – Merchandising.

Domingo J. Hurtado, 59—Senior Vice President – International, Customer Satisfaction

Domingo J. Hurtado Rodríguez was named Senior Vice President, International in September 2018. Prior to that, he was President, AutoZone de México. Mr. Hurtado has served in various capacities within the Company since 2001, which included leading the Company’s expansion into Mexico. Prior to 2001, he held different positions with RadioShack including Director General in Mexico and General Manager in Venezuela.

Mitchell C. Major, 51—Senior Vice President – Supply Chain, Customer Satisfaction

Mitchell C. Major was named Senior Vice President – Supply Chain in November 2018. Previously, he served as Vice President - Commercial Support since September 2016 and prior to that he held the title of President, ALLDATA. Mr. Major joined AutoZone in 2005. Prior to AutoZone, Mr. Major worked for Family Dollar, Inc.

Seong K. Ohm, 56—Senior Vice President – Merchandising, Customer Satisfaction

Seong K. Ohm was named Senior Vice President – Merchandising on October 26, 2020. Ms. Ohm served as the Group Commercial Development Officer for the Dairy Farm Group supporting development, sourcing, branding and packaging for private-label and exclusive brands in 7,000 retail outlets across 11 Southeast Asian countries. Ms. Ohm also was the Chief Commercial Officer for Home Plus, the second largest retailer in Korea and led their merchandising, sourcing and planning teams. Prior to these roles, she was Senior Vice President, General Merchandise Manager for both Walmart and Sam’s Club and Vice President/Divisional Merchandise Manager, Technology for Walmart Stores, Inc. Ms. Ohm began her career with General Electric in marketing, planning, brand management and strategy development.

Charlie Pleas, III, 55—Senior Vice President and Controller, Customer Satisfaction

Charlie Pleas, III, was elected Senior Vice President and Controller during 2007. Prior to that, he was Vice President and Controller since 2003. Previously, he was Vice President – Accounting since 2000, and Director of General Accounting since 1996. Prior to joining AutoZone, Mr. Pleas was a Division Controller with Fleming Companies, Inc. where he served in various capacities during his tenure from 1988 to 1996. Prior to 1988, he worked with Ernst & Young. Mr. Pleas is a member of the Board of Directors for Kirkland’s Inc.

Albert Saltiel, 56—Senior Vice President – Marketing and E-Commerce, Customer Satisfaction

Albert Saltiel was named Senior Vice President – Marketing and E-Commerce during October 2014. Previously, he was elected Senior Vice President – Marketing since 2013. Prior to that, he was Chief Marketing Officer and a key member of the leadership team at Navistar International Corporation. Mr. Saltiel has also been with Sony Electronics as General Manager, Marketing, and Ford Motor Company where he held multiple marketing roles.

Richard C. Smith, 56—Senior Vice President – Human Resources, Customer Satisfaction

Richard C. Smith was elected Senior Vice President – Human Resources in December 2015. He has been an AutoZoner since 1985, previously holding the position of Vice President of Stores since 1997. Prior thereto, he served in various capacities within the Company.

Kristen C. Wright, 44—Senior Vice President – General Counsel & Secretary, Customer Satisfaction
Kristen C. Wright was named Senior Vice President – General Counsel & Secretary effective January 2014. She previously held the title of Vice President – Assistant General Counsel & Assistant Secretary since January 2012. Before joining AutoZone, she was a partner with the law firm of Bass, Berry & Sims PLC.

Item 1A. Risk Factors

Our business is subject to a variety of risks and uncertainties. The risks and uncertainties described below could materially and adversely affect our business, financial condition, operating results, cash flows and stock price. The following information should be read in conjunction with the other information contained in this report and other filings that we make with the SEC. These risks and uncertainties are not the only ones we face. Our business could also be affected by additional factors that are presently unknown to us or that we currently believe to be immaterial to our business.

The ongoing outbreak of COVID-19 has been declared a pandemic by the World Health Organization, continues to spread within the United States and many other parts of the world and may have a material adverse effect on our business operations, financial condition, liquidity and cash flow.

As the outbreak of COVID-19 continues to grow both in the U.S. and globally, there has been significant volatility in financial market indices and the adoption of emergency legislation aimed to address the negative impacts of the pandemic. While sales were initially negatively impacted and we have incurred significant expenses, following the U.S. federal government stimulus, our sales rebounded, reaching record levels. We are unable to accurately predict the impact that COVID-19 will have on our business and financial condition due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, the likelihood of a resurgence of the outbreak, actions that may be taken by governmental authorities in response to the disease and unintended consequences of the foregoing. In particular, it is unclear what near-term and long-term impact these factors will have on the number of vehicle miles driven, traffic to our stores, as well as demand for our products from our retail and commercial customers. Continued business disruption caused by COVID-19 may require significant actions to mitigate the impact, including but not limited to employee furloughs, reductions in store hours and store closings as well as ongoing increases in expenses. Further, the continuing pandemic and related economic uncertainty may result in prolonged disruption to our business, additional negative impacts of which we are not currently aware and may also magnify other risks associated with our business and operations, including risks associated with sourcing quality merchandise domestically and outside the U.S.; our ability to promptly adjust inventory levels to meet fluctuations in customer demand; our ability to comply with complex and evolving laws and regulations related to customers' and AutoZoners' health and safety; our ability to open new store locations and expand or remodel existing stores; and our ability to hire and train qualified employees to address temporary or sustained labor shortages. Accordingly, the COVID-19 pandemic could have a material adverse effect on demand for our products, workforce availability and our results of operations, financial condition, liquidity and cash flows.

If demand for our products slows, then our business may be materially adversely affected.

Demand for the products we sell may be affected by a number of factors we cannot control, including:

- the number of older vehicles in service. Vehicles seven years old or older are generally no longer under the original vehicle manufacturers' warranties and tend to need more maintenance and repair than newer vehicles.
- rising energy prices. Increases in energy prices may cause our customers to defer purchases of certain of our products as they use a higher percentage of their income to pay for gasoline and other energy costs and may drive their vehicles less, resulting in less wear and tear and lower demand for repairs and maintenance.

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- the economy. In periods of declining economic conditions, consumers may reduce their discretionary spending by deferring vehicle maintenance or repair. Additionally, such conditions may affect our customers' ability to obtain credit. During periods of expansionary economic conditions, more of our DIY customers may pay others to repair and maintain their vehicles instead of working on their own vehicles, or they may purchase new vehicles.
- the weather. Milder weather conditions may lower the failure rates of automotive parts, while extended periods of rain and winter precipitation may cause our customers to defer maintenance and repair on their vehicles. Extremely hot or cold conditions may enhance demand for our products due to increased failure rates of our customers' automotive parts.
- technological advances. Advances in automotive technology, such as electric vehicles, and parts design can result in cars needing maintenance less frequently and parts lasting longer.
- the number of miles vehicles are driven annually. Higher vehicle mileage increases the need for maintenance and repair. Mileage levels may be affected by gas prices, ride sharing and other factors.
- the quality of the vehicles manufactured by the original vehicle manufacturers and the length of the warranties or maintenance offered on new vehicles.
- restrictions on access to telematics and diagnostic tools and repair information imposed by the original vehicle manufacturers or by governmental regulation. These restrictions may cause vehicle owners to rely on dealers to perform maintenance and repairs.

These factors could result in a decline in the demand for our products, which could adversely affect our business and overall financial condition.

If we are unable to compete successfully against other businesses that sell the products that we sell, we could lose customers and our sales and profits may decline.

The sale of automotive parts, accessories and maintenance items is highly competitive, and sales volumes are dependent on many factors, including name recognition, product availability, customer service, store location and price. Competitors are opening locations near our existing locations. AutoZone competes as a provider in both the DIY and DIFM auto parts and accessories markets.

Our competitors include national, regional and local auto parts chains, independently owned parts stores, online automotive parts stores or marketplaces, wholesale distributors, jobbers, repair shops, car washes and auto dealers, in addition to discount and mass merchandise stores, hardware stores, supermarkets, drugstores, convenience stores, home stores, and other retailers that sell aftermarket vehicle parts and supplies, chemicals, accessories, tools and maintenance parts. Although we believe we compete effectively on the basis of customer service, including the knowledge and expertise of our AutoZoners; merchandise quality, selection and availability; product warranty; store layout, location and convenience; price; and the strength of our AutoZone brand name, trademarks and service marks, some of our competitors may gain competitive advantages, such as greater financial and marketing resources allowing them to sell automotive products at lower prices, larger stores with more merchandise, longer operating histories, more frequent customer visits and more effective advertising. Online and multi-channel retailers often focus on delivery services, offering customers faster, guaranteed delivery times and low-price or free shipping. Some online businesses have lower operating costs than we do. In addition, because our business strategy is based on offering superior levels of customer service to complement the products we offer, our cost structure is higher than some of our competitors, which also puts pressure on our margins.

Consumers are embracing shopping online and through mobile commerce applications. With the increasing use of digital tools and social media, and our competitors' increased focus on optimizing customers' online experience, our customers are quickly able to compare prices, product assortment and feedback from other customers before purchasing our products either online, in the physical stores or through a combination of both offerings.

We believe that we compete effectively on the basis of merchandise availability as a result of investments in inventory available for immediate sale, the development of a robust hub and mega hub distribution network providing efficient access to obtain products required on-demand, options to order products online or by telephone and pick them up in stores and options for special orders directly from our vendors. We also offer hassle-free returns to our customers. In addition, we believe that customers value the personal interaction with a salesperson that is qualified to offer trustworthy advice and provide other free services such as parts testing.

We also utilize promotions, advertising and our loyalty programs to drive customer traffic and compete more effectively, and we must regularly assess and adjust our efforts to address changes in the competitive marketplace. If we are unable to continue to manage readily-available inventory demand and competitive delivery options as well as develop successful competitive strategies, including the maintenance of effective promotions, advertising and loyalty programs, or if our competitors develop more effective strategies, we could lose customers and our sales and profits may decline.

We may not be able to sustain our historic rate of sales growth.

We have increased our store count in the past five fiscal years, growing from 5,609 stores at August 29, 2015, to 6,549 stores at August 29, 2020, an average store increase per year of three percent. Additionally, we have increased annual revenues in the past five fiscal years from \$10.187 billion in fiscal 2015 to \$12.632 billion in fiscal 2020, an average increase per year of five percent. Annual revenue growth is driven by the opening of new stores, the development of new commercial programs and increases in same store sales. We open new stores only after evaluating customer buying trends and market demand/needs, all of which could be adversely affected by persistent unemployment, wage cuts, small business failures and microeconomic conditions unique to the automotive industry. Same store sales are impacted both by customer demand levels and by the prices we are able to charge for our products, which can also be negatively impacted by economic pressures. We cannot provide any assurance that we will continue to open stores at historical rates or continue to achieve increases in same store sales.

Consolidation among our competitors may negatively impact our business.

Historically some of our competitors have merged. Consolidation among our competitors could enhance their market share and financial position, provide them with the ability to achieve better purchasing terms and provide more competitive prices to customers for whom we compete, and allow them to utilize merger synergies and cost savings to increase advertising and marketing budgets to more effectively compete for customers. Consolidation by our competitors could also increase their access to local market parts assortment.

These consolidated competitors could take sales volume away from us in certain markets, could achieve greater market penetration, could cause us to change our pricing with a negative impact on our margins or could cause us to spend more money to maintain customers or seek new customers, all of which could negatively impact our business.

If we cannot profitably increase our market share in the commercial auto parts business, our sales growth may be limited.

Although we are one of the largest sellers of auto parts in the commercial market, we must effectively compete against national and regional auto parts chains, independently owned parts stores, wholesalers and jobbers in order to increase our commercial market share. Although we believe we compete effectively in the commercial market on the basis of customer service, merchandise quality, selection and availability, price, product warranty, distribution locations and the strength of our AutoZone brand name, trademarks and service marks, some automotive aftermarket participants have been in business for substantially longer periods of time than we have, and as a result have developed long-term customer relationships and have large available inventories. If we are unable to profitably develop new commercial customers, our sales growth may be limited.

Our business depends upon hiring, training and retaining qualified employees.

We believe that much of our brand value lies in the quality of the approximately 100,000 AutoZoners employed in our stores, distribution centers, store support centers and ALLDATA. Our workforce costs represent our largest operating expense, and our business is subject to employment laws and regulations, including requirements related to minimum wage, benefits and scheduling requirements. In addition, the implementation of potential regulatory changes relating to overtime exemptions and benefits for certain employees under federal and state laws could result in increased labor costs to our business and negatively impact our operating results. We cannot be assured that we can continue to hire, train and retain qualified employees at current wage rates since we operate in a competitive labor market, and there is a risk of market increases in compensation.

If we are unable to hire, properly train and retain qualified employees, we could experience higher employment costs, reduced sales, regulatory noncompliance, losses of customers and diminution of our brand or company culture, which could adversely affect our earnings. If we do not maintain competitive wages or benefit packages, our customer service could suffer due to a declining quality of our workforce or, alternatively, our earnings could decrease if we increase our wage rates. A violation or change in employment and labor laws (including changes in existing employment benefit programs such as health insurance) could have a material adverse effect on our results of operations, financial condition and cash flows.

Inability to acquire and provide quality merchandise at competitive prices could adversely affect our sales and results of operations.

We are dependent upon our domestic and international vendors continuing to supply us with quality merchandise at competitive prices and payment terms. If our merchandise offerings do not meet our customers' expectations regarding quality and safety, we could experience lost sales, increased costs and exposure to legal and reputational risk. All of our vendors must comply with applicable product safety laws, and we are dependent on them to ensure that the products we buy comply with all safety and quality standards. Events that give rise to actual, potential or perceived product safety concerns could expose us to government enforcement action or private litigation and result in costly product recalls and other liabilities. To the extent our suppliers are subject to added government regulation of their product design and/or manufacturing processes, the cost of the merchandise we purchase may rise. In addition, negative customer perceptions regarding the safety or quality of the products we sell could cause our customers to seek alternative sources for their needs, resulting in lost sales. In those circumstances, it may be difficult and costly for us to rebuild our reputation and regain the confidence of our customers. Moreover, our vendors are impacted by global economic conditions. Credit market and other macroeconomic conditions, including disruption to the global supply chain, could have a material adverse effect on the ability of our suppliers to finance and operate their businesses, resulting in increased product costs and difficulties in meeting our inventory demands. If we experience transitions or changeover with any of our significant vendors, or if they experience financial difficulties or otherwise are unable to deliver merchandise to us on a timely basis, or at all, we could have product shortages in our stores that could adversely affect customers' perceptions of us and cause us to lose customers and sales.

Risks associated with products sourced outside the U.S.

We directly imported approximately 13% of our purchases in fiscal 2020, but many of our domestic vendors directly import their products or components of their products. Changes to the price or flow of these goods for any reason, such as civil unrest or acts of war, currency fluctuations, disruptions in maritime lanes, port labor disputes and economic conditions and instability in the countries in which foreign suppliers are located, the financial instability of suppliers, failure to meet our standards, issues with labor practices of our suppliers or labor problems they may experience (such as strikes, stoppages or slowdowns, which could also increase labor costs during and following the disruption), the availability and cost of raw materials to suppliers, increased import duties or tariffs, merchandise quality or safety issues, transport availability and cost, increases in wage rates and taxes, transport security, inflation and other factors relating to the suppliers and the countries in which they are located or from which they import, often are beyond our control and could adversely affect our operations and profitability. In addition, the foreign trade policies, tariffs and other impositions on imported goods, trade sanctions imposed on certain countries, import limitations on certain types of goods or of goods containing certain materials from other countries and other factors relating to foreign trade and port labor agreements are beyond our control. These and other factors, such as the COVID-19 pandemic, affecting our suppliers and our access to products could adversely affect our business and financial performance. As we or our domestic vendors increase our imports of merchandise from foreign vendors, the risks associated with these imports will also increase.

Our ability to grow depends in part on new location openings, existing location remodels and expansions and effective utilization of our existing supply chain and hub network.

Our continued growth and success will depend in part on our ability to open and operate new locations and expand and remodel existing locations to meet customers' needs on a timely and profitable basis. Accomplishing our new and existing location expansion goals will depend upon a number of factors, including the ability to partner with developers and landlords to obtain suitable sites for new and expanded locations at acceptable costs, the hiring and training of qualified personnel and the integration of new locations into existing operations. There can be no assurance we will be able to achieve our location expansion goals, manage our growth effectively, successfully integrate the planned new locations into our operations or operate our new, remodeled and expanded locations profitably.

In addition, we extensively utilize our hub network, our supply chain and logistics management techniques to efficiently stock our locations. We have made, and plan to continue to make, significant investments in our supply chain to improve our ability to provide the best parts at the right price and to meet consumer product needs. If we fail to effectively utilize our existing hubs and/or supply chains or if our investments in our supply chain initiatives, including directly sourcing some products from outside the U.S., do not provide the anticipated benefits, we could experience sub-optimal inventory levels in our locations or increases in our operating costs, which could adversely affect our sales volume and/or our margins.

Our failure to protect our reputation could have a material adverse effect on our brand name and profitability.

We believe our continued strong sales growth is driven in significant part by our brand name. The value in our brand name and its continued effectiveness in driving our sales growth are dependent to a significant degree on our ability to maintain our reputation for safety, high product quality, friendliness, service, trustworthy advice, integrity and business ethics. Any negative publicity about these areas could damage our reputation and may result in reduced demand for our merchandise. The increasing use of technology also poses a risk as customers are able to quickly compare products and prices and use social media to provide feedback in a manner that is rapidly and broadly dispersed. Our reputation could be impacted if customers have a bad experience and share it over social media.

Failure to comply with ethical, social, product, labor, environmental and anti-corruption standards could also jeopardize our reputation and potentially lead to various adverse actions by consumer or environmental groups, employees or regulatory bodies. Failure to comply with applicable laws and regulations, to maintain an effective system of internal controls or to provide accurate and timely financial statement information could also hurt our reputation. If we fail to comply with existing or future laws or regulations, we may be subject to governmental or judicial fines or sanctions, while incurring substantial legal fees and costs. In addition, our capital and operating expenses could increase due to implementation of and compliance with existing and future laws and regulations or remediation measures that may be required if we are found to be noncompliant with any existing or future laws or regulations. The inability to pass through any increased expenses through higher prices would have an adverse effect on our results of operations.

Damage to our reputation or loss of consumer confidence for any of these or other reasons could have a material adverse effect on our results of operations and financial condition, as well as require additional resources to rebuild our reputation.

Our success in international operations is dependent on our ability to manage the unique challenges presented by international markets.

The various risks we face in our U.S. operations generally also exist when conducting operations in and sourcing products and materials from outside of the U.S., in addition to the unique costs, risks and difficulties of managing international operations. Our expansion into international markets may be adversely affected by local laws and customs, U.S. laws applicable to foreign operations, and political and socio-economic conditions.

Risks inherent in international operations also include potential adverse tax consequences, potential changes to trade policies and trade agreements, compliance with the Foreign Corrupt Practices Act and local anti-bribery and anti-corruption laws, greater difficulty in enforcing intellectual property rights, challenges to identify and gain access to local suppliers, and possibly misjudging the response of consumers in foreign countries to our product assortment and marketing strategy.

In addition, our operations in international markets are conducted primarily in the local currency of those countries. Since our Consolidated Financial Statements are denominated in U.S. dollars, amounts of assets, liabilities, net sales, and other revenues and expenses denominated in local currencies must be translated into U.S. dollars using exchange rates for the current period. As a result, foreign currency exchange rates and fluctuations in those rates may adversely impact our financial performance.

Failure to protect or effectively respond to a breach of the privacy and security of customers', suppliers', AutoZoners' or Company information could damage our reputation, subject us to litigation, and cause us to incur substantial costs.

Our business, like that of most retailers and distributors, involves the receipt, storage and transmission of personal information about our customers, suppliers and AutoZoners, some of which is entrusted to third-party service providers and vendors. Failure to protect the security of our customers', suppliers', employees' and Company information could subject us to costly regulatory enforcement actions, expose us to litigation and impair our reputation, which may have a negative impact on our sales. We consider information security to be a top priority and undertake cyber-security planning and activities throughout the Company. Senior management and the Board of Directors are actively engaged in cyber-security risk management. While we and our third-party service providers and vendors take significant steps to protect customer, supplier, employee and other confidential information, including maintaining compliance with payment card industry standards and a security program that includes updating technology and security policies, employee training and monitoring and routine testing of our systems, these security measures may be breached in the future due to cyber-attack, employee error, system compromises, fraud, trickery, hacking or other intentional or unintentional acts, and unauthorized parties may obtain access to this data. We believe that our preventative actions provide adequate measures of protection against security breaches and generally reduce our cyber-security risks. However, our business or our third party providers, with which we share sensitive information, may not discover a security breach or loss of information for a significant period after the security breach occurs. Failure to effectively respond to system compromises may undermine our security measures. The methods used to obtain unauthorized access are constantly evolving and may be difficult to anticipate or detect for long periods of time. To date, we have not experienced a material breach of cyber-security; however, our computer systems have been, and will likely continue to be, subjected to unauthorized access or phishing attempts, computer viruses, malware, ransomware or other malicious codes. As the regulatory environment related to information security, data collection and use, and privacy becomes increasingly rigorous, compliance with these requirements could also result in significant additional costs. There can be no assurance that our security measures will prevent or limit the impact of a future incident. The cost to remediate damages to our systems suffered as a result of a cyber-attack could be significant.

We accept payments using a variety of methods, including cash, checks, credit, debit, electronic payments (such as PayPal, Apple Pay, etc.) and gift cards, and we may offer new payment options over time, which may have information security risk implications. As a retailer accepting debit and credit cards for payment, we are subject to various industry data protection standards and protocols, such as the American National Standards Institute encryption standards and payment network security operating guidelines and Payment Card Industry Data Security Standard. Even though we comply with these standards and protocols and other information security measures, we cannot be certain that the security measures we maintain to protect all of our information technology systems are able to prevent, contain or detect any cyber-attacks, cyber terrorism, or security breaches from known cyber-attacks or malware that may be developed in the future. We maintain insurance coverage that may protect us from certain cyber-attack claims; however, our insurance coverage may not be sufficient to cover significant losses in any particular situation.

To the extent that any cyber-attack or intrusion in our or one of our third-party service provider's information systems results in the loss, damage or misappropriation of information, we may be materially adversely affected by claims from customers, financial institutions, regulatory authorities, payment card networks and others. In certain circumstances, payment card association rules and obligations to which we are subject under our contracts with payment card processors make us liable to payment card issuers if information in connection with payment cards and payment card transactions that we hold is compromised, which liabilities could be substantial. In addition, the cost of complying with stricter and more complex data privacy, data collection and information security laws and standards could be significant to us.

We have invested in information-technology risk management and disaster recovery plans. Although these plans are in place, we must provide ongoing monitoring and consistently revise our plans as technologies change rapidly and our efforts to overcome security risks continue to become increasingly more complex and concentrated.

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We rely heavily on our information technology systems for our key business processes. Any failure or interruption in these systems could have a material adverse impact on our business.

We rely extensively on our information technology systems, some of which are managed or provided by third-party service providers, to manage inventory, communicate with customers, process transactions and summarize results. Our systems and the third-party systems we rely on are subject to damage or interruption from power outages, facility damage, physical theft, telecommunications failures, computer viruses, security breaches, malicious cyber-attacks, catastrophic events, and design or usage errors by our AutoZoners, contractors or third-party service providers. Although we and our third-party service providers work diligently to maintain our respective systems, we may not be successful in doing so.

If our systems are damaged or fail to function properly, we may incur substantial costs to repair or replace them, and may experience loss of critical data and interruptions or delays in our ability to manage inventories or process transactions, which could result in lost sales, inability to process purchase orders and/or a potential loss of customer loyalty, which could adversely affect our results of operations.

We are in the process of developing and implementing various information systems, as well as modifying existing systems. These technological changes will require significant investment of human and financial resources, and we may experience significant delays, costs increases and other obstacles with these projects. Although we have invested significant resources during our planning, project management and training, implementation issues may arise which may disrupt our operations and negatively impact our business operations, financial condition and cash flows.

Business interruptions may negatively impact our location hours, operability of our computer and other systems, availability of merchandise and otherwise have a material negative effect on our sales and our business.

War or acts of terrorism, political or civil unrest, unusual weather conditions, hurricanes, tornadoes, windstorms, fires, earthquakes, floods, global health epidemics (such as COVID-19) and other natural or other disasters or the threat of any of them, may result in certain of our locations being closed for a period of time or permanently or have a negative impact on our ability to obtain merchandise available for sale in our locations. Some of our merchandise is imported from other countries. If imported goods become difficult or impossible to bring into the U.S., and if we cannot obtain such merchandise from other sources at similar costs, our sales and profit margins may be negatively affected.

In the event that commercial transportation is curtailed or substantially delayed, our business may be adversely impacted, as we may have difficulty transporting merchandise to our distribution centers and locations resulting in lost sales and/or a potential loss of customer loyalty. Transportation issues could also cause us to cancel purchase orders if we are unable to receive merchandise in our distribution centers.

We are self-insured for certain costs associated with our operations and an increase in our insurance claims and expenses may have a material negative impact on us.

We are self-insured up to certain limits for workers' compensation, employee group medical, general liability, product liability, property and automobile. The types and amounts of insurance may vary from time to time based on our decisions with respect to risk retention and regulatory requirements. Our reserves are established using historical trends and where appropriate, using a third party actuary, to estimate costs to settle reported claims and claims incurred but not yet reported. Estimated costs are subject to a variety of assumptions and other factors including the severity, duration and frequency of claims, legal costs associated with claims, healthcare trends and projected inflation of related factors. Material increases in the number of insurance claims, changes to healthcare costs, accident frequency and severity, legal expenses and other factors could result in unfavorable difference between actual self-insurance costs and our reserve estimates. As a result, our self-insurance costs could increase which may adversely affect our business, results of operations, financial condition and cash flows.

General Risk Factors

A downgrade in our credit ratings or a general disruption in the credit markets could make it more difficult for us to access funds, refinance our debt, obtain new funding or issue debt securities.

Our short-term and long-term debt is rated investment grade by the major rating agencies. These investment-grade credit ratings have historically allowed us to take advantage of lower interest rates and other favorable terms on our short-term credit lines, in our senior debt offerings and in the commercial paper markets. To maintain our investment-grade ratings, we are required to meet certain financial performance ratios. A change by the rating agencies in these ratios, an increase in our debt, and/or a decline in our earnings could result in downgrades in our credit ratings. A downgrade in our credit ratings could limit our access to public debt markets, limit the institutions willing to provide credit facilities to us, result in more restrictive financial and other covenants in our public and private debt and would likely significantly increase our overall borrowing costs and adversely affect our earnings.

Moreover, significant deterioration in the financial condition of large financial institutions during the Great Recession resulted in a severe loss of liquidity and availability of credit in global credit markets and in more stringent borrowing terms. We can provide no assurance that such similar events that occurred during the Great Recession will not occur again in the foreseeable future. Conditions and events in the global credit markets could have a material adverse effect on our access to short-term and long-term debt and the terms and cost of that debt.

Our business, results of operations, financial condition and cash flows may be adversely affected by the adoption of new laws, changes to existing laws, increased enforcement activity or other governmental actions.

We are subject to numerous federal, state and local laws and regulations, many of which are complex, frequently revised and subject to varying interpretations. These include laws governing employment and labor, wage and hour, environmental matters, proper handling and disposal of hazardous materials and waste, healthcare, data privacy, cybersecurity, the pricing and sale of goods, import and export compliance and transportation and logistics, among others. These laws may differ substantially in the areas where we operate. Although we have implemented policies and procedures to help ensure compliance with these laws, there can be no certainty that our employees and third parties with whom we do business will not take actions in violation of our policies or applicable laws. If we fail to comply with these laws, rules and regulations, or the manner in which they are interpreted or applied, we may be subject to governmental enforcement action or private litigation resulting in monetary penalties, reputational harm and increased costs of regulatory compliance. Any changes in regulations, the imposition of additional regulations, or the enactment of any new legislation could have an adverse impact, directly or indirectly, on our financial condition and results of operations. We may also be subject to investigations or audits by governmental authorities and regulatory agencies as a result of enforcing existing laws and regulations or changes in enforcement priorities, which can occur in the ordinary course of business or may result from increased scrutiny from a particular agency or toward a particular industry.

Our business, financial condition, results of operations and cash flows may be affected by litigation.

We are involved in lawsuits, regulatory investigations, governmental and other legal proceedings, arising out of the ordinary course of business. Such matters involve significant expense and divert management's attention and resources from other matters. The damages sought against us in these proceedings may be material and may adversely affect our business, results of operations, financial condition and cash flows.

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Significant changes in macroeconomic and geo-political factors could adversely affect our financial condition and results of operations.

Macroeconomic conditions impact both our customers and our suppliers. Job growth in the U.S. was stagnated and unemployment was at historically high levels during the Great Recession. While in recent years, the unemployment rate has improved to below pre-recession levels, unemployment has again reached historically high levels due to COVID-19. Moreover, the U.S. government continues to operate under historically large deficits and debt burden. Continued distress in global credit markets, business failures, inflation, foreign exchange rate fluctuations, significant geo-political conflicts, proposed or additional tariffs, continued volatility in energy prices, the impact of a public health crisis or pandemic (such as COVID-19) and other factors continue to affect the global economy. Moreover, rising energy prices could impact our merchandise distribution, commercial delivery, utility and product costs. It is unclear how such factors could impact our business in the short term. Over a longer period of time, these macroeconomic and geo-political conditions could adversely affect our sales growth, margins and overhead. These could adversely affect our financial condition and operations.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The following table reflects the square footage and number of leased and owned properties for our stores as of August 29, 2020:

	<u>No. of Stores</u>	<u>Store Square Footage</u>
Leased.....	3,489	22,811,306
Owned	3,060	20,690,477
Total	<u>6,549</u>	<u>43,501,783</u>

We have approximately 5.9 million square feet in distribution centers servicing our stores, of which approximately 1.9 million square feet is leased and the remainder is owned. Our 12 distribution centers are located in Arizona, California, Florida, Georgia, Illinois, Ohio, Pennsylvania, Tennessee, Texas, Washington and two in Mexico. Our primary store support center is located in Memphis, Tennessee, and consists of approximately 320,000 square feet. We also have three additional store support centers located in Monterrey, Mexico; Chihuahua, Mexico and Sao Paulo, Brazil. Our International Sourcing Office is located in Shanghai, China. The ALLDATA headquarters in Elk Grove, California is leased, and we also own or lease other properties that are not material in the aggregate.

Item 3. Legal Proceedings

In 2004, we acquired a store site in Mount Ephraim, New Jersey that had previously been the site of a gasoline service station and contained evidence of groundwater contamination. Upon acquisition, we voluntarily reported the groundwater contamination issue to the New Jersey Department of Environmental Protection (“NJDEP”) and entered into a Voluntary Remediation Agreement providing for the remediation of the contamination associated with the property. We have conducted and paid for (at an immaterial cost to us) remediation of contamination on the property.

We have also voluntarily investigated and addressed potential vapor intrusion impacts in downgradient residences and businesses. The NJDEP has asserted, in a Directive and Notice to Insurers dated February 19, 2013 and again in an Amended Directive and Notice to Insurers dated January 13, 2014 (collectively the “Directives”), that we are liable for the downgradient impacts under a joint and severable liability theory. By letter dated April 23, 2015, NJDEP has demanded payment from us, and other parties, in the amount of approximately \$296 thousand for costs incurred by NJDEP in connection with contamination downgradient of the property. By letter dated January 29, 2016, we were informed that NJDEP has filed a lien against the property in connection with approximately \$355 thousand in costs incurred by NJDEP in connection with contamination downgradient of the property. We have contested, and will continue to contest, any such assertions due to the existence of other entities/sources of contamination, some of which are named in the Directives and the April 23, 2015 demand letter, in the area of the property. Pursuant to the Voluntary Remediation Agreement, upon completion of all remediation required by the agreement, we believe we should be eligible to be reimbursed up to 75% of qualified remediation costs by the State of New Jersey. We have asked the state for clarification that the agreement applies to off-site work. Although the aggregate amount of additional costs that we may incur pursuant to the remediation cannot currently be ascertained, we do not currently believe that fulfillment of our obligations under the agreement or otherwise will result in costs that are material to our financial condition, results of operations or cash flows.

We are involved in various other legal proceedings incidental to the conduct of our business, including, but not limited to, several lawsuits containing class-action allegations in which the plaintiffs are current and former hourly and salaried employees who allege various wage and hour violations and unlawful termination practices. We do not currently believe that, either individually or in the aggregate, these matters will result in liabilities material to our financial condition, results of operations or cash flows.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Our common stock is listed on the New York Stock Exchange under the symbol "AZO." On October 19, 2020, there were 2,021 stockholders of record, which does not include the number of beneficial owners whose shares were represented by security position listings.

We currently do not pay a dividend on our common stock. Our ability to pay dividends is subject to limitations imposed by Nevada law. Any future payment of dividends would be dependent upon our financial condition, capital requirements, earnings and cash flow.

During 1998, the Company announced a program permitting the Company to repurchase a portion of its outstanding shares not to exceed a dollar maximum established by the Company's Board of Directors. The program was most recently amended on October 7, 2019, to increase the repurchase authorization by \$1.250 billion, bringing total value of authorized share repurchases to \$23.15 billion.

During fiscal 2020, we temporarily ceased share repurchases under our share repurchase program to conserve liquidity in response to the uncertainty related to COVID-19. While we have restarted share repurchases during the first quarter of fiscal year 2021, we will continue to evaluate current and expected business conditions and adjust the level of share repurchases under our share repurchase program as we deem appropriate.

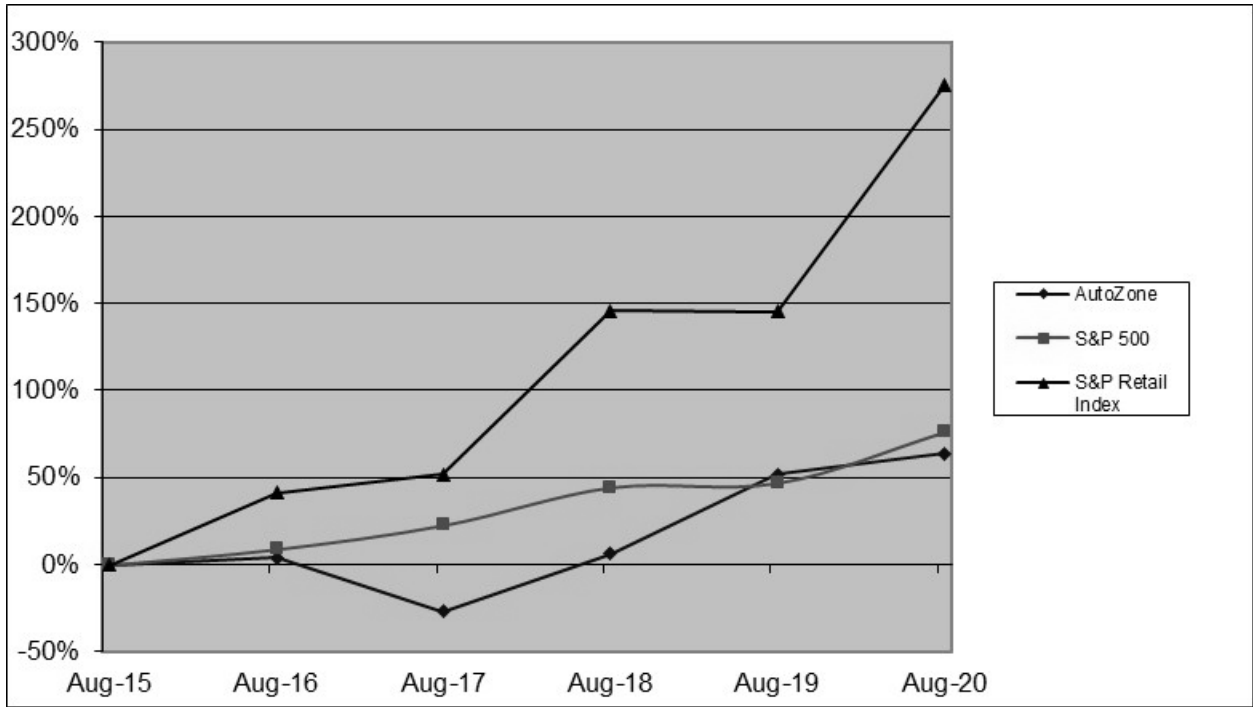
The Company did not purchase any shares during the quarter ended August 29, 2020.

The Company also repurchased, at market value, an additional 8,287, 17,201 and 11,816 shares in fiscal years 2020, 2019 and 2018, respectively, from employees electing to sell their stock under the Company's Sixth Amended and Restated Employee Stock Purchase Plan (the "Employee Plan"), qualified under Section 423 of the Internal Revenue Code, under which all eligible employees may purchase AutoZone's common stock at 85% of the lower of the market price of the common stock on the first day or last day of each calendar quarter through payroll deductions. Maximum permitted annual purchases are \$15,000 per employee or 10 percent of compensation, whichever is less. Under the Employee Plan, 10,525, 11,011 and 14,523 shares were sold to employees in fiscal 2020, 2019 and 2018, respectively. At August 29, 2020, 142,241 shares of common stock were reserved for future issuance under the Employee Plan.

Once executives have reached the maximum purchases under the Employee Plan, the Sixth Amended and Restated Executive Stock Purchase Plan (the "Executive Plan") permits all eligible executives to purchase AutoZone's common stock up to 25 percent of his or her annual salary and bonus. Purchases by executives under the Executive Plan were 1,204, 1,483 and 1,840 shares in fiscal 2020, 2019 and 2018, respectively. At August 29, 2020, 235,361 shares of common stock were reserved for future issuance under the Executive Plan.

Stock Performance Graph

The graph below presents changes in the value of AutoZone’s stock as compared to Standard & Poor’s 500 Composite Index (“S&P 500”) and to Standard & Poor’s Retail Index (“S&P Retail Index”) for the five-year period beginning August 29, 2015 and ending August 29, 2020.



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Item 6. Selected Financial Data

	Fiscal Year Ended August				
	2020 ⁽¹⁾	2019 ⁽²⁾	2018 ⁽³⁾	2017	2016
<i>(in thousands, except per share data, same store sales and selected operating data)</i>					
Income Statement Data					
Net sales	\$ 12,631,967	\$ 11,863,743	\$ 11,221,077	\$ 10,888,676	\$ 10,635,676
Cost of sales, including warehouse and delivery expenses	<u>5,861,214</u>	<u>5,498,742</u>	<u>5,247,331</u>	<u>5,149,056</u>	<u>5,026,940</u>
Gross profit	6,770,753	6,365,001	5,973,746	5,739,620	5,608,736
Operating, selling, general and administrative expenses	<u>4,353,074</u>	<u>4,148,864</u>	<u>4,162,890</u>	<u>3,659,551</u>	<u>3,548,341</u>
Operating profit	2,417,679	2,216,137	1,810,856	2,080,069	2,060,395
Interest expense, net	<u>201,165</u>	<u>184,804</u>	<u>174,527</u>	<u>154,580</u>	<u>147,681</u>
Income before income taxes	2,216,514	2,031,333	1,636,329	1,925,489	1,912,714
Income tax expense ⁽⁴⁾	<u>483,542</u>	<u>414,112</u>	<u>298,793</u>	<u>644,620</u>	<u>671,707</u>
Net income ⁽⁴⁾	<u>\$ 1,732,972</u>	<u>\$ 1,617,221</u>	<u>\$ 1,337,536</u>	<u>\$ 1,280,869</u>	<u>\$ 1,241,007</u>
Diluted earnings per share ⁽⁴⁾	<u>\$ 71.93</u>	<u>\$ 63.43</u>	<u>\$ 48.77</u>	<u>\$ 44.07</u>	<u>\$ 40.70</u>
Weighted average shares for diluted earnings per share ⁽⁴⁾	<u>24,093</u>	<u>25,498</u>	<u>27,424</u>	<u>29,065</u>	<u>30,488</u>
Same Store Sales					
Increase in domestic comparable store net sales ⁽⁵⁾	7.4 %	3.0 %	1.8 %	0.5 %	2.4 %
Balance Sheet Data					
Current assets	\$ 6,811,872	\$ 5,028,685	\$ 4,635,869	\$ 4,611,255	\$ 4,239,573
Operating lease right-of-use assets ⁽⁶⁾	2,581,677	—	—	—	—
Working capital (deficit)	528,781	(483,456)	(392,812)	(155,046)	(450,747)
Total assets	14,423,872	9,895,913	9,346,980	9,259,781	8,599,787
Current liabilities	6,283,091	5,512,141	5,028,681	4,766,301	4,690,320
Debt	5,513,371	5,206,344	5,005,930	5,081,238	4,924,119
Finance lease liabilities, less current portion ⁽⁶⁾	155,855	123,659	102,013	102,322	102,451
Operating lease liabilities, less current portion ⁽⁶⁾	2,501,560	—	—	—	—
Stockholders' deficit	(877,977)	(1,713,851)	(1,520,355)	(1,428,377)	(1,787,538)
Selected Operating Data					
Number of locations at beginning of year	6,411	6,202	6,029	5,814	5,609
Sold locations ⁽⁷⁾	—	—	26	—	—
New locations	138	209	201	215	205
Closed locations	—	—	2	—	—
Net new locations	<u>138</u>	<u>209</u>	<u>199</u>	<u>215</u>	<u>205</u>
Relocated locations	<u>5</u>	<u>2</u>	<u>7</u>	<u>5</u>	<u>6</u>
Number of locations at end of year	<u>6,549</u>	<u>6,411</u>	<u>6,202</u>	<u>6,029</u>	<u>5,814</u>
AutoZone domestic commercial programs	5,007	4,893	4,741	4,592	4,390
Inventory per location (in thousands)	\$ 683	\$ 674	\$ 636	\$ 644	\$ 625
Total AutoZone store square footage (in thousands)	43,502	42,526	41,066	39,684	38,198
Average square footage per AutoZone store	6,643	6,633	6,621	6,611	6,600
Increase in AutoZone store square footage	2.3 %	3.6 %	3.5 %	3.9 %	3.8 %
Average net sales per AutoZone store (in thousands)	\$ 1,914	\$ 1,847	\$ 1,778	\$ 1,756	\$ 1,773
Net sales per AutoZone store average square foot	\$ 288	\$ 279	\$ 269	\$ 266	\$ 269
Total employees at end of year (in thousands)	100	96	89	87	84
Inventory turnover ⁽⁸⁾	1.3x	1.3x	1.3x	1.4x	1.4x
Accounts payable to inventory ratio	115.3 %	112.6 %	111.8 %	107.4 %	112.8 %
After-tax return on invested capital ⁽⁹⁾	38.1 %	35.7 %	32.1 %	29.9 %	31.3 %
Adjusted debt to EBITDAR ⁽¹⁰⁾	1.9	2.5	2.5	2.6	2.5
Net cash provided by operating activities (in thousands) ⁽⁴⁾	\$ 2,720,108	\$ 2,128,513	\$ 2,080,292	\$ 1,570,612	\$ 1,641,060
Cash flow before share repurchases and changes in debt (in thousands) ⁽¹¹⁾	\$ 2,185,418	\$ 1,758,672	\$ 1,596,367	\$ 1,017,585	\$ 1,166,987
Share repurchases (in thousands) ⁽¹²⁾	\$ 930,903	\$ 2,004,896	\$ 1,592,013	\$ 1,071,649	\$ 1,452,462
Number of shares repurchased (in thousands) ⁽¹²⁾	826	2,182	2,398	1,495	1,903

- (1) *The 52 weeks ended August 29, 2020 was negatively impacted by the charges for additional Emergency-Time Off ("ETO") benefit enhancement for eligible part-time and full-time hourly employees and other expenses in response to COVID-19 of \$83.9 million (pre-tax), recognized in the third and fourth quarters.*
- (2) *The fiscal year ended August 31, 2019 consisted of 53 weeks.*
- (3) *Fiscal 2018 was negatively impacted by pension termination charges of \$130.3 million (pre-tax) recognized in the fourth quarter and asset impairments of \$193.2 million (pre-tax) recognized in the second quarter of fiscal 2018. See "Note L – Pension and Savings Plans" and "Note M – Sale of Assets" of the Notes to Consolidated Financial Statements for more information. Fiscal 2018 also includes a benefit to net income related to the Tax Cuts and Jobs Act ("Tax Reform"). See "Note D – Income Taxes" of the Notes to Consolidated Financial Statements for more information.*
- (4) *Fiscal 2020, 2019, 2018 and 2017 include excess tax benefits from stock option exercises of \$20.9 million, \$46.0 million, \$31.3 million and \$31.2 million, respectively, related to the adoption of Accounting Standards Update ("ASU") 2016-09, Compensation – Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting. The Company adopted ASU 2016-09 effective August 28, 2016 and applied the recognition of excess tax deficiencies and tax benefits in the income statement on a prospective basis. Income tax expense, net income and diluted earnings per share amounts presented for prior periods were not restated. The Company applied ASU 2016-09 relating to the presentation of the excess tax benefits on the Consolidated Statements of Cash Flows retrospectively. Prior period amounts for net cash provided by operating activities for all years presented above were restated to conform to the current period presentation.*
- (5) *The domestic comparable sales increases are based on sales for all AutoZone domestic stores open at least one year. Same store sales are computed on a 52-week basis. Relocated stores are included in the same store sales computation based on the year the original store was opened. Closed store sales are included in the same store sales computation up to the week it closes, and excluded from the computation for all periods subsequent to closing. All sales through our www.autozone.com website, including consumer direct ship-to-home sales, are also included in the computation.*
- (6) *The Company adopted ASU 2016-02, Leases (Topic 842), beginning with its first quarter ended November 23, 2019 which resulted in the Company recognizing a right-of-use asset ("ROU asset") and a corresponding lease liability on the balance sheet. See "Note A – Significant Accounting Policies".*
- (7) *26 IMC branches were sold on April 4, 2018. See "Note M – Sale of Assets" of the Notes to Consolidated Financial Statements for more information.*
- (8) *Inventory turnover is calculated as cost of sales divided by the average merchandise inventory balance over the trailing 5 quarters.*
- (9) *After-tax return on invested capital is defined as after-tax operating profit (excluding rent charges) divided by invested capital (which includes a factor to capitalize leases). For fiscal 2020, average debt is presented net of excess cash of \$374.2 million. For fiscal 2019, after-tax operating profit was adjusted for the impact of the average revaluation of deferred tax liabilities, net of repatriation tax. For fiscal 2018, after-tax operating profit was adjusted for impairment charges, pension termination charges and the impact of the revaluation of deferred tax liabilities, net of repatriation tax. See Reconciliation of Non-GAAP Financial Measures in Management's Discussion and Analysis of Financial Condition and Results of Operations.*
- (10) *Adjusted debt to EBITDAR is defined as the sum of total debt, finance lease obligations and annual rents times six; divided by net income plus interest, taxes, depreciation, amortization, rent and share-based compensation expense. For Fiscal 2020, adjusted debt is presented net of excess cash of \$1.6 billion. For fiscal 2018, net income was adjusted for impairment charges and pension termination charges before tax impact. See Reconciliation of Non-GAAP Financial Measures in Management's Discussion and Analysis of Financial Condition and Results of Operations.*
- (11) *Cash flow before share repurchases and changes in debt is defined as the change in cash and cash equivalents less the change in debt plus treasury stock purchases. See Reconciliation of Non-GAAP Financial Measures in Management's Discussion and Analysis of Financial Condition and Results of Operations.*
- (12) *During the third quarter of fiscal 2020, the Company temporarily ceased share repurchases under the share repurchase program in response to COVID-19.*

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

We are the leading retailer, and a leading distributor, of automotive replacement parts and accessories in the Americas. We began operations in 1979 and at August 29, 2020, operated 5,885 stores in the U.S., 621 stores in Mexico and 43 stores in Brazil. Each store carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products. At August 29, 2020, in 5,007 of our domestic stores, we also had a commercial sales program that provides commercial credit and prompt delivery of parts and other products to local, regional and national repair garages, dealers, service stations and public sector accounts. We also have commercial programs in all stores in Mexico and Brazil. We also sell the ALLDATA brand automotive diagnostic and repair software through www.alldata.com and www.alldatadiy.com. Additionally, we sell automotive hard parts, maintenance items, accessories and non-automotive products through www.autozone.com, and our commercial customers can make purchases through www.autozonepro.com. We also provide product information on our Duralast branded products through www.duralastparts.com. We do not derive revenue from automotive repair or installation services.

COVID-19 Impact

The outbreak of a novel strain of the coronavirus ("COVID-19"), which was declared a global pandemic on March 11, 2020 by the World Health Organization, has led to adverse impacts on the national and global economy. We have been able to keep our stores open and operating in the U.S. Initially, we reduced the hours of operation in most stores, but subsequently have returned to more normal operating hours. We have also taken numerous measures to ensure the health, safety and well-being of our customers and employees. We provided new Emergency Time-Off benefit enhancements for both full-time and part-time eligible hourly employees in the U.S. We invested in supplies for the protection of our employees and customers, increased the frequency of cleaning and disinfecting, and introduced new service options for customers, such as curbside pickup, among other things. These expanded benefits, supply costs and other COVID-19 related costs resulted in approximately \$83.9 million of expense included in Operating, selling, general and administrative expenses in the Condensed Consolidated Statements of Income for the year ended August 29, 2020.

In March 2020, we issued \$1.250 billion in Senior Notes and closed on a new 364-day Senior unsecured revolving credit facility to strengthen our financial position and our ability to be responsive during this ever-changing environment. We have also experienced challenges in recruiting and hiring employees in certain of our retail stores and distribution centers.

While sales were initially negatively impacted, they have since increased to record levels. However, we are unable to accurately predict the impact that COVID-19 will have due to numerous uncertainties, including the severity of the disease, the duration of the outbreak, actions that may be taken by governmental authorities intended to minimize the spread of the pandemic or to stimulate the economy or other unintended consequences. Accordingly, continued business disruption related to the COVID-19 outbreak may continue to cause significant fluctuations in our business, unusually impacting demand for our products, our store hours and our workforce availability and magnify risks associated with sourcing quality merchandise domestically and outside the U.S. at competitive prices, some of which would adversely impact our business and results of operations. Further, a resurgence of the outbreak or other unforeseen developments may impede our ability to complete construction and open new stores at our desired pace.

Our business is impacted by various factors within the economy that affect both our consumer and our industry, including but not limited to fuel costs, wage rates and other economic conditions, including for fiscal 2020, COVID-19. Given the nature of these macroeconomic factors, we cannot predict whether or for how long certain trends will continue, nor can we predict to what degree these trends will impact us in the future.

Executive Summary

For fiscal 2020, we achieved record net income of \$1.733 billion, a 7.2% increase over the prior year, and sales growth of \$768.2 million, a 6.5% increase over the prior year. Domestic commercial sales increased 6.4%, which represents 21.6% of our total sales. Fiscal 2020 consisted of 52 weeks whereas fiscal 2019 consisted of 53 weeks. Both our retail sales and commercial sales grew this past year as we continue to make progress on our initiatives that are aimed at improving our ability to say “Yes” to our customers more frequently, drive traffic to our stores and accelerate our commercial growth.

Our business is impacted by various factors within the economy that affect both our consumer and our industry, including but not limited to fuel costs, wage rates and other economic conditions, including for fiscal 2020, the effects of, and responses to, COVID-19. Given the nature of these macroeconomic factors, we cannot predict whether or for how long certain trends will continue, nor can we predict to what degree these trends will impact us in the future.

One macroeconomic factor affecting our customers and our industry during fiscal 2020 was gas prices. During fiscal 2020, the average price per gallon of unleaded gasoline in the U.S. was \$2.32 per gallon, compared to \$2.63 per gallon during fiscal 2019. We believe fluctuations in gas prices impact our customers’ level of disposable income. With approximately 12 billion gallons of unleaded gas consumption each month across the U.S., each \$1 decrease at the pump contributes approximately \$12 billion of additional spending capacity to consumers each month. Given the unpredictability of gas prices, we cannot predict whether gas prices will increase or decrease, nor can we predict how any future changes in gas prices will impact our sales in future periods.

We have also experienced continued accelerated pressure on wages in the U.S. during fiscal 2020. Some of this is attributed to regulatory changes in certain states and municipalities, while the larger portion is being driven by general market pressures and some specific actions taken in recent years by other retailers. The regulatory changes are expected to continue, as evidenced by the areas that have passed legislation to increase employees’ wages substantially over the next few years, but we are still assessing to what degree these changes will impact our earnings growth in future periods.

During fiscal 2020, failure and maintenance related categories represented the largest portion of our sales mix, at approximately 84% of total sales, with failure related categories continuing to comprise our largest set of categories. While we have not experienced any fundamental shifts in our category sales mix as compared to previous years, in our domestic stores we did experience a slight increase in mix of sales of the discretionary category as compared to last year. We believe the improvement in this sales category resulted from the pandemic as many of our customers had more time to work on projects. The two statistics we believe have the closest correlation to our market growth over the long-term are miles driven and the number of seven year old or older vehicles on the road.

Miles Driven

We believe that as the number of miles driven increases, consumers’ vehicles are more likely to need service and maintenance, resulting in an increase in the need for automotive hard parts and maintenance items. While over the long-term we have seen a close correlation between our net sales and the number of miles driven, we have also seen certain time frames of minimal correlation in sales performance and miles driven. During the periods of minimal correlation between net sales and miles driven, we believe net sales have been positively impacted by other factors, including macroeconomic factors and the number of seven year old or older vehicles on the road. Since the beginning of the fiscal year and through July 2020 (latest publicly available information), miles driven in the U.S. decreased by 8.8% compared to the same period in the prior year. We believe this decrease is a result of the pandemic, but we are unable to predict if this decline will continue and are uncertain if it continues the impact it will have to our business.

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Seven Year Old or Older Vehicles

New vehicles sales decreased 0.8% during 2020 as compared to the prior calendar year. We estimate vehicles are driven an average of approximately 12,500 miles each year. In seven years, the average miles driven equates to approximately 87,500 miles. Our experience is that at this point in a vehicle's life, most vehicles are not covered by warranties and increased maintenance is needed to keep the vehicle operating.

According to the latest data provided by the Auto Care Association, as of January 1, 2020, the average age of vehicles on the road was 11.9 years. For the ninth consecutive year, the average age of vehicles has exceeded 11 years.

We expect the aging vehicle population to continue to increase as consumers keep their cars longer in an effort to save money. As the number of seven year old or older vehicles on the road increases, we expect an increase in demand for the products we sell.

Results of Operations

Fiscal 2020 Compared with Fiscal 2019

For the fiscal year ended August 29, 2020, we reported net sales of \$12.632 billion compared with \$11.864 billion for the year ended August 31, 2019, a 6.5% increase from fiscal 2019. This growth was driven primarily by a domestic same store sales increase of 7.4% and net sales of \$244.7 million from new stores. Same store sales are computed on a 52-week basis. Domestic commercial sales increased \$164.9 million, or 6.4%, over domestic commercial sales for fiscal 2019.

At August 29, 2020, we operated 5,885 domestic stores, 621 in Mexico and 43 in Brazil, compared with 5,772 domestic stores, 604 in Mexico and 35 in Brazil at August 31, 2019. We reported a total auto parts segment (domestic, Mexico and Brazil) sales increase of 6.5% for fiscal 2020.

Gross profit for fiscal 2020 was \$6.771 billion, or 53.6% of net sales, a 5 basis point decrease compared with \$6.365 billion, or 53.7% of net sales for fiscal 2019. The decrease in gross margin was primarily attributable to lower merchandise margins driven primarily by a shift in mix.

Operating, selling, general and administrative expenses for fiscal 2020 increased to \$4.353 billion, or 34.5% of net sales, from \$4.149 billion, or 35.0% of net sales for fiscal 2019. The decrease in operating expenses, as a percentage of sales, was primarily due to leverage from higher sales growth, partially offset by \$83.9 million of costs incurred in response to COVID-19.

Interest expense, net for fiscal 2020 was \$201.2 million compared with \$184.8 million during fiscal 2019. This increase was primarily due to higher debt levels. Average borrowings for fiscal 2020 were \$5.393 billion, compared with \$5.097 billion for fiscal 2019. Weighted average borrowing rates were 3.3% for fiscal 2020 and 3.2% for fiscal 2019.

Our effective income tax rate was 21.8% of pre-tax income for fiscal 2020 compared to 20.4% for fiscal 2019. The increase in the tax rate was primarily attributable to a reduced benefit from stock options exercised during fiscal 2020 compared to fiscal 2019. The benefit of stock options exercised for fiscal 2020 was \$20.9 million compared to \$46.0 million for fiscal 2019 (see "Note D – Income Taxes" in the Notes to Consolidated Financial Statements).

Net income for fiscal 2020 increased by 7.2% to \$1.733 billion, and diluted earnings per share increased 13.4% to \$71.93 from \$63.43 in fiscal 2019. Net income and diluted earnings per share for fiscal 2019 benefitted from an additional week of sales. The impact on the fiscal 2020 diluted earnings per share from stock repurchases was an increase of \$1.59.

Fiscal 2019 Compared with Fiscal 2018

A discussion of changes in our results of operations from fiscal 2018 to fiscal 2019 has been omitted from this Form 10-K, but may be found in “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our Form 10-K for the fiscal year ended August 31, 2019, filed with the SEC on October 28, 2019, which is available free of charge on the SEC’s website at www.sec.gov and at www.autozone.com, by clicking “Investor Relations” located at the bottom of the page.

Quarterly Periods

Each of the first three quarters of our fiscal year consists of 12 weeks, and the fourth quarter consisted of 16 weeks in 2020, 17 weeks in 2019 and 16 weeks in 2018. Because the fourth quarter contains seasonally high sales volume and consists of 16 or 17 weeks, compared with 12 weeks for each of the first three quarters, our fourth quarter represents a disproportionate share of our annual net sales and net income. The fourth quarter of fiscal year 2020 represented 36.0% of annual sales and 42.7% of net income; the fourth quarter of fiscal year 2019 represented 33.6% of annual sales and 35.0% of net income; and the fourth quarter of fiscal year 2018 represented 31.7% of annual sales and 29.9% of net income.

Income Taxes

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted into law. Tax Reform significantly revises the U.S. federal corporate income tax by, among other things, lowering the statutory federal corporate rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time transition tax on accumulated earnings of foreign subsidiaries, and changing how foreign earnings are subject to U.S. federal tax. Also, in December 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of GAAP in situations when the registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of Tax Reform.

During the year ended August 25, 2018, we recorded provisional tax benefit of \$131.5 million related to Tax Reform, comprised of \$157.3 million remeasurement of its net Deferred Tax Asset (“DTA”), offset by \$25.8 million of transition tax. During the year ended August 31, 2019, we completed our analysis of Tax Reform and recorded adjustments to the previously-recorded provisional amounts, resulting in an \$8.8 million tax benefit, primarily related to transition tax on accumulated earnings of foreign subsidiaries.

Beginning with the year ending August 31, 2019, we are subject to a new tax on global intangible low-taxed income (“GILTI”) that is imposed on foreign earnings. We have made the election to record this tax as a period cost and therefore, have not adjusted the deferred tax assets or liabilities of our foreign subsidiaries for the new tax. Net impacts for GILTI are included in the provision for income taxes for the years ended August 29, 2020 and August 31, 2019.

Liquidity and Capital Resources

The primary source of our liquidity is our cash flows realized through the sale of automotive parts, products and accessories. Net cash provided by operating activities was \$2.720 billion in 2020, \$2.129 billion in 2019 and \$2.080 billion in 2018. Cash flows from operations are favorable compared to last year primarily due to growth in net income due to accelerated sales growth as a result of the pandemic.

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Our net cash flows used in investing activities were \$497.9 million in fiscal 2020, \$491.8 million in fiscal 2019 and \$521.9 million in fiscal 2018. The increase in net cash used in investing activities in fiscal 2020, compared to fiscal 2019, was the result of an investment in a tax credit equity investment, partially offset by a decrease in capital expenditures. We invested \$457.7 million in capital assets in fiscal 2020, \$496.1 million in fiscal 2019 and \$521.8 million in fiscal 2018. We had 138 new location openings for fiscal 2020, 209 for fiscal 2019 and 201 for fiscal 2018. The decrease in capital expenditures from fiscal 2019 to fiscal 2020 was attributable to delayed store openings in response to COVID-19. We invest a portion of our assets held by our wholly owned insurance captive in marketable debt securities. We purchased \$90.9 million in marketable debt securities in fiscal 2020, \$55.5 million in fiscal 2019 and \$104.5 million in fiscal 2018. We had proceeds from the sale of marketable debt securities of \$84.2 million in fiscal 2020, \$53.1 million in fiscal 2019 and \$69.6 million in fiscal 2018.

Net cash used in financing activities was \$643.6 million in fiscal 2020, \$1.674 billion in fiscal 2019 and \$1.632 billion in fiscal 2018. The net cash used in financing activities reflected purchases of treasury stock, which totaled \$930.9 million for fiscal 2020, \$2.005 billion for fiscal 2019 and \$1.592 billion for fiscal 2018. The decrease in purchases of treasury stock for fiscal 2020 was due to the temporary suspension of the share repurchase program in order to conserve liquidity in response to the uncertainty related to COVID-19. The treasury stock purchases in fiscal 2020, 2019 and 2018 were primarily funded by cash flows from operations. The Company issued \$1.850 billion of new debt in 2020, \$750 million in fiscal 2019 and none in fiscal 2018. In fiscal 2020 the proceeds from the issuance of debt were used for general corporate purposes, repayment of our outstanding commercial paper and repayment of our \$500 million Senior Notes due in November 2020 which were callable at par in August 2020. In fiscal 2019 the proceeds from the issuance of debt were used to repay a portion of our outstanding commercial paper borrowings, our \$250 million Senior Notes due in April 2019 and for general corporate purposes. In fiscal 2018, we used commercial paper borrowings to repay our \$250 million Senior Notes due in August 2018.

In fiscal 2020, we made net repayments of commercial paper and short term borrowings in the amount of \$1.030 billion. Net repayments of commercial paper and short term borrowings for fiscal 2019 were \$295.3 million and net proceeds from the issuance of commercial paper and short-term borrowings for fiscal 2018 were \$170.2 million.

During fiscal 2021, we expect to increase the investment in our business as compared to fiscal 2020. The expected increase is driven by delays in capital spending for the third and fourth quarter of fiscal 2020 related to COVID-19. Our investments are expected to be directed primarily to new locations, supply chain infrastructure, enhancements to existing locations and investments in technology. The amount of investments in our new locations is impacted by different factors, including such factors as whether the building and land are purchased (requiring higher investment) or leased (generally lower investment), located in the United States, Mexico or Brazil, or located in urban or rural areas. During fiscal 2020, 2019 and 2018 our capital expenditures decreased from the prior fiscal year by approximately 8%, 5% and 6%, respectively.

In addition to building and land costs, our new locations require working capital, predominantly for inventories. Historically, we have negotiated extended payment terms from suppliers, reducing the working capital required and resulting in a high accounts payable to inventory ratio. We plan to continue leveraging our inventory purchases; however, our ability to do so may be limited by our vendors' capacity to factor their receivables from us. Certain vendors participate in arrangements with financial institutions whereby they factor their AutoZone receivables, allowing them to receive early payment from the financial institution on our invoices at a discounted rate. The terms of these agreements are between the vendor and the financial institution. Upon request from the vendor, we confirm to the vendor's financial institution the balances owed to the vendor, the due date and agree to waive any right of offset to the confirmed balances. A downgrade in our credit or changes in the financial markets may limit the financial institutions' willingness to participate in these arrangements, which may result in the vendor wanting to renegotiate payment terms. A reduction in payment terms would increase the working capital required to fund future inventory investments. Extended payment terms from our vendors have allowed us to continue our high accounts payable to inventory ratio. We had an accounts payable to inventory ratio of 115.3% at August 29, 2020 and 112.6% at August 31, 2019. The increase from fiscal 2019 was primarily due to accelerated sales growth.

Depending on the timing and magnitude of our future investments (either in the form of leased or purchased properties or acquisitions), we anticipate that we will rely primarily on internally generated funds and available borrowing capacity to support a majority of our capital expenditures, working capital requirements and stock repurchases. The balance may be funded through new borrowings. We anticipate that we will be able to obtain such financing in view of our credit ratings and favorable experiences in the debt markets in the past.

Our cash balances are held in various locations around the world. As of August 29, 2020, and August 31, 2019, cash and cash equivalents of \$62.4 million and \$49.9 million, respectively, were held outside of the U.S. and were generally utilized to support the liquidity needs in our foreign operations.

For the fiscal year ended August 29, 2020, our after-tax return on invested capital (“ROIC”) was 38.1% as compared to 35.7% for the comparable prior year period. ROIC is calculated as after-tax operating profit (excluding rent charges) divided by invested capital (which includes a factor to capitalize operating leases). For fiscal 2020, ROIC was presented net of average excess cash of \$374.2 million. For fiscal 2019, after-tax operating profit was adjusted for the Tax Reform’s impact on the revaluation of deferred tax liabilities, net of the repatriation tax. We use ROIC to evaluate whether we are effectively using our capital resources and believe it is an important indicator of our overall operating performance. Refer to the “Reconciliation of Non-GAAP Financial Measures” section for further details of our calculation.

Debt Facilities

We entered into a Master Extension, New Commitment and Amendment Agreement dated as of November 18, 2017 (the “Extension Amendment”) to the Third Amended and Restated Credit Agreement dated as of November 18, 2016, as amended, modified, extended or restated from time to time (the “Revolving Credit Agreement”). Under the Extension Amendment: (i) our borrowing capacity under the Revolving Credit Agreement was increased from \$1.6 billion to \$2.0 billion; (ii) the maximum borrowing under the Revolving Credit Agreement may, at our option, subject to lenders approval, be increased from \$2.0 billion to \$2.4 billion; (iii) the termination date of the Revolving Credit Agreement was extended from November 18, 2021 until November 18, 2022; and (iv) we have the option to make one additional written request of the lenders to extend the termination date then in effect for an additional year. Under the Revolving Credit Agreement, we may borrow funds consisting of Eurodollar loans, base rate loans or a combination of both. Interest accrues on Eurodollar loans at a defined Eurodollar rate, defined as LIBOR plus the applicable percentage, as defined in the Revolving Credit Agreement, depending upon our senior, unsecured, (non-credit enhanced) long-term debt ratings. Interest accrues on base rate loans as defined in the Revolving Credit Agreement.

On April 3, 2020, we entered into a 364-Day Credit Agreement (the “364-Day Credit Agreement”) to augment our access to liquidity due to current macroeconomic conditions, specifically the pandemic, and supplement our existing Revolving Credit Agreement. The 364-Day Credit Agreement provides for loans in the aggregate principal amount of up to \$750 million. The 364-Day Credit Agreement will terminate, and all amounts borrowed under the 364-Day Credit Agreement will be due and payable, on April 2, 2021. Revolving loans under the 364-Day Credit Agreement may be base rate loans, Eurodollar loans, or a combination of both, at our election.

As of August 29, 2020, we had no outstanding borrowings under each of our revolving credit agreements and had \$1.7 million of outstanding letters of credit under the Revolving Credit Agreement.

Under our revolving credit agreements, covenants include restrictions on liens, a maximum debt to earnings ratio, a minimum fixed charge coverage ratio and a change of control provision that may require acceleration of the repayment obligations under certain circumstances.

The Revolving Credit Agreement requires that our consolidated interest coverage ratio as of the last day of each quarter shall be no less than 2.5:1. This ratio is defined as the ratio of (i) consolidated earnings before interest, taxes and rents to (ii) consolidated interest expense plus consolidated rents. Our consolidated interest coverage ratio as of August 29, 2020 was 6.1:1.

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As of August 29, 2020, the \$250 million 2.500% Senior Notes due April 2021 are classified as long-term in the accompanying Consolidated Balance Sheets as we have the ability and intent to refinance them on a long-term basis through available capacity in our revolving credit agreements. As of August 29, 2020, we had \$2.748 billion of availability, before giving effect to commercial paper borrowings, under our \$2.750 billion revolving credit agreements which would allow us to replace these short-term obligations with long-term financing facilities.

We also maintain a letter of credit facility that allows us to request the participating bank to issue letters of credit on our behalf up to an aggregate amount of \$25 million. The letter of credit facility is in addition to the letters of credit that may be issued under the Revolving Credit Agreement. As of August 29, 2020, we had \$25.0 million in letters of credit outstanding under the letter of credit facility which expires in June 2022.

In addition to the outstanding letters of credit issued under the committed facilities discussed above, we had \$220.3 million in letters of credit outstanding as of August 29, 2020. These letters of credit have various maturity dates and were issued on an uncommitted basis.

On August 14, 2020, we issued \$600 million in 1.650% Senior Notes due January 2031 under our automatic shelf registration statement on Form S-3, filed with the SEC on April 4, 2019 (File No. 333-230719) (the “2019 Shelf Registration”). The 2019 Shelf Registration allows us to sell an indeterminate amount in debt securities to fund general corporate purposes, including repaying, redeeming or repurchasing outstanding debt and for working capital, capital expenditures, new store openings, stock repurchases and acquisitions. Proceeds from the debt issuance were used for general corporate purposes, including the repayment of the \$500 million in 4.000% Senior Notes due in November 2020 that were callable at par in August 2020.

On March 30, 2020, we issued \$500 million in 3.625% Senior Notes due April 2025 and \$750 million in 4.000% Senior Notes due April 2030 under the 2019 Shelf Registration. Proceeds from the debt issuance were used to repay a portion of the outstanding commercial paper borrowings and for other general corporate purposes.

On April 18, 2019, we issued \$300 million in 3.125% Senior Notes due April 2024 and \$450 million in 3.750% Senior Notes due April 2029 under the 2019 Shelf Registration. Proceeds from the debt issuance were used to repay a portion of our outstanding commercial paper borrowings, the \$250 million in 1.625% Senior Notes due in April 2019 and for other general corporate purposes.

All Senior Notes are subject to an interest rate adjustment if the debt ratings assigned are downgraded (as defined in the agreements). Further, the Senior Notes contain a provision that repayment may be accelerated if we experience a change in control (as defined in the agreements). Our borrowings under our Senior Notes contain minimal covenants, primarily restrictions on liens, sale and leaseback transactions and consolidations, mergers and the sale of assets. All of the repayment obligations under our borrowing arrangements may be accelerated and come due prior to the applicable scheduled payment date if covenants are breached or an event of default occurs.

As of August 29, 2020, we were in compliance with all covenants and expect to remain in compliance with all covenants under our borrowing arrangements.

For the fiscal year ended August 29, 2020, our adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and share-based compensation expense (“EBITDAR”) ratio was 1.9:1 as compared to 2.5:1 as of the comparable prior year end. We calculate adjusted debt as the sum of total debt, finance lease liabilities and rent times six; and we calculate EBITDAR by adding interest, taxes, depreciation, amortization, rent and share-based compensation expense to net income. For fiscal 2020, debt was presented net of excess cash, which ended the year at \$1.6 billion. We target our debt levels to a specified ratio of adjusted debt to EBITDAR in order to maintain our investment grade credit ratings and believe this is important information for the management of our debt levels.

To the extent EBITDAR continues to grow in future years, we expect our debt levels to increase; conversely, if EBITDAR declines, we would expect our debt levels to decrease. Refer to the “Reconciliation of Non-GAAP Financial Measures” section for further details of our calculation.

Stock Repurchases

During 1998, we announced a program permitting us to repurchase a portion of our outstanding shares not to exceed a dollar maximum established by our Board of Directors (the “Board”). On October 7, 2019, the Board voted to authorize the repurchase of an additional \$1.25 billion of our common stock in connection with our ongoing share repurchase program. Since the inception of the repurchase program in 1998, the Board has authorized \$23.15 billion in share repurchases. From January 1998 to August 29, 2020, we have repurchased a total of 147.7 million shares at an aggregate cost of \$22.354 billion. We repurchased 826 thousand shares of common stock at an aggregate cost of \$930.9 million during fiscal 2020, 2.2 million shares of common stock at an aggregate cost of \$2.005 billion during fiscal 2019 and 2.4 million shares of common stock at an aggregate cost of \$1.592 billion during fiscal 2018. The decrease in purchases of treasury stock for fiscal 2020 was due to the temporary suspension of the share repurchase program in order to preserve cash as a result of the uncertainty related to the pandemic. Considering cumulative repurchases as of August 29, 2020, we had \$795.9 million remaining under the Board’s authorization to repurchase our common stock.

For the fiscal year ended August 29, 2020, cash flow before share repurchases and changes in debt was \$2.185 billion as compared to \$1.759 billion during the comparable prior year period. Cash flow before share repurchases and changes in debt is calculated as the net increase or decrease in cash and cash equivalents less net increases or decreases in debt plus share repurchases. We use cash flow before share repurchases and changes in debt to calculate the cash flows remaining and available. We believe this is important information regarding our allocation of available capital where we prioritize investments in the business and utilize the remaining funds to repurchase shares, while maintaining debt levels that support our investment grade credit ratings. Refer to the “Reconciliation of Non-GAAP Financial Measures” section for further details of our calculation.

During fiscal 2020, we temporarily ceased share repurchases under our share repurchase program to conserve liquidity in response to the uncertainty related to COVID-19. While we have restarted share repurchases during the first quarter of fiscal year 2021, we will continue to evaluate current and expected business conditions and adjust the level of share repurchases under our share repurchase program as we deem appropriate.

Subsequent to August 29, 2020, we have repurchased 269,795 shares of common stock at an aggregate cost of \$314.4 million. Considering the cumulative repurchases subsequent to August 29, 2020, we have \$481.5 million remaining under the Board’s authorization to repurchase its common stock.

Financial Commitments

The following table shows our significant contractual obligations as of August 29, 2020:

<i>(in thousands)</i>	Total Contractual Obligations	Payment Due by Period			
		Less than 1 year	Between 1-3 years	Between 3-5 years	Over 5 years
Debt ⁽¹⁾	\$ 5,550,000	\$ 250,000	\$ 1,300,000	\$ 1,200,000	\$ 2,800,000
Interest payments ⁽²⁾	1,093,138	181,275	327,238	255,175	329,450
Operating leases ⁽³⁾	3,534,369	302,890	632,719	543,395	2,055,365
Finance leases ⁽⁴⁾	251,380	69,013	102,565	35,037	44,765
Self-insurance reserves ⁽⁵⁾	249,273	87,209	85,529	36,532	40,003
Construction commitments	50,863	50,863	—	—	—
	<u>\$ 10,729,023</u>	<u>\$ 941,250</u>	<u>\$ 2,448,051</u>	<u>\$ 2,070,139</u>	<u>\$ 5,269,583</u>

- (1) Debt balances represent principal maturities, excluding interest, discounts, and debt issuance costs.
- (2) Represents obligations for interest payments on long-term debt.
- (3) We adopted ASU 2016-02, Leases (Topic 842), beginning with our first quarter ended November 23, 2019 which resulted in us recognizing a right-of-use asset (“ROU asset”) and a corresponding lease liability on the balance sheet. See “Note A – Significant Accounting Policies” of Item 8.
- (4) Finance lease obligations include related interest.

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(5) *Self-insurance reserves reflect estimates based on actuarial calculations and are presented net of insurance receivables. Although these obligations do not have scheduled maturities, the timing of future payments are predictable based upon historical patterns. Accordingly, we reflect the net present value of these obligations in our Consolidated Balance Sheets.*

Our tax liability for uncertain tax positions, including interest and penalties, was \$23.0 million at August 29, 2020. Approximately \$2.0 million is classified as current liabilities and \$21.0 million is classified as long-term liabilities. We did not reflect these obligations in the table above as we are unable to make an estimate of the timing of payments of the long-term liabilities due to uncertainties in the timing and amounts of the settlement of these tax positions.

Off-Balance Sheet Arrangements

The following table reflects outstanding letters of credit and surety bonds as of August 29, 2020:

<i>(in thousands)</i>	Total Other Commitments
Standby letters of credit	\$ 246,921
Surety bonds	56,655
	<u>\$ 303,576</u>

A substantial portion of the outstanding standby letters of credit (which are primarily renewed on an annual basis) and surety bonds are used to cover reimbursement obligations to our workers' compensation carriers.

There are no additional contingent liabilities associated with these instruments as the underlying liabilities are already reflected in our Consolidated Balance Sheets. The standby letters of credit and surety bond arrangements expire within one year but have automatic renewal clauses.

Reconciliation of Non-GAAP Financial Measures

“Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” include certain financial measures not derived in accordance with generally accepted accounting principles (“GAAP”). These non-GAAP financial measures provide additional information for determining our optimum capital structure and are used to assist management in evaluating performance and in making appropriate business decisions to maximize stockholders’ value.

Non-GAAP financial measures should not be used as a substitute for GAAP financial measures, or considered in isolation, for the purpose of analyzing our operating performance, financial position or cash flows. However, we have presented the non-GAAP financial measures, as we believe they provide additional information that is useful to investors as it indicates more clearly our comparative year-to-year operating results. Furthermore, our management and Compensation Committee of the Board use the above-mentioned non-GAAP financial measures to analyze and compare our underlying operating results and use select measurements to determine payments of performance-based compensation. We have included a reconciliation of this information to the most comparable GAAP measures in the following reconciliation tables.

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Reconciliation of Non-GAAP Financial Measure: Cash Flow Before Share Repurchases and Changes in Debt

The following table reconciles net increase (decrease) in cash and cash equivalents to cash flow before share repurchases and changes in debt, which is presented in “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

<i>(in thousands)</i>	Fiscal Year Ended August				
	2020	2019	2018	2017	2016
Net cash provided by/(used in):					
Operating activities ⁽¹⁾	\$ 2,720,108	\$ 2,128,513	\$ 2,080,292	\$ 1,570,612	\$ 1,641,060
Investing activities	(497,875)	(491,846)	(521,860)	(553,599)	(505,835)
Financing activities ⁽¹⁾	(643,636)	(1,674,088)	(1,632,154)	(914,329)	(1,116,528)
Effect of exchange rate changes on cash.	(4,082)	(4,103)	(1,724)	852	(4,272)
Net increase/(decrease) in cash and cash equivalents	1,574,515	(41,524)	(75,446)	103,536	14,425
Less: increase/(decrease) in debt, excluding deferred financing costs.	320,000	204,700	(79,800)	157,600	299,900
Plus: Share repurchases ⁽²⁾	930,903	2,004,896	1,592,013	1,071,649	1,452,462
Cash flow before share repurchases and changes in debt	<u>\$ 2,185,418</u>	<u>\$ 1,758,672</u>	<u>\$ 1,596,367</u>	<u>\$ 1,017,585</u>	<u>\$ 1,166,987</u>

(1) The Company adopted the provisions of ASU 2016-09, Compensation – Stock Compensation (Topic 718): Improvement to Employee Share-based Payment Accounting, as of August 28, 2016.

(2) During the third quarter of fiscal 2020, the Company temporarily ceased share repurchases under the share repurchase program in response to COVID-19.

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Reconciliation of Non-GAAP Financial Measure: Adjusted After-tax ROIC

The following table calculates the percentage of ROIC. ROIC is calculated as after-tax operating profit (excluding rent) divided by invested capital (which includes a factor to capitalize operating leases). The ROIC percentages are presented in “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

(in thousands, except percentages)	Fiscal Year Ended August				
	2020	2019 ⁽¹⁾	2018 ⁽²⁾	2017	2016
Net income	\$ 1,732,972	\$ 1,617,221	\$ 1,337,536	\$ 1,280,869	\$ 1,241,007
Adjustments:					
Impairment before tax	—	—	193,162	—	—
Pension termination charges before tax	—	—	130,263	—	—
Interest expense	201,165	184,804	174,527	154,580	147,681
Rent expense ⁽³⁾	329,783	332,726	315,580	302,928	280,490
Tax effect ⁽⁴⁾	(115,747)	(105,576)	(211,806)	(153,265)	(150,288)
Deferred tax liabilities, net of repatriation tax ⁽⁵⁾	—	(6,340)	(132,113)	—	—
Adjusted after-tax return	<u>\$ 2,148,173</u>	<u>\$ 2,022,835</u>	<u>\$ 1,807,149</u>	<u>\$ 1,585,112</u>	<u>\$ 1,518,890</u>
Average debt ⁽⁶⁾⁽⁷⁾	\$ 5,001,194	\$ 5,126,286	\$ 5,013,678	\$ 5,061,502	\$ 4,820,402
Average stockholders’ deficit ⁽⁶⁾	(1,542,355)	(1,615,339)	(1,433,196)	(1,730,559)	(1,774,329)
Add: Rent x 6 ⁽⁵⁾⁽⁸⁾	1,978,696	1,996,358	1,893,480	1,817,568	1,682,940
Average finance lease liabilities ⁽⁶⁾	203,998	162,591	156,198	150,066	131,008
Invested capital	<u>\$ 5,641,533</u>	<u>\$ 5,669,896</u>	<u>\$ 5,630,160</u>	<u>\$ 5,298,577</u>	<u>\$ 4,860,021</u>
Adjusted after-tax ROIC	<u>38.1 %</u>	<u>35.7 %</u>	<u>32.1 %</u>	<u>29.9 %</u>	<u>31.3 %</u>

Reconciliation of Non-GAAP Financial Measure: Adjusted Debt to EBITDAR

The following table calculates the ratio of adjusted debt to EBITDAR. Adjusted debt to EBITDAR is calculated as the sum of total debt, financing lease liabilities and annual rents times six; divided by net income plus interest, taxes, depreciation, amortization, rent and share-based compensation expense. The adjusted debt to EBITDAR ratios are presented in “Selected Financial Data” and “Management’s Discussion and Analysis of Financial Condition and Results of Operations”:

(in thousands, except ratios)	Fiscal Year Ended August				
	2020	2019 ⁽¹⁾	2018 ⁽²⁾	2017	2016
Net income	\$ 1,732,972	\$ 1,617,221	\$ 1,337,536	\$ 1,280,869	\$ 1,241,007
Add: Impairment before tax	—	—	193,162	—	—
Pension termination charges before tax	—	—	130,263	—	—
Add: Interest expense	201,165	184,804	174,527	154,580	147,681
Income tax expense	483,542	414,112	298,793	644,620	671,707
Adjusted EBIT	2,417,679	2,216,137	2,134,281	2,080,069	2,060,395
Add: Depreciation expense	397,466	369,957	345,084	323,051	297,397
Rent expense ⁽³⁾	329,783	332,726	315,580	302,928	280,490
Share-based expense	44,835	43,255	43,674	38,244	39,825
Adjusted EBITDAR	<u>\$ 3,189,763</u>	<u>\$ 2,962,075</u>	<u>\$ 2,838,619</u>	<u>\$ 2,744,292</u>	<u>\$ 2,678,107</u>
Debt ⁽⁹⁾	\$ 3,957,186	\$ 5,206,344	\$ 5,005,930	\$ 5,081,238	\$ 4,924,119
Financing lease liabilities	223,353	179,905	154,303	150,456	147,285
Add: Rent x 6 ⁽³⁾⁽⁸⁾	1,978,696	1,996,358	1,893,480	1,817,568	1,682,940
Adjusted debt	<u>\$ 6,159,235</u>	<u>\$ 7,382,607</u>	<u>\$ 7,053,713</u>	<u>\$ 7,049,262</u>	<u>\$ 6,754,344</u>
Adjusted debt to EBITDAR	<u>1.9</u>	<u>2.5</u>	<u>2.5</u>	<u>2.6</u>	<u>2.5</u>

- (1) *The fiscal year ended August 31, 2019 consisted of 53 weeks.*
- (2) *For fiscal 2018, after-tax operating profit was adjusted for impairment charges and pension settlement charges.*
- (3) *Effective September 1, 2019, the Company adopted ASU 2016-02, Leases (Topic 842), the new lease accounting standard that required the Company to recognize operating lease assets and liabilities in the balance sheet. The table below outlines the calculation of rent expense and reconciles rent expense to total lease cost, per ASC 842, the most directly comparable GAAP financial measure, for the 52 weeks ended, August 29, 2020.*

Total lease cost, per ASC 842, for the 52 weeks ended August 29, 2020	\$	415,505
Less: Finance lease interest and amortization		(60,275)
Less: Variable operating lease components, related to insurance and common area maintenance for the 52 weeks ended August 29, 2020		(25,447)
Rent expense for the 52 weeks ended August 29, 2020	<u>\$</u>	<u>329,783</u>

- (4) *For fiscal 2020 and 2019, the effective tax rate was 21.8% and 20.4%, respectively. The effective tax rate during fiscal 2018 was 24.2% for impairment, 28.1% for pension termination and 26.2% for interest and rent expense. For fiscal 2017 and 2016 the effective tax rate was 33.5% and 35.1%, respectively.*
- (5) *For fiscal 2019 and 2018, after-tax operating profit was adjusted for the impact of the revaluation of deferred tax liabilities, net of repatriation tax.*
- (6) *All averages are computed based on trailing five quarters.*
- (7) *Average debt is presented net of average excess cash of \$374.2 million.*
- (8) *Rent is multiplied by a factor of six to capitalize operating leases in the determination of pre-tax invested capital.*
- (9) *The Company ended fiscal 2020 with excess cash of \$1.6 billion. Debt is presented net of excess cash.*

Recent Accounting Pronouncements

See Note A of the Notes to Consolidated Financial Statements for a discussion on recent accounting pronouncements.

Critical Accounting Policies and Estimates

Preparation of our Consolidated Financial Statements requires us to make estimates and assumptions affecting the reported amounts of assets and liabilities at the date of the financial statements, reported amounts of revenues and expenses during the reporting period and related disclosures of contingent liabilities. In the Notes to our Consolidated Financial Statements, we describe our significant accounting policies used in preparing the Consolidated Financial Statements. Our policies are evaluated on an ongoing basis and are drawn from historical experience and other assumptions that we believe to be reasonable under the circumstances. Actual results could differ under different assumptions or conditions. Our senior management has identified the critical accounting policies for the areas that are materially impacted by estimates and assumptions and have discussed such policies with the Audit Committee of our Board. The following items in our Consolidated Financial Statements represent our critical accounting policies that require significant estimation or judgment by management:

Self-Insurance Reserves

We retain a significant portion of the risks associated with workers’ compensation, general, product liability, property and vehicle liability; and we obtain third party insurance to limit the exposure related to certain of these risks. Our self-insurance reserve estimates totaled \$288.6 million at August 29, 2020, and \$207.0 million at August 31, 2019. This change is primarily reflective of our growing operations, including inflation, increases in healthcare costs, the number of vehicles and the number of hours worked, as well as our historical claims experience. Where estimable, losses covered by insurance are recognized on a gross basis with a corresponding insurance receivable.

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The assumptions made by management in estimating our self-insurance reserves include consideration of historical cost experience, judgments about the present and expected levels of cost per claim and retention levels. We utilize various methods, including analyses of historical trends and use of a specialist, to estimate the cost to settle reported claims and claims incurred but not yet reported. The actuarial methods develop estimates of the future ultimate claim costs based on the claims incurred as of the balance sheet date. When estimating these liabilities, we consider factors, such as the severity, duration and frequency of claims, legal costs associated with claims, healthcare trends and projected inflation of related factors. In recent history, our methods for determining our exposure have remained consistent, and our historical trends have been appropriately factored into our reserve estimates. As we obtain additional information and refine our methods regarding the assumptions and estimates we use to recognize liabilities incurred, we will adjust our reserves accordingly.

Management believes that the various assumptions developed and actuarial methods used to determine our self-insurance reserves are reasonable and provide meaningful data and information that management uses to make its best estimate of our exposure to these risks. Arriving at these estimates, however, requires a significant amount of subjective judgment by management, and as a result these estimates are uncertain and our actual exposure may be different from our estimates. For example, changes in our assumptions about healthcare costs, the severity of accidents and the incidence of illness, the average size of claims and other factors could cause actual claim costs to vary materially from our assumptions and estimates, causing our reserves to be overstated or understated. For instance, a 10% change in our self-insurance liability would have affected net income by approximately \$22.4 million for fiscal 2020.

Our liabilities for workers' compensation, general and product liability, property and vehicle claims do not have scheduled maturities; however, the timing of future payments is predictable based on historical patterns and is relied upon in determining the current portion of these liabilities. Accordingly, we reflect the net present value of the obligations we determine to be long-term using the risk-free interest rate as of the balance sheet date.

If the discount rate used to calculate the present value of these reserves changed by 25 basis points, net income would have been affected by approximately \$1.4 million for fiscal 2020.

Income Taxes

Our income tax returns are audited by state, federal and foreign tax authorities, and we are typically engaged in various tax examinations at any given time. Tax contingencies often arise due to uncertainty or differing interpretations of the application of tax rules throughout the various jurisdictions in which we operate. The contingencies are influenced by items such as tax audits, changes in tax laws, litigation, appeals and prior experience with similar tax positions.

We regularly review our tax reserves for these items and assess the adequacy of the amount we have recorded. As of August 29, 2020, we had approximately \$23.0 million reserved for uncertain tax positions.

We evaluate exposures associated with our various tax filings by estimating a liability for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires us to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement.

We believe our estimates to be reasonable and have not experienced material adjustments to our reserves in the previous three years; however, actual results could differ from our estimates, and we may be exposed to gains or losses that could be material. Specifically, management has used judgment and made assumptions to estimate the likely outcome of uncertain tax positions. Additionally, to the extent we prevail in matters for which a liability has been established, or must pay in excess of recognized reserves, our effective tax rate in any particular period could be materially affected.

Vendor Allowances

We receive various payments and allowances from our vendors through a variety of programs and arrangements, including allowances for warranties, advertising and general promotion of vendor products. Vendor allowances are treated as a reduction of the cost of inventory, unless they are provided as a reimbursement of specific, incremental, identifiable costs incurred by the Company in selling the vendor's products. Approximately 85% of the vendor funds received during fiscal 2020 were recorded as a reduction of the cost of inventories and recognized as a reduction to cost of sales as these inventories are sold.

Based on our vendor agreements, a significant portion of vendor funding we receive is earned as we purchase inventory. Therefore, we record receivables for funding earned but not yet received as we purchase inventory. During the year, we regularly review the receivables from vendors to ensure vendors are able to meet their obligations. We generally have not recorded a reserve against these receivables as we have not experienced significant losses and typically have a legal right of offset with our vendors for payments owed them. Historically, we have had write-offs less than \$1 million in each of the last three years.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

We are exposed to market risk from, among other things, changes in interest rates, foreign exchange rates and fuel prices. From time to time, we use various derivative instruments to reduce interest rate and fuel price risks. To date, based upon our current level of foreign operations, no derivative instruments have been utilized to reduce foreign exchange rate risk. All of our hedging activities are governed by guidelines that are authorized by the Board. Further, we do not buy or sell derivative instruments for trading purposes.

Interest Rate Risk

Our financial market risk results primarily from changes in interest rates. At times, we reduce our exposure to changes in interest rates by entering into various interest rate hedge instruments such as interest rate swap contracts, treasury lock agreements and forward-starting interest rate swaps.

We have historically utilized interest rate swaps to convert variable rate debt to fixed rate debt and to lock in fixed rates on future debt issuances. We reflect the current fair value of all interest rate hedge instruments as a component of either other current assets or accrued expenses and other. Our interest rate hedge instruments are designated as cash flow hedges.

Unrealized gains and losses on interest rate hedges are deferred in stockholders' deficit as a component of Accumulated Other Comprehensive Loss. These deferred gains and losses are recognized in income as a decrease or increase to interest expense in the period in which the related cash flows being hedged are recognized in expense. However, to the extent that the change in value of an interest rate hedge instrument does not perfectly offset the change in the value of the cash flow being hedged, that ineffective portion is immediately recognized in earnings.

The fair value of our debt was estimated at \$6.081 billion as of August 29, 2020, and \$5.419 billion as of August 31, 2019, based on the quoted market prices for the same or similar debt issues or on the current rates available to us for debt having the same remaining maturities. Such fair value is greater than the carrying value of debt by \$567.5 million at August 29, 2020, which reflects its face amount, adjusted for any unamortized debt issuance costs and discounts. At August 31, 2019, the fair value was greater than the carrying value of debt by \$212.7 million.

We had no variable rate debt outstanding at August 29, 2020, and \$1.030 billion of variable rate debt outstanding at August 31, 2019.

We had outstanding fixed rate debt of \$5.513 billion, net of unamortized debt issuance costs of \$36.6 million, at August 29, 2020, and \$4.176 billion, net of unamortized debt issuance costs of \$23.7 million, at August 31, 2019. A one percentage point increase in interest rates would have reduced the fair value of our fixed rate debt by approximately \$318.7 million at August 29, 2020.

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Foreign Currency Risk

Foreign currency exposures arising from transactions include firm commitments and anticipated transactions denominated in a currency other than our entities' functional currencies. To minimize our risk, we generally enter into transactions denominated in the respective functional currencies. We are exposed to Brazilian reals, Canadian dollars, euros, Chinese yuan renminbi and British pounds, but our primary foreign currency exposure arises from Mexican peso-denominated revenues and profits and their translation into U.S. dollars. Foreign currency exposures arising from transactions denominated in currencies other than the functional currency are not material.

We view our investments in Mexican subsidiaries as long-term. As a result, we generally do not hedge these net investments. The net asset exposure in the Mexican subsidiaries translated into U.S. dollars using the year-end exchange rates was \$293.1 million at August 29, 2020 and \$328.8 million at August 31, 2019. The year-end exchange rates with respect to the Mexican peso decreased by approximately 10% and approximately 7% with respect to the U.S. dollar during fiscal 2020 and fiscal 2019, respectively. The loss in value of our net assets in the Mexican subsidiaries resulting from a hypothetical 10 percent adverse change in quoted foreign currency exchange rates at August 29, 2020 and August 31, 2019, would have been approximately \$26.6 million and approximately \$29.9 million, respectively. Any changes in our net assets in the Mexican subsidiaries relating to foreign currency exchange rates would be reflected in the foreign currency translation component of Accumulated Other Comprehensive Loss, unless the Mexican subsidiaries are sold or otherwise disposed. A hypothetical 10 percent adverse change in average exchange rates would not have a material impact on our results of operations.

Item 8. Financial Statements and Supplementary Data

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Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Securities Exchange Act of 1934, as amended). Our internal control over financial reporting includes, among other things, defined policies and procedures for conducting and governing our business, sophisticated information systems for processing transactions and properly trained staff. Mechanisms are in place to monitor the effectiveness of our internal control over financial reporting, including regular testing performed by the Company’s internal audit team. Actions are taken to correct deficiencies as they are identified. Our procedures for financial reporting include the active involvement of senior management, our Audit Committee and a staff of highly qualified financial and legal professionals.

Management, with the participation of our principal executive and financial officers, assessed our internal control over financial reporting as of August 29, 2020, the end of our fiscal year. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission 2013 framework.

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of August 29, 2020.

Our independent registered public accounting firm, Ernst & Young LLP, audited the effectiveness of our internal control over financial reporting. Ernst & Young LLP’s attestation report on the Company’s internal control over financial reporting as of August 29, 2020 is included in this Annual Report on Form 10-K.

Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of AutoZone, Inc.

Opinion on Internal Control Over Financial Reporting

We have audited AutoZone Inc.'s internal control over financial reporting as of August 29, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, AutoZone, Inc. (the Company) maintained, in all material respects, effective internal control over financial reporting as of August 29, 2020, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of August 29, 2020 and August 31, 2019, and the related consolidated statements of income, comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended August 29, 2020, and the related notes and our report dated October 26, 2020 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Memphis, Tennessee
October 26, 2020

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of AutoZone, Inc.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of AutoZone, Inc. (the Company) as of August 29, 2020 and August 31, 2019, the related consolidated statements of income, comprehensive income, stockholders' deficit, and cash flows for each of the three years in the period ended August 29, 2020, and the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at August 29, 2020 and August 31, 2019, and the results of its operations and its cash flows for each of the three years in the period ended August 29, 2020, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of August 29, 2020, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated October 26, 2020, expressed an unqualified opinion thereon.

Adoption of ASU 2016-02

As discussed in Note A to the consolidated financial statements, the Company changed its method of accounting for leases on September 1, 2019 due to the adoption of Accounting Standards Update (ASU) No. 2016-02, *Leases* (Topic 842), and related amendments.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

Critical Audit Matter

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that: (1) relates to accounts or disclosures that are material to the financial statements and (2) involved our especially challenging, subjective or complex judgments. The communication of the critical audit matter does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the account or disclosure to which it relates.

Valuation of Self-insurance Reserves

Description of the Matter At August 29, 2020, the Company’s self-insurance reserve estimate was \$289 million. As more fully described in Note A of the consolidated financial statements, the Company retains a significant portion of the risks associated with workers’ compensation, general liability, product liability, property and vehicle insurance. Accordingly, the Company utilizes various methods, including analyses of historical trends and actuarial methods, to estimate the costs of these risks.

Auditing the self-insurance reserve is complex and required the involvement of specialists due to the judgmental nature of estimating the costs to settle reported claims and claims incurred but not yet reported. There are a number of factors and/or assumptions (e.g., severity, duration and frequency of claims, projected inflation of related factors, and the risk-free rate) used in the measurement process which have a significant effect on the estimated self-insurance reserve.

How We Addressed the Matter in Our Audit

We evaluated the design and tested the operating effectiveness of the Company’s controls over the self-insurance reserve process. For example, we tested controls over management’s review of the self-insurance reserve calculations, the significant actuarial assumptions and the data inputs provided to the actuary.

To evaluate the self-insurance reserve, our audit procedures included, among others, assessing the methodologies used, evaluating the significant actuarial assumptions discussed above and testing the completeness and the accuracy of the underlying claims data used by the Company. We compared the actuarial assumptions used by management to historical trends and evaluated the change in the self-insurance reserve from the prior year due to changes in these assumptions. In addition, we involved our actuarial specialists to assist in assessing the valuation methodologies and significant assumptions used in the valuation analysis, we evaluated management’s methodology for determining the risk-free interest rate utilized in measuring the net present value of the long-term portion of the self-insurance reserve, we compared the significant assumptions used by management to industry accepted actuarial assumptions and we compared the Company’s reserve to a range developed by our actuarial specialists based on assumptions developed by the specialists.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1988.
Memphis, Tennessee
October 26, 2020

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AutoZone, Inc. Consolidated Statements of Income

<i>(in thousands, except per share data)</i>	August 29, 2020 (52 weeks)	August 31, 2019 (53 weeks)	August 25, 2018 (52 weeks)
Net sales	\$ 12,631,967	\$ 11,863,743	\$ 11,221,077
Cost of sales, including warehouse and delivery expenses	5,861,214	5,498,742	5,247,331
Gross profit	6,770,753	6,365,001	5,973,746
Operating, selling, general and administrative expenses	4,353,074	4,148,864	4,162,890
Operating profit	2,417,679	2,216,137	1,810,856
Interest expense, net	201,165	184,804	174,527
Income before income taxes	2,216,514	2,031,333	1,636,329
Income tax expense	483,542	414,112	298,793
Net income	<u>\$ 1,732,972</u>	<u>\$ 1,617,221</u>	<u>\$ 1,337,536</u>
Weighted average shares for basic earnings per share	23,540	24,966	26,970
Effect of dilutive stock equivalents	553	532	454
Weighted average shares for diluted earnings per share	24,093	25,498	27,424
Basic earnings per share	<u>\$ 73.62</u>	<u>\$ 64.78</u>	<u>\$ 49.59</u>
Diluted earnings per share	<u>\$ 71.93</u>	<u>\$ 63.43</u>	<u>\$ 48.77</u>

See Notes to Consolidated Financial Statements.

AutoZone, Inc. Consolidated Statements of Comprehensive Income

<i>(in thousands)</i>	Year Ended		
	August 29, 2020 (52 weeks)	August 31, 2019 (53 weeks)	August 25, 2018 (52 weeks)
Net income	\$ 1,732,972	\$ 1,617,221	\$ 1,337,536
Other comprehensive loss:			
Pension liability adjustments, net of taxes ⁽¹⁾⁽²⁾	—	—	72,376
Foreign currency translation adjustments	(66,723)	(36,699)	(53,085)
Unrealized gains (losses) on marketable debt securities, net of taxes ⁽³⁾	1,254	1,464	(862)
Net derivative activities, net of taxes ⁽⁴⁾	(19,461)	1,718	323
Total other comprehensive (loss) income	<u>(84,930)</u>	<u>(33,517)</u>	<u>18,752</u>
Comprehensive income	<u>\$ 1,648,042</u>	<u>\$ 1,583,704</u>	<u>\$ 1,356,288</u>

- (1) Pension liability adjustments are presented net of taxes of \$46,523 in 2018, which includes \$13,122 related to the adoption of ASU 2018-02 - Income Statement - Reporting Comprehensive Income: Reclassification of Certain Tax effects from Accumulated Other Comprehensive Income (ASU 2018-02).
- (2) On December 19, 2017, the Board approved a resolution to terminate both of the Company's pension plans, effective March 15, 2018. During the fourth quarter of 2018, the Company completed the termination and no longer has any remaining defined benefit pension obligation.
- (3) Unrealized gains on marketable debt securities are presented net of taxes of \$336 and \$389 in 2020 and 2019, respectively. Unrealized losses on marketable debt securities are presented net of tax benefit of \$234 in 2018.
- (4) Net derivative activities are presented net of tax benefit of \$6,164 in 2020. Net derivative activities are presented net of taxes of \$530 in 2019 and \$1,882 in 2018, which includes \$1,367 related to the adoption of ASU 2018-02.

See Notes to Consolidated Financial Statements.

AutoZone, Inc. Consolidated Balance Sheets

<i>(in thousands)</i>	August 29, 2020	August 31, 2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 1,750,815	\$ 176,300
Accounts receivable	364,774	308,995
Merchandise inventories	4,473,282	4,319,113
Other current assets	223,001	224,277
Total current assets	<u>6,811,872</u>	<u>5,028,685</u>
Property and equipment:		
Land	1,205,228	1,147,709
Buildings and improvements	4,020,271	3,895,559
Equipment	2,158,251	1,991,042
Leasehold improvements	586,839	552,018
Construction in progress	165,953	126,868
Property and equipment	<u>8,136,542</u>	<u>7,713,196</u>
Less: Accumulated depreciation and amortization	<u>(3,627,321)</u>	<u>(3,314,445)</u>
	4,509,221	4,398,751
Operating lease right-of-use assets	2,581,677	—
Goodwill	302,645	302,645
Deferred income taxes	27,843	26,861
Other long-term assets	190,614	138,971
	<u>3,102,779</u>	<u>468,477</u>
	<u>\$ 14,423,872</u>	<u>\$ 9,895,913</u>
Liabilities and Stockholders' Deficit		
Current liabilities:		
Accounts payable	\$ 5,156,324	\$ 4,864,912
Current portion of operating lease liabilities	223,846	—
Accrued expenses and other	827,668	621,932
Income taxes payable	75,253	25,297
Total current liabilities	<u>6,283,091</u>	<u>5,512,141</u>
Long-term debt	5,513,371	5,206,344
Operating lease liabilities, less current portion	2,501,560	—
Deferred income taxes	354,186	311,980
Other long-term liabilities	649,641	579,299
Commitments and contingencies		
Stockholders' deficit:		
Preferred stock, authorized 1,000 shares; no shares issued	—	—
Common stock, par value \$.01 per share, authorized 200,000 shares; 23,697 shares issued and 23,376 shares outstanding as of August 29, 2020; 25,445 shares issued and 24,038 shares outstanding as of August 31, 2019	237	254
Additional paid-in capital	1,283,495	1,264,448
Retained deficit	(1,450,970)	(1,305,347)
Accumulated other comprehensive loss	(354,252)	(269,322)
Treasury stock, at cost	(356,487)	(1,403,884)
Total stockholders' deficit	<u>(877,977)</u>	<u>(1,713,851)</u>
	<u>\$ 14,423,872</u>	<u>\$ 9,895,913</u>

See Notes to Consolidated Financial Statements.

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AutoZone, Inc. Consolidated Statements of Cash Flows

	Year Ended		
	August 29, 2020 (52 weeks)	August 31, 2019 (53 weeks)	August 25, 2018 (52 weeks)
<i>(in thousands)</i>			
Cash flows from operating activities:			
Net income	\$ 1,732,972	\$ 1,617,221	\$ 1,337,536
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property and equipment and intangibles	397,466	369,957	345,084
Amortization of debt origination fees	10,730	8,162	8,393
Deferred income taxes	51,077	35,051	(124,261)
Share-based compensation expense	44,835	43,255	43,674
Pension plan contributions	—	—	(11,596)
Pension termination charges (refund)	—	(6,796)	130,263
Asset impairment	—	—	193,162
Changes in operating assets and liabilities:			
Accounts receivable	(58,564)	(48,512)	7,534
Merchandise inventories	(184,174)	(394,147)	(188,782)
Accounts payable and accrued expenses	531,131	464,176	319,609
Income taxes payable	90,172	(10,489)	(6,438)
Other, net	104,463	50,635	26,114
Net cash provided by operating activities	<u>2,720,108</u>	<u>2,128,513</u>	<u>2,080,292</u>
Cash flows from investing activities:			
Capital expenditures	(457,736)	(496,050)	(521,788)
Proceeds from sale of assets	—	—	35,279
Purchase of marketable debt securities	(90,949)	(55,538)	(104,536)
Proceeds from sale of marketable debt securities	84,237	53,140	69,644
Investment in tax credit equity investments	(45,190)	—	—
Proceeds (payments) from disposal of capital assets and other, net	11,763	6,602	(459)
Net cash used in investing activities	<u>(497,875)</u>	<u>(491,846)</u>	<u>(521,860)</u>
Cash flows from financing activities:			
Net (payments) proceeds of commercial paper	(1,030,000)	(295,300)	170,200
Proceeds from issuance of debt	1,850,000	750,000	—
Repayment of debt	(500,000)	(250,000)	(250,000)
Net proceeds from sale of common stock	68,392	188,819	89,715
Purchase of treasury stock	(930,903)	(2,004,896)	(1,592,013)
Repayment of principal portion of finance lease liabilities	(52,158)	(53,307)	(49,004)
Other, net	(48,967)	(9,404)	(1,052)
Net cash used in financing activities	<u>(643,636)</u>	<u>(1,674,088)</u>	<u>(1,632,154)</u>
Effect of exchange rate changes on cash	(4,082)	(4,103)	(1,724)
Net increase (decrease) in cash and cash equivalents	1,574,515	(41,524)	(75,446)
Cash and cash equivalents at beginning of period	176,300	217,824	293,270
Cash and cash equivalents at end of period	<u>\$ 1,750,815</u>	<u>\$ 176,300</u>	<u>\$ 217,824</u>
Supplemental cash flow information:			
Interest paid, net of interest cost capitalized	\$ 161,864	\$ 153,371	\$ 163,965
Income taxes paid	\$ 339,486	\$ 383,871	\$ 427,161
Leased assets obtained in exchange for new finance lease liabilities	\$ 115,867	\$ 147,699	\$ 98,782
Leased assets obtained in exchange for new operating lease liabilities	\$ 425,018	\$ —	\$ —

See Notes to Consolidated Financial Statements.

AutoZone, Inc. Consolidated Statements of Stockholders' Deficit

<i>(in thousands)</i>	Common Shares Issued	Common Stock	Additional Paid-in Capital	Retained Deficit	Accumulated Other Comprehensive Loss	Treasury Stock	Total
Balance at August 26, 2017	28,735	\$ 287	\$ 1,086,671	\$ (1,642,387)	\$ (254,557)	\$ (618,391)	\$ (1,428,377)
Net income	—	—	—	1,337,536	—	—	1,337,536
Total other comprehensive income	—	—	—	—	18,752	—	18,752
Purchase of 2,398 shares of treasury stock	—	—	—	—	—	(1,592,013)	(1,592,013)
Retirement of treasury shares	(1,512)	(15)	(60,500)	(918,462)	—	978,977	—
Issuance of common stock under stock options and stock purchase plans	307	3	89,712	—	—	—	89,715
Adoption of ASU 2018-02	—	—	—	14,489	—	—	14,489
Share-based compensation expense	—	—	39,543	—	—	—	39,543
Balance at August 25, 2018	<u>27,530</u>	<u>275</u>	<u>1,155,426</u>	<u>(1,208,824)</u>	<u>(235,805)</u>	<u>(1,231,427)</u>	<u>(1,520,355)</u>
Cumulative effect of adoption of ASU 2014-09	—	—	—	(6,773)	—	—	(6,773)
Balance at August 25, 2018, as adjusted	27,530	275	1,155,426	(1,215,597)	(235,805)	(1,231,427)	(1,527,128)
Net income	—	—	—	1,617,221	—	—	1,617,221
Total other comprehensive income	—	—	—	—	(33,517)	—	(33,517)
Purchase of 2,182 shares of treasury stock	—	—	—	—	—	(2,004,896)	(2,004,896)
Retirement of treasury shares	(2,563)	(26)	(125,442)	(1,706,971)	—	1,832,439	—
Issuance of common stock under stock options and stock purchase plans	478	5	195,185	—	—	—	195,190
Share-based compensation expense	—	—	39,279	—	—	—	39,279
Balance at August 31, 2019	<u>25,445</u>	<u>254</u>	<u>1,264,448</u>	<u>(1,305,347)</u>	<u>(269,322)</u>	<u>(1,403,884)</u>	<u>(1,713,851)</u>
Net income	—	—	—	1,732,972	—	—	1,732,972
Total other comprehensive income	—	—	—	—	(84,930)	—	(84,930)
Purchase of 826 shares of treasury stock	—	—	—	—	—	(930,903)	(930,903)
Retirement of treasury shares	(1,912)	(19)	(99,686)	(1,878,595)	—	1,978,300	—
Issuance of common stock under stock options and stock purchase plans	164	2	74,985	—	—	—	74,987
Share-based compensation expense	—	—	43,748	—	—	—	43,748
Balance at August 29, 2020	<u><u>23,697</u></u>	<u><u>\$ 237</u></u>	<u><u>\$ 1,283,495</u></u>	<u><u>\$ (1,450,970)</u></u>	<u><u>\$ (354,252)</u></u>	<u><u>\$ (356,487)</u></u>	<u><u>\$ (877,977)</u></u>

See Notes to Consolidated Financial Statements.

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Notes to Consolidated Financial Statements

Note A – Significant Accounting Policies

Business: AutoZone, Inc. (“AutoZone” or the “Company”) is the leading retailer, and a leading distributor, of automotive replacement parts and accessories in the Americas. At the end of fiscal 2020, the Company operated 5,885 stores in the U.S., 621 stores in Mexico and 43 stores in Brazil. Each store carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products. At the end of fiscal 2020, 5,007 of the domestic stores had a commercial sales program that provides commercial credit and prompt delivery of parts and other products to local, regional and national repair garages, dealers, service stations and public sector accounts. The Company also had commercial programs in all stores in Mexico and Brazil. The Company also sells the ALLDATA brand automotive diagnostic and repair software through www.alldata.com and www.alldatadiy.com. Additionally, the Company sells automotive hard parts, maintenance items, accessories, and non-automotive products through www.autozone.com, and its commercial customers can make purchases through www.autozonepro.com. The Company also provides product information on its Duralast branded products through www.duralastparts.com. The Company does not derive revenue from automotive repair or installation services.

Fiscal Year: The Company’s fiscal year consists of 52 or 53 weeks ending on the last Saturday in August. Fiscal 2020 and 2018 represented 52 weeks and 2019 represented 53 weeks.

Basis of Presentation: The Consolidated Financial Statements include the accounts of AutoZone, Inc. and its wholly owned subsidiaries. All significant intercompany transactions and balances have been eliminated in consolidation.

Variable Interest Entities: The Company invests in certain tax credit funds that promote renewable energy and generate a return primarily through the realization of federal tax credits. The deferral method is used to account for the tax attributes of these investments.

The Company considers its investment in these tax credit funds as an investment in a variable interest entity (“VIE”). The Company evaluates the investment in any VIE to determine whether it is the primary beneficiary. The Company considers a variety of factors in identifying the entity that holds the power to direct matters that most significantly impact the VIE’s economic performance including, but not limited to, the ability to direct financing, leasing, construction and other operating decisions and activities. As of August 29, 2020, the Company held tax credit equity investments that were deemed to be VIE’s and determined that it was not the primary beneficiary of the entities, as it did not have the power to direct the activities that most significantly impacted the entity and accounted for this investment using the equity method. The Company’s maximum exposure to losses is limited to its net investment, which was \$6.5 million as of August 29, 2020, and was included within the Other long-term assets caption in the accompanying Consolidated Balance Sheets.

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. Actual results could differ from those estimates.

Cash and Cash Equivalents: Cash equivalents consist of investments with original maturities of 90 days or less at the date of purchase. Cash equivalents include proceeds due from credit and debit card transactions with settlement terms of less than five days. Credit and debit card receivables included within cash and cash equivalents were \$63.7 million at August 29, 2020 and \$59.4 million at August 31, 2019.

Cash balances are held in various locations around the world. Cash and cash equivalents of \$62.4 million and \$49.9 million were held outside of the U.S. as of August 29, 2020, and August 31, 2019, respectively, and were generally utilized to support the liquidity needs in foreign operations.

Accounts Receivable: Accounts receivable consists of receivables from commercial customers and vendors, and is presented net of an allowance for uncollectible accounts. AutoZone routinely grants credit to certain of its commercial customers. The risk of credit loss in its trade receivables is substantially mitigated by the Company's credit evaluation process, short collection terms and sales to a large number of customers, as well as the low dollar value per transaction for most of its sales. Allowances for potential credit losses are determined based on historical experience and current evaluation of the composition of accounts receivable. Historically, credit losses have been within management's expectations, and the balance of the allowance for uncollectible accounts was \$10.0 million at August 29, 2020, and \$8.5 million at August 31, 2019.

Merchandise Inventories: Merchandise inventories include related purchasing, storage and handling costs. Inventory cost has been determined using the last-in, first-out ("LIFO") method stated at the lower of cost or market for domestic inventories and the weighted average cost method stated at the lower of cost or net realizable value for Mexico and Brazil inventories. Due to historical price deflation on the Company's merchandise purchases, the Company has exhausted its LIFO reserve balance. The Company's policy is to not write up inventory in excess of replacement cost. The difference between LIFO cost and replacement cost, which will be reduced upon experiencing price inflation on the Company's merchandise purchases, was \$357.0 million at August 29, 2020, and \$404.9 million at August 31, 2019.

Marketable Debt Securities: The Company invests a portion of its assets held by the Company's wholly owned insurance captive in marketable debt securities and classifies them as available-for-sale. The Company includes these debt securities within the Other current assets and Other long-term assets captions in the accompanying Consolidated Balance Sheets and records the amounts at fair market value, which is determined using quoted market prices at the end of the reporting period. A discussion of marketable debt securities is included in "Note E – Fair Value Measurements" and "Note F – Marketable Debt Securities."

Property and Equipment: Property and equipment is stated at cost. Property consists of land, which includes finance leases – real estate, buildings and improvements, equipment, which includes finance leases – vehicles, and construction in progress. Depreciation and amortization are computed principally using the straight-line method over the following estimated useful lives: buildings, 40 to 50 years; building improvements, 5 to 15 years; equipment, including software, 3 to 10 years; and leasehold improvements, over the shorter of the asset's estimated useful life or the remaining lease term, which includes any reasonably assured renewal periods. Depreciation and amortization include amortization of assets under finance lease.

Impairment of Long-Lived Assets: The Company evaluates the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When such an event occurs, the Company compares the sum of the undiscounted expected future cash flows of the asset (asset group) with the carrying amounts of the asset. If the undiscounted expected future cash flows are less than the carrying value of the assets, the Company measures the amount of impairment loss as the amount by which the carrying amount of the assets exceeds the fair value of the assets.

Goodwill: The cost in excess of fair value of identifiable net assets of businesses acquired is recorded as goodwill. Goodwill has not been amortized since fiscal 2001, but an analysis is performed at least annually to compare the fair value of the reporting unit to the carrying amount to determine if any impairment exists. The Company performs its annual impairment assessment in the fourth quarter of each fiscal year, unless circumstances dictate more frequent assessments. Refer to "Note N – Goodwill and Intangibles" for additional disclosures regarding the Company's goodwill and impairment assessment.

Intangible Assets: Intangible assets consist of customer relationships purchased relating to ALLDATA operations. Amortizing intangible assets are amortized over periods ranging from 3 to 10 years. Refer to "Note N – Goodwill and Intangibles" and "Note M – Sale of Assets" for additional disclosures regarding the Company's intangible assets and impairment assessment.

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Derivative Instruments and Hedging Activities: AutoZone is exposed to market risk from, among other things, changes in interest rates, foreign exchange rates and fuel prices. From time to time, the Company uses various derivative instruments to reduce such risks. To date, based upon the Company's current level of foreign operations, no derivative instruments have been utilized to reduce foreign exchange rate risk. All of the Company's hedging activities are governed by guidelines that are authorized by AutoZone's Board of Directors (the "Board"). Further, the Company does not buy or sell derivative instruments for trading purposes.

AutoZone's financial market risk results primarily from changes in interest rates. At times, AutoZone reduces its exposure to changes in interest rates by entering into various interest rate hedge instruments such as interest rate swap contracts, treasury lock agreements and forward-starting interest rate swaps. All of the Company's interest rate hedge instruments are designated as cash flow hedges. Refer to "Note H – Derivative Financial Instruments" for additional disclosures regarding the Company's derivative instruments and hedging activities. Cash flows related to these instruments designated as qualifying hedges are reflected in the accompanying Consolidated Statements of Cash Flows in the same categories as the cash flows from the items being hedged. Accordingly, cash flows relating to the settlement of interest rate derivatives hedging the forecasted issuance of debt have been reflected upon settlement as a component of financing cash flows. The resulting gain or loss from such settlement is deferred to Accumulated Other Comprehensive Loss and reclassified to interest expense over the term of the underlying debt. This reclassification of the deferred gains and losses impacts the interest expense recognized on the underlying debt that was hedged and is therefore reflected as a component of operating cash flows in periods subsequent to settlement.

Foreign Currency: The Company accounts for its Mexican, Brazilian, Canadian, European, Chinese and German operations using the local market currency and converts its financial statements from these currencies to U.S. dollars. The cumulative loss on currency translation is recorded as a component of Accumulated Other Comprehensive Loss (Refer to "Note G – Accumulated Other Comprehensive Loss" for additional information regarding the Company's Accumulated Other Comprehensive Loss.)

Self-Insurance Reserves: The Company retains a significant portion of the risks associated with workers' compensation, general liability, product liability, property and vehicle insurance. The Company obtains third party insurance to limit the exposure related to certain of these risks. The reserve for the Company's liability associated with these risks totaled \$288.6 million and \$207.0 million at August 29, 2020 and August 31, 2019, respectively.

The assumptions made by management in estimating its self-insurance reserves include consideration of historical cost experience, judgments about the present and expected levels of cost per claim and retention levels. The Company utilizes various methods, including analyses of historical trends and use of a specialist, to estimate the costs to settle reported claims and claims incurred but not yet reported. The actuarial methods develop estimates of the future ultimate claim costs based on claims incurred as of the balance sheet date. When estimating these liabilities, the Company considers factors, such as the severity, duration and frequency of claims, legal costs associated with claims, healthcare trends and projected inflation of related factors.

The Company's liabilities for workers' compensation, general and product liability, property and vehicle claims do not have scheduled maturities; however, the timing of future payments is predictable based on historical patterns and is relied upon in determining the current portion of these liabilities. Accordingly, the Company reflects the net present value of the obligations it determines to be long-term using the risk-free interest rate as of the balance sheet date.

Leases: The Company leases certain retail stores, distribution centers and vehicles under various non-callable leases. Leases are categorized at their commencement date and lease-related assets and liabilities are recognized for all leases with an initial term of 12 months or greater. The exercise of lease renewal options is at the Company's sole discretion. The Company evaluates renewal options at commencement and on an ongoing basis and includes options that are reasonably certain to exercise in its expected lease terms when classifying leases and measuring lease liabilities. Lease components are not separated from the non-lease components (typically fixed common-area maintenance costs at its retail store locations) for all classes of leased assets, except vehicles which contain variable non-lease components that are expensed as incurred. The Company uses the stated borrowing rate in determining the present value of the lease payments over the lease term for vehicles. The Company's incremental borrowing rate is used to determine the present value of the lease payments over the lease term for substantially all the operating and financing leases for retail stores, distribution centers and other real estate, as these leases typically do not have a stated borrowing rate. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

Effective in fiscal 2020, the Company adopted Accounting Standards Update ("ASU") 2016-02, Leases (Topic 842). Refer to "Note A – Recently Adopted Accounting Pronouncements". Prior to the adoption of Topic 842, the Company accounted for leases under Topic 840 and recognized rent expense on a straight-line basis over the course of the lease term, which included any reasonably assured renewal periods, beginning on the date the Company took physical possession of the property. Differences between the calculated expense and cash payments was recorded as a liability within the Accrued expenses and other and Other long-term liabilities captions in the accompanying Consolidated Balance Sheets, based on the terms of the lease. Deferred rent approximated \$159.9 million as of August 31, 2019. Refer to Note O – Leases for additional disclosures regarding the Company's leases.

Financial Instruments: The Company has financial instruments, including cash and cash equivalents, accounts receivable, other current assets and accounts payable. The carrying amounts of these financial instruments approximate fair value because of their short maturities. A discussion of the carrying values and fair values of the Company's debt is included in "Note I – Financing," marketable debt securities is included in "Note F – Marketable Debt Securities," and derivatives is included in "Note H – Derivative Financial Instruments."

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. Our effective tax rate is based on income by tax jurisdiction, statutory rates and tax saving initiatives available to the Company in the various jurisdictions in which we operate.

The Company recognizes liabilities for uncertain income tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step requires the Company to estimate and measure the tax benefit as the largest amount that is more than 50% likely to be realized upon ultimate settlement. The Company reevaluates these uncertain tax positions on a quarterly basis or when new information becomes available to management. These reevaluations are based on factors including, but not limited to, changes in facts or circumstances, changes in tax law, successfully settled issues under audit, expirations due to statutes and new audit activity. Such a change in recognition or measurement could result in the recognition of a tax benefit or an increase to the tax accrual.

The Company classifies interest related to income tax liabilities, and if applicable, penalties, as a component of Income tax expense. The income tax liabilities and accrued interest and penalties that are expected to be payable within one year of the balance sheet date are presented within the Accrued expenses and other caption in the accompanying Consolidated Balance Sheets. The remaining portion of the income tax liabilities and accrued interest and penalties are presented within the Other long-term liabilities caption in the accompanying Consolidated Balance Sheets because payment of cash is not anticipated within one year of the balance sheet date. Refer to "Note D – Income Taxes" for additional disclosures regarding the Company's income taxes.

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Sales and Use Taxes: Governmental authorities assess sales and use taxes on the sale of goods and services. The Company excludes taxes collected from customers in its reported sales results; such amounts are included within the Accrued expenses and other caption until remitted to the taxing authorities.

Dividends: The Company currently does not pay a dividend on its common stock. The ability to pay dividends is subject to limitations imposed by Nevada law. Under Nevada law, any future payment of dividends would be dependent upon the Company's financial condition, capital requirements, earnings and cash flow.

Revenue Recognition: The Company's primary source of revenue is derived from the sale of automotive aftermarket parts and merchandise to its retail and commercial customers. Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, in an amount representing the consideration the Company expects to receive in exchange for selling products to its customers. Sales are recorded net of variable consideration in the period incurred, including discounts, sales incentives and rebates, sales taxes and estimated sales returns. Sales returns are based on historical return rates. The Company may enter into contracts that include multiple combinations of products and services, which are accounted for as separate performance obligations and do not require significant judgment.

The Company's performance obligations are typically satisfied when the customer takes possession of the merchandise. Revenue from retail customers is recognized when the customer leaves our store with the purchased products, typically at the point of sale or for E-commerce orders when the product is shipped. Revenue from commercial customers is recognized upon delivery, typically same-day. Payment from retail customers is at the point of sale and payment terms for commercial customers are based on the Company's pre-established credit requirements and generally range from 1 to 30 days. Discounts, sales incentives and rebates are treated as separate performance obligations, and revenue allocated to these performance obligations is recognized as the obligations to the customer are satisfied. Additionally, the Company estimates and records gift card breakage as redemptions occur. The Company offers diagnostic and repair information software used in the automotive repair industry through ALLDATA. This revenue is recognized as services are provided. Revenue from these services are recognized over the life of the contract. See "Note R – Revenue Recognition" for further discussion.

A portion of the Company's transactions include the sale of auto parts that contain a core component. The core component represents the recyclable portion of the auto part. Customers are not charged for the core component of the new part if a used core is returned at the point of sale of the new part; otherwise the Company charges customers a specified amount for the core component. The Company refunds that same amount upon the customer returning a used core to the store at a later date. The Company does not recognize sales or cost of sales for the core component of these transactions when a used part is returned or expected to be returned from the customer.

Vendor Allowances and Advertising Costs: The Company receives various payments and allowances from its vendors through a variety of programs and arrangements. Monies received from vendors include rebates, allowances and promotional funds. The amounts to be received are subject to the terms of the vendor agreements, which generally do not state an expiration date, but are subject to ongoing negotiations that may be impacted in the future based on changes in market conditions, vendor marketing strategies and changes in the profitability or sell-through of the related merchandise.

Rebates and other miscellaneous incentives are earned based on purchases or product sales and are accrued ratably over the purchase or sale of the related product. These monies are generally recorded as a reduction of merchandise inventories and are recognized as a reduction to cost of sales as the related inventories are sold.

For arrangements that provide for reimbursement of specific, incremental, identifiable costs incurred by the Company in selling the vendors' products, the vendor funds are recorded as a reduction to Operating, selling, general and administrative expenses in the period in which the specific costs were incurred.

The Company expenses advertising costs as incurred. Advertising expense, net of vendor promotional funds, was \$77.6 million in fiscal 2020, \$87.5 million in fiscal 2019 and \$95.2 million in fiscal 2018. Vendor promotional funds, which reduced advertising expense, amounted to \$39.4 million in fiscal 2020, \$32.2 million in fiscal 2019 and \$25.3 million in fiscal 2018.

Cost of Sales and Operating, Selling, General and Administrative Expenses: The following illustrates the primary costs classified in each major expense category:

Cost of Sales

- Total cost of merchandise sold, including:
 - Freight expenses associated with moving merchandise inventories from the Company's vendors to the distribution centers;
 - Vendor allowances that are not reimbursements for specific, incremental and identifiable costs
- Costs associated with operating the Company's supply chain, including payroll and benefits, warehouse occupancy, transportation and depreciation; and
- Inventory shrinkage

Operating, Selling, General and Administrative Expenses

- Payroll and benefits for store, field leadership and store support employees;
- Occupancy of store and store support facilities;
- Depreciation and amortization related to store and store support assets;
- Transportation associated with field leadership, commercial sales force and deliveries from stores;
- Advertising;
- Self-insurance; and
- Other administrative costs, such as credit card transaction fees, legal costs, supplies and travel and lodging

Warranty Costs: The Company or the vendors supplying its products provides the Company's customers limited warranties on certain products that range from 30 days to lifetime. In most cases, the Company's vendors are primarily responsible for warranty claims. Warranty costs relating to merchandise sold under warranty not covered by vendors are estimated and recorded as warranty obligations at the time of sale based on each product's historical return rate. These obligations, which are often funded by vendor allowances, are recorded within the Accrued expenses and other caption in the Consolidated Balance Sheets. For vendor allowances that are in excess of the related estimated warranty expense for the vendor's products, the excess is recorded in inventory and recognized as a reduction to cost of sales as the related inventory is sold.

Shipping and Handling Costs: The Company does not generally charge customers separately for shipping and handling. Substantially all the costs the Company incurs to ship products to our stores are included in cost of sales.

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

Earnings per Share: Basic earnings per share is based on the weighted average outstanding common shares. Diluted earnings per share is based on the weighted average outstanding common shares adjusted for the effect of common stock equivalents, which are primarily stock options. There were 169,460, 90,314 and 847,279 stock options excluded for the year ended August 29, 2020, August 31, 2019 and August 25, 2018, respectively because they would have been anti-dilutive.

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Share-Based Payments: Share-based payments include stock option grants, restricted stock, restricted stock units, stock appreciation rights and other transactions under the Company's equity incentive plans. The Company recognizes compensation expense for its share-based payments over the requisite service period based on the fair value of the awards. The Company uses the Black-Scholes option pricing model to calculate the fair value of stock options. The value of restricted stock is based on the stock price of the award on the grant date. See "Note B – Share-Based Payments" for further discussion.

Risk and Uncertainties: In fiscal 2020, one class of similar products accounted for approximately 12 percent of the Company's total revenues, and one vendor supplied approximately 12 percent of the Company's total purchases. No other class of similar products accounted for 10 percent or more of total revenues, and no other individual vendor provided more than 10 percent of total purchases.

Recently Adopted Accounting Pronouncements:

In February 2016, the Financial Accounting Standards Board ("FASB") issued ASU 2016-02, *Leases (Topic 842)*, and subsequently amended this update by issuing additional ASU's that provided clarification and further guidance for areas identified as potential implementation issues. ASU 2016-02 requires a two-fold approach for lessee accounting, under which a lessee will account for leases as finance leases or operating leases. For all leases with original terms greater than 12 months, both lease classifications will result in the lessee recognizing a right-of-use asset and a corresponding lease liability on its balance sheet, with differing methodologies for income statement recognition. This guidance also requires certain quantitative and qualitative disclosures about leasing arrangements. ASU 2016-02 and its amendments were effective for interim and annual reporting periods beginning after December 15, 2018, and early adoption was permitted. The ASU's transition provisions could be applied under a modified retrospective approach to each prior reporting period presented in the financial statements or only at the beginning of the period of adoption using the alternative transition method.

The Company adopted this standard and its amendments as of September 1, 2019, using the modified retrospective transition method. Under this method, existing leases were recorded at the adoption date, comparative periods were not restated and prior period amounts were not adjusted and continue to be reported under the accounting standards in effect for the prior periods. In addition, the Company elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allowed the carry forward of prior lease identification under Accounting Standards Codification ("ASC") Topic 840. The Company made the accounting policy election for short-term leases resulting in lease payments being recorded as an expense on a straight-line basis over the lease term. The Company also elected the practical expedient to not separate lease components from the non-lease components (typically fixed common-area maintenance costs at its retail store locations) for all classes of leased assets, except vehicles. The Company chose not to elect the hindsight practical expedient to determine the reasonably certain lease term for existing leases. Adoption of the leasing standard resulted in operating lease right-of-use assets of approximately \$2.5 billion and operating lease liabilities of approximately \$2.7 billion as of September 1, 2019. Existing prepaid and deferred rent were netted and recorded as an offset to our gross operating lease right-of-use assets. There was no adjustment to the opening balance of retained earnings upon adoption. The standard did not have a material impact on the Company's Condensed Consolidated Statements of Income, Condensed Consolidated Statements of Cash Flows or covenant compliance under its existing credit agreement. Refer to "Note O – Leases".

In June 2018, the FASB issued ASU 2018-07, *Compensation – Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting*. ASU 2018-07 aims to simplify the accounting for share-based payments to nonemployees by aligning it with the accounting for share-based payments to employees, with certain exceptions. The Company adopted this standard beginning with its first quarter ending November 23, 2019. The Company determined that the provisions of ASU 2018-07 did not have an impact on its Condensed Consolidated Statements of Income, Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Cash Flows.

Recently Issued Accounting Pronouncements:

In August 2018, the FASB issued ASU 2018-15, *Intangibles – Goodwill and Other Internal Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract*. The amendments in this update align the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. Early adoption is permitted. The Company will adopt this standard beginning with its first quarter ending November 21, 2020. The Company does not expect a material effect on its Condensed Consolidated Statements of Income, Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Cash Flows.

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments* which was subsequently amended in November 2018 through ASU 2018-19, *Codification Improvements to Topic 326, Financial Instruments Credit Losses*. ASU 2016-13 will require entities to estimate lifetime expected credit losses for trade and other receivables, net investments in leases, financial receivables, debt securities, and other instruments, which will result in earlier recognition of credit losses.

Further, the new credit loss model will affect how entities estimate their allowance for loss receivables that are current with respect to their payment terms. ASU 2016-13 will be effective for the Company at the beginning of its fiscal 2021 year. The Company will adopt this standard beginning its first quarter ending November 21, 2020. The Company does not expect a material effect on its Condensed Consolidated Statements of Income, Condensed Consolidated Balance Sheets or Condensed Consolidated Statements of Cash Flows.

Note B – Share-Based Payments

Overview of Share-Based Payment Plans

The Company has several active and inactive equity incentive plans under which the Company has been authorized to grant share-based awards to key employees and non-employee directors. Awards under these plans have been in the form of restricted stock, restricted stock units, stock options, stock appreciation rights and other awards as defined by the plans. The Company also has an Employee Stock Purchase Plan that allows employees to purchase Company shares at a discount subject to certain limitations. The Company also has an Executive Stock Purchase Plan which permits all eligible executives to purchase AutoZone’s common stock at a discount up to twenty-five percent of his or her annual salary and bonus.

Amended and Restated AutoZone, Inc. 2011 Equity Incentive Award Plan

On December 15, 2010, the Company’s stockholders approved the 2011 Equity Incentive Award Plan (the “2011 Plan”), allowing the Company to provide equity-based compensation to non-employee directors and employees for their service to AutoZone or its subsidiaries or affiliates. Prior to the Company’s adoption of the 2011 Plan, equity-based compensation was provided to employees under the 2006 Stock Option Plan and to non-employee directors under the 2003 Director Compensation Plan (the “2003 Comp Plan”).

During fiscal 2016, the Company’s stockholders approved the Amended and Restated AutoZone, Inc. 2011 Equity Incentive Award Plan (the “Amended 2011 Equity Plan”). The Amended 2011 Equity Plan imposes a maximum limit on the compensation, measured as the sum of any cash compensation and the aggregate grant date fair value of awards granted under the Amended 2011 Equity Plan, which may be paid to non-employee directors for such service during any calendar year. The Amended 2011 Equity Plan also applies a ten-year term on the Amended 2011 Equity Plan through December 16, 2025 and extends the Company’s ability to grant incentive stock options through October 7, 2025.

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AutoZone, Inc. Director Compensation Program

During fiscal 2020, the Company adopted the 2020 Director Compensation Program (the “Program”), which states that non-employee directors will receive their compensation in awards of restricted stock units under the 2018 Equity Incentive Award Plan, with an option for a certain portion of a director’s compensation to be paid in cash at the non-employee director’s election. The Program replaced the 2018 Director Compensation Program. Under the Program, restricted stock units are granted January 1 of each year (the “Grant Date”). The number of restricted stock units is determined by dividing the amount of the annual retainer by the fair market value of the shares of common stock as of the Grant Date. The restricted stock units are fully vested on January 1 of each year and are paid in shares of the Company’s common stock on the fifth anniversary of the Grant Date or the date the non-employee director ceases to be a member of the Board (“Separation from Service”), whichever occurs first. Non-employee directors may elect to defer receipt of the restricted stock units until their Separation from Service. The cash portion of the award, if elected, is paid ratably over each calendar quarter.

Total share-based compensation expense (a component of Operating, selling, general and administrative expenses) was \$44.8 million for fiscal 2020, \$43.3 million for fiscal 2019 and \$43.7 million for fiscal 2018. As of August 29, 2020, share-based compensation expense for unvested awards not yet recognized in earnings is \$42.0 million and will be recognized over a weighted average period of 1.7 years.

General terms and methods of valuation for the Company’s share-based awards are as follows:

Stock Options

The Company grants options to purchase common stock to certain of its employees under its plan at prices equal to the market value of the stock on the date of grant. Options have a term of 10 years or 10 years and one day from grant date. Employee options generally vest in equal annual installments on the first, second, third and fourth anniversaries of the grant date and generally have 30 or 90 days after the service relationship ends, or one year after death, to exercise all vested options. The fair value of each option grant is separately estimated for each vesting date. The fair value of each option is amortized into compensation expense on a straight-line basis between the grant date for the award and each vesting date.

The Company has estimated the fair value of all stock option awards as of the date of the grant by applying the Black-Scholes-Merton multiple-option pricing valuation model. The following table presents the weighted average for key assumptions used in determining the fair value of options granted and the related share-based compensation expense:

	Year Ended		
	August 29, 2020	August 31, 2019	August 25, 2018
Expected price volatility	22 %	21 %	20 %
Risk-free interest rate	1.4 %	3.0 %	1.9 %
Weighted average expected lives (in years).....	5.5	5.6	5.1
Forfeiture rate.....	10 %	10 %	10 %
Dividend yield	0 %	0 %	0 %

The following methodologies were applied in developing the assumptions used in determining the fair value of options granted:

Expected price volatility – This is a measure of the amount by which a price has fluctuated or is expected to fluctuate. The Company uses actual historical changes in the market value of its stock to calculate the volatility assumption as it is management’s belief that this is the best indicator of future volatility. The Company calculates daily market value changes from the date of grant over a past period representative of the expected life of the options to determine volatility. An increase in the expected volatility will increase compensation expense.

Risk-free interest rate – This is the U.S. Treasury rate for the week of the grant having a term equal to the expected life of the option. An increase in the risk-free interest rate will increase compensation expense.

Expected lives – This is the period of time over which the options granted are expected to remain outstanding and is based on historical experience. Separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. Options granted have a maximum term of ten years or ten years and one day. An increase in the expected life will increase compensation expense.

Forfeiture rate – This is the estimated percentage of options granted that are expected to be forfeited or canceled before becoming fully vested. This estimate is based on historical experience at the time of valuation and reduces expense ratably over the vesting period. An increase in the forfeiture rate will decrease compensation expense. This estimate is evaluated periodically based on the extent to which actual forfeitures differ, or are expected to differ, from the previous estimate.

Dividend yield – The Company has not made any dividend payments nor does it have plans to pay dividends in the foreseeable future. An increase in the dividend yield will decrease compensation expense.

The weighted average grant date fair value per share of options granted was \$252.54 during fiscal 2020, \$208.37 during fiscal 2019 and \$129.12 during fiscal 2018. The intrinsic value of options exercised was \$101.9 million in fiscal 2020, \$227.4 million in fiscal 2019 and \$123.1 million in fiscal 2018. The total fair value of options vested was \$39.1 million in fiscal 2020, \$34.5 million in fiscal 2019 and \$35.7 million in fiscal 2018.

The Company generally issues new shares when options are exercised. The following table summarizes information about stock option activity for the year ended August 29, 2020:

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term <i>(in years)</i>	Aggregate Intrinsic Value <i>(in thousands)</i>
Outstanding – August 31, 2019	1,349,311	\$ 601.36		
Granted	188,824	1,061.57		
Exercised	(146,705)	472.37		
Cancelled	(6,444)	735.42		
Outstanding – August 29, 2020	<u>1,384,986</u>	677.15	5.82	\$ 709,085
Exercisable	882,668	587.27	4.65	531,234
Expected to vest	452,086	835.08	7.88	160,066
Available for future grants	348,293			

Restricted Stock Units

Restricted stock unit awards are valued at the market price of a share of the Company's stock on the date of grant and vest ratably on an annual basis over a four-year service period and are payable in shares of common stock on the vesting date. Compensation expense for grants of employee restricted stock units is recognized on a straight-line basis over the four-year service period, less estimated forfeitures, which are consistent with stock option forfeiture assumptions.

As of August 29, 2020, total unrecognized stock-based compensation expense related to nonvested restricted stock unit awards, net of estimated forfeitures, was approximately \$9.0 million, before income taxes, which we expect to recognize over an estimated weighted average period of 2.7 years.

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Transactions related to restricted stock units for the fiscal year ended August 29, 2020 are as follows:

	<u>Number of Shares</u>	<u>Weighted- Average Grant Date Fair Value</u>
Nonvested at August 31, 2019	10,049	\$ 773.61
Granted	8,735	1,086.61
Vested	(4,183)	945.58
Canceled or forfeited	(441)	942.76
Nonvested at August 29, 2020	<u>14,160</u>	<u>\$ 910.63</u>

Stock Appreciation Rights

At August 29, 2020, the Company had \$5.7 million and at August 31, 2019, the Company had \$11.2 million of accrued compensation expense related to 4,822 and 10,206 outstanding units, respectively, issued under the 2003 Comp Plan and prior plans. As directors retire, this balance will be reduced. No additional shares of stock or units will be issued in future years under the 2003 Comp Plan or prior plans.

Employee Stock Purchase Plan and Executive Stock Purchase Plan

The Company recognized \$3.1 million in compensation expense related to the discount on the selling of shares to employees and executives under the various share purchase plans in fiscal 2020, \$2.8 million in fiscal 2019 and \$2.1 million in fiscal 2018. Under the Employee Plan, 10,525, 11,011 and 14,523 shares were sold to employees in fiscal 2020, 2019 and 2018, respectively. The Company repurchased 8,287, 17,201 and 11,816 shares in fiscal 2020, 2019 and 2018, respectively all at market value from employees electing to sell their stock. Purchases under the Executive Plan were 1,204, 1,483 and 1,840 shares in fiscal 2020, 2019 and 2018, respectively. Issuances of shares under the Employee Plan are netted against repurchases and such repurchases are not included in share repurchases disclosed in “Note K – Stock Repurchase Program.” At August 29, 2020, 142,241 shares of common stock were reserved for future issuance under the Employee Plan, and 235,361 shares of common stock were reserved for future issuance under the Executive Plan.

Note C – Accrued Expenses and Other

Accrued expenses and other consisted of the following:

<i>(in thousands)</i>	<u>August 29, 2020</u>	<u>August 31, 2019</u>
Accrued compensation, related payroll taxes and benefits	\$ 321,071	\$ 170,321
Property, sales, and other taxes	121,196	122,372
Medical and casualty insurance claims (current portion)	112,746	89,250
Finance lease liabilities	67,498	56,246
Accrued interest	63,503	48,147
Accrued gift cards	43,876	38,658
Accrued sales and warranty returns	32,356	34,310
Other	65,422	62,628
	<u>\$ 827,668</u>	<u>\$ 621,932</u>

The Company retains a significant portion of the insurance risks associated with workers’ compensation, employee health, general, product liability, property and vehicle insurance. A portion of these self-insured losses is managed through a wholly owned insurance captive. The Company maintains certain levels for stop-loss coverage for each self-insured plan in order to limit its liability for large claims. The retained limits per claim type are \$2.0 million for workers’ compensation, \$5.0 million for auto liability, \$21.5 million for property, \$0.7 million for employee health, and \$1.0 million for general and product liability.

Note D – Income Taxes

The components of income from continuing operations before income taxes are as follows:

<i>(in thousands)</i>	Year Ended		
	August 29, 2020	August 31, 2019	August 25, 2018
Domestic	\$ 1,960,320	\$ 1,745,625	\$ 1,412,963
International	256,194	285,708	223,366
	<u>\$ 2,216,514</u>	<u>\$ 2,031,333</u>	<u>\$ 1,636,329</u>

The provision for income tax expense consisted of the following:

<i>(in thousands)</i>	Year Ended		
	August 29, 2020	August 31, 2019	August 25, 2018
Current:			
Federal	\$ 324,156	\$ 274,504	\$ 328,963
State	47,880	45,457	36,389
International	60,429	59,100	57,702
	<u>432,465</u>	<u>379,061</u>	<u>423,054</u>
Deferred:			
Federal	43,706	25,757	(131,926)
State	12,544	6,914	8,167
International	(5,173)	2,380	(502)
	<u>51,077</u>	<u>35,051</u>	<u>(124,261)</u>
Income tax expense	<u>\$ 483,542</u>	<u>\$ 414,112</u>	<u>\$ 298,793</u>

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

<i>(in thousands)</i>	Year Ended		
	August 29, 2020	August 31, 2019	August 25, 2018
Federal tax at statutory U.S. income tax rate	21.0 %	21.0 %	25.9 %
State income taxes, net	2.2 %	2.0 %	1.9 %
Transition tax	—	—	1.6 %
Share-based compensation	(0.7)%	(1.8)%	(1.6)%
Impact of tax reform	—	(0.4)%	(9.6)%
Global intangible lower-taxed income (“GILTI”)	1.0 %	1.3 %	—
Foreign Tax Credits	(1.1)%	(1.1)%	—
Other	(0.6)%	(0.6)%	0.1 %
Effective tax rate	<u>21.8 %</u>	<u>20.4 %</u>	<u>18.3 %</u>

On December 22, 2017, the Tax Cuts and Jobs Act (“Tax Reform”) was enacted into law. Tax Reform significantly revises the U.S. federal corporate income tax by, among other things, lowering the statutory federal corporate rate from 35% to 21%, eliminating certain deductions, imposing a mandatory one-time transition tax on accumulated earnings of foreign subsidiaries, and changing how foreign earnings are subject to U.S. federal tax. Also in December 2017, the SEC issued Staff Accounting Bulletin No. 118 (“SAB 118”) to address the application of GAAP in situations when the registrant does not have the necessary information available, prepared or analyzed in reasonable detail to complete the accounting for certain income tax effects of Tax Reform.

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During the year ended August 25, 2018, the Company recorded provisional tax benefit of \$131.5 million related to Tax Reform, comprised of \$157.3 million remeasurement of its net DTA, offset by \$25.8 million of transition tax. During the year ended August 31, 2019, the Company completed its analysis of Tax Reform and recorded adjustments to the previously-recorded provisional amounts, resulting in an \$8.8 million tax benefit, primarily related to transition tax.

For the year ended August 29, 2020, August 31, 2019, and August 25, 2018, the Company recognized excess tax benefits from stock option exercises of \$20.9 million, \$46.0 million, and \$31.3 million, respectively.

Beginning with the year ending August 31, 2019, the Company is subject to GILTI which is imposed on foreign earnings. The Company has made the election to record this tax as a period cost, thus has not adjusted the deferred tax assets or liabilities of its foreign subsidiaries for the new tax. Net impacts for GILTI are included in the provision for income taxes for the years ended August 31, 2019 and August 29, 2020. Significant components of the Company's deferred tax assets and liabilities were as follows:

<i>(in thousands)</i>	August 29, 2020	August 31, 2019
Deferred tax assets:		
Net operating loss and credit carryforwards	\$ 41,437	\$ 42,958
Accrued benefits	88,226	58,900
Operating lease liabilities	617,002	—
Other	<u>69,788</u>	<u>59,237</u>
Total deferred tax assets	816,453	161,095
Less: Valuation allowances	<u>(28,373)</u>	<u>(23,923)</u>
Net deferred tax assets	788,080	137,172
Deferred tax liabilities:		
Property and equipment	(173,696)	(114,956)
Inventory	(298,585)	(259,827)
Prepaid expenses	(55,827)	(46,487)
Operating lease assets	(581,381)	—
Other	<u>(4,934)</u>	<u>(1,021)</u>
Total deferred tax liabilities	<u>(1,114,423)</u>	<u>(422,291)</u>
Net deferred tax liabilities	<u>\$ (326,343)</u>	<u>\$ (285,119)</u>

For the year ended August 31, 2019, the Company held the assertion, with few exceptions, that current and accumulated earnings from foreign operations were not indefinitely reinvested. During the year ended August 29, 2020, the Company asserted indefinite reinvestment for other basis differences and accumulated earnings through fiscal 2020 between its Luxembourg parent and Mexico subsidiaries. In addition, the Company has maintained its assertion of indefinite reinvestment of earnings between its Dutch parent and Puerto Rican subsidiary. Where necessary, withholding tax provisions resulting from foreign distributions of current and accumulated earnings have been considered in the Company's provision for income taxes.

The Company maintains its assertion related to other basis differences in foreign subsidiaries. It is impracticable for the Company to determine the amount of unrecognized deferred tax liability on these indefinitely reinvested basis differences.

At August 29, 2020 and August 31, 2019, the Company had deferred tax assets of \$32.2 million and \$29.9 million, respectively, from net operating loss ("NOL") carryforwards available to reduce future taxable income totaling approximately \$247.1 million and \$226.3 million, respectively. Certain NOLs have no expiration date and others will expire, if not utilized, in various years from fiscal 2021 through 2040. At August 29, 2020 and August 31, 2019, the Company had deferred tax assets for income tax credit carryforwards of \$9.2 million and \$13.0 million, respectively. Income tax credit carryforwards will expire, if not utilized, in various years from fiscal 2021 through 2037.

At August 29, 2020 and August 31, 2019, the Company had a valuation allowance of \$28.4 million and \$23.9 million, respectively, on deferred tax assets associated with NOL and tax credit carryforwards for which management has determined it is more likely than not that the deferred tax asset will not be realized. Management believes it is more likely than not that the remaining deferred tax assets will be fully realized.

A reconciliation of the beginning and ending amount of unrecognized tax benefits is as follows:

<i>(in thousands)</i>	August 29, 2020	August 31, 2019
Beginning balance	\$ 30,892	\$ 26,077
Additions based on tax positions related to the current year	8,512	8,621
Additions for tax positions of prior years	946	2,115
Reductions for tax positions of prior years	(4,124)	(1,219)
Reductions due to settlements	—	(1,918)
Reductions due to statute of limitations	(4,284)	(2,784)
Ending balance	<u>\$ 31,942</u>	<u>\$ 30,892</u>

Included in the August 29, 2020 and the August 31, 2019 balances are \$18.9 million and \$16.8 million, respectively, of unrecognized tax benefits that, if recognized, would reduce the Company's effective tax rate. The balances above also include amounts of \$10.5 million and \$11.9 million for August 29, 2020 and the August 31, 2019, respectively, that are accounted for as reductions to deferred tax assets for NOL carryforwards and tax credit carryforwards. It is anticipated that in the event the associated uncertain tax positions are disallowed, the NOL carryforwards and tax credit carryforwards would be utilized to settle the liability.

The Company accrues interest on unrecognized tax benefits as a component of income tax expense. Penalties, if incurred, would be recognized as a component of income tax expense. The Company had \$1.6 million and \$1.4 million accrued for the payment of interest and penalties associated with unrecognized tax benefits at August 29, 2020 and August 31, 2019, respectively.

The Company files U.S. federal, U.S. state and local, and international income tax returns. With few exceptions, the Company is no longer subject to U.S. federal, U.S. state and local, or Non-U.S. examinations by tax authorities for fiscal year 2013 and prior. The Company is typically engaged in various tax examinations at any given time by U.S. federal, U.S. state and local, and Non-U.S. taxing jurisdictions. As of August 29, 2020, the Company estimates that the amount of unrecognized tax benefits could be reduced by approximately \$1.5 million over the next twelve months as a result of tax audit settlements. While the Company believes that it is adequately accrued for possible audit adjustments, the final resolution of these examinations cannot be determined at this time and could result in final settlements that differ from current estimates.

Note E – Fair Value Measurements

The Company defines fair value as the price received to transfer an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In accordance with ASC 820, *Fair Value Measurements and Disclosures*, the Company uses the fair value hierarchy, which prioritizes the inputs used to measure fair value. The hierarchy, as defined below, gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are set forth below:

Level 1 inputs — unadjusted quoted prices in active markets for identical assets or liabilities that the Company can access at the measurement date.

Level 2 inputs — inputs other than quoted market prices included within Level 1 that are observable, either directly or indirectly, for the asset or liability.

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Level 3 inputs — unobservable inputs for the asset or liability, which are based on the Company’s own assumptions as there is little, if any, observable activity in identical assets or liabilities.

Marketable Debt Securities Measured at Fair Value on a Recurring Basis

The Company’s marketable debt securities measured at fair value on a recurring basis were as follows:

<i>(in thousands)</i>	August 29, 2020			Fair Value
	Level 1	Level 2	Level 3	
Other current assets	\$ 75,651	\$ 467	\$ —	\$ 76,118
Other long-term assets	58,792	12,329	—	71,121
	<u>\$ 134,443</u>	<u>\$ 12,796</u>	<u>\$ —</u>	<u>\$ 147,239</u>

<i>(in thousands)</i>	August 31, 2019			Fair Value
	Level 1	Level 2	Level 3	
Other current assets	\$ 65,344	\$ 2,614	\$ —	\$ 67,958
Other long-term assets	65,573	5,395	—	70,968
	<u>\$ 130,917</u>	<u>\$ 8,009</u>	<u>\$ —</u>	<u>\$ 138,926</u>

At August 29, 2020, the fair value measurement amounts for assets and liabilities recorded in the accompanying Consolidated Balance Sheet consisted of short-term marketable debt securities of \$76.1 million, which are included within Other current assets and long-term marketable debt securities of \$71.1 million, which are included in Other long-term assets. The Company’s marketable debt securities are typically valued at the closing price in the principal active market as of the last business day of the quarter or through the use of other market inputs relating to the debt securities, including benchmark yields and reported trades.

A discussion on how the Company’s cash flow hedges are valued is included in “Note H – Derivative Financial Instruments,” while the fair values of the marketable debt securities by asset class are described in “Note F – Marketable Debt Securities.”

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

Certain non-financial assets and liabilities are required to be measured at fair value on a non-recurring basis in certain circumstances, including the event of impairment. These non-financial assets and liabilities could include assets and liabilities acquired in an acquisition as well as goodwill, intangible assets and property, plant and equipment that are determined to be impaired. At August 29, 2020, the Company did not have any other significant non-financial assets or liabilities that had been measured at fair value on a non-recurring basis subsequent to initial recognition.

Financial Instruments not Recognized at Fair Value

The Company has financial instruments, including cash and cash equivalents, accounts receivable, other current assets and accounts payable. The carrying amounts of these financial instruments approximate fair value because of their short maturities. A discussion of the carrying values and fair values of the Company’s debt is included in “Note I – Financing.”

Note F – Marketable Debt Securities

The Company’s basis for determining the cost of a security sold is the “Specific Identification Model.” Unrealized gains (losses) on marketable debt securities are recorded in Accumulated Other Comprehensive Loss. The Company’s available-for-sale marketable debt securities consisted of the following:

<i>(in thousands)</i>	August 29, 2020			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	\$ 46,652	\$ 970	\$ (4)	\$ 47,618
Government bonds	44,594	1,172	—	45,766
Mortgage-backed securities	4,842	75	—	4,917
Asset-backed securities and other	48,798	143	(3)	48,938
	<u>\$ 144,886</u>	<u>\$ 2,360</u>	<u>\$ (7)</u>	<u>\$ 147,239</u>

<i>(in thousands)</i>	August 31, 2019			
	Amortized Cost Basis	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
Corporate debt securities	\$ 36,998	\$ 29	\$ (19)	\$ 37,008
Government bonds	45,741	763	—	46,504
Mortgage-backed securities	2,089	2	(15)	2,076
Asset-backed securities and other	53,345	—	(7)	53,338
	<u>\$ 138,173</u>	<u>\$ 794</u>	<u>\$ (41)</u>	<u>\$ 138,926</u>

The marketable debt securities held at August 29, 2020, had effective maturities ranging from less than one year to approximately three years. The Company did not realize any material gains or losses on its marketable debt securities during fiscal 2020, 2019 or 2018.

Included above in total marketable debt securities are \$30.1 million and \$89.2 million of marketable debt securities transferred by the Company’s insurance captive to a trust account to secure its obligations to an insurance company related to future workers’ compensation and casualty losses as of August 29, 2020 and August 31, 2019, respectively.

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Note G – Accumulated Other Comprehensive Loss

Accumulated Other Comprehensive Loss includes certain adjustments to pension liabilities, foreign currency translation adjustments, certain activity for interest rate swaps and treasury rate locks that qualify as cash flow hedges and unrealized gains (losses) on available-for-sale debt securities. Changes in Accumulated Other Comprehensive Loss consisted of the following:

<i>(in thousands)</i>	Foreign Currency ⁽²⁾	Net Unrealized Gain (Loss) on Securities	Derivatives	Total
Balance at August 25, 2018	\$ (228,899)	\$ (873)	\$ (6,033)	\$ (235,805)
Other Comprehensive (Loss) income before reclassifications	(36,699)	1,498	—	(35,201)
Amounts reclassified from Accumulated Other Comprehensive Loss ⁽¹⁾	—	(34)	1,718	1,684
Balance at August 31, 2019	(265,598)	591	(4,315)	(269,322)
Other Comprehensive (Loss) income before reclassifications	(66,723)	1,117	(28,197)	(93,803)
Amounts reclassified from Accumulated Other Comprehensive Loss ⁽¹⁾	—	137	8,736	8,873
Balance at August 29, 2020	<u>\$ (332,321)</u>	<u>\$ 1,845</u>	<u>\$ (23,776)</u>	<u>\$ (354,252)</u>

- (1) Amounts in parentheses indicate debits to Accumulated Other Comprehensive Loss.
- (2) Foreign currency is shown net of U.S. tax to account for foreign currency impacts of certain undistributed non-U.S. subsidiaries earnings. Other foreign currency is not shown net of additional U.S. tax as other basis differences of non-U.S. subsidiaries are intended to be permanently reinvested.
- (3) Represents realized gains on marketable debt securities, net of taxes of \$38 in fiscal 2020 and realized gains on marketable debt securities, net of tax benefit of \$9 in fiscal 2019, which is recorded in Operating, selling, general, and administrative expenses on the Consolidated Statements of Income. See “Note F – Marketable Debt Securities” for further discussion.
- (4) Represents gains and losses on derivatives, net of tax benefit of \$6,164 in fiscal 2020 and net of taxes of \$530 in fiscal 2019, which is recorded in Interest expense, net, on the Consolidated Statements of Income. See “Note H – Derivative Financial Instruments” for further discussion.

Note H – Derivative Financial Instruments

The Company periodically uses derivatives to hedge exposures to interest rates. The Company does not hold or issue financial instruments for trading purposes. For transactions that meet the hedge accounting criteria, the Company formally designates and documents the instrument as a hedge at inception and quarterly thereafter assesses the hedges to ensure they are effective in offsetting changes in the cash flows of the underlying exposures. Derivatives are recorded in the Company’s Consolidated Balance Sheet at fair value, determined using available market information or other appropriate valuation methodologies. In accordance with ASC Topic 815, *Derivatives and Hedging*, to the extent our derivatives are effective in offsetting the variability of the hedged cash flows, changes in the derivatives’ fair value are not included in current earnings but are included in Accumulated Other Comprehensive Loss, net of tax.

At August 29, 2020, the Company had \$31.2 million recorded in Accumulated Other Comprehensive Loss related to net realized losses associated with terminated interest rate swap and treasury rate lock derivatives which were designated as hedging instruments. Net losses are amortized into Interest expense over the remaining life of the associated debt. During fiscal 2020, the Company reclassified \$2.6 million of net losses from Accumulated Other Comprehensive Loss to Interest expense. During 2019, the Company reclassified \$2.2 million of net losses from Accumulated Other Comprehensive Loss to Interest expense. The Company expects to reclassify \$3.7 million of net losses from Accumulated Other Comprehensive Loss to Interest expense over the next 12 months.

Note I – Financing

The Company’s debt consisted of the following:

<i>(in thousands)</i>	August 29, 2020	August 31, 2019
4.000% Senior Notes due November 2020, effective interest rate of 4.43%	\$ —	\$ 500,000
2.500% Senior Notes due April 2021, effective interest rate of 2.62%	250,000	250,000
3.700% Senior Notes due April 2022, effective interest rate of 3.85%	500,000	500,000
2.875% Senior Notes due January 2023, effective interest rate of 3.21%	300,000	300,000
3.125% Senior Notes due July 2023, effective interest rate of 3.26%	500,000	500,000
3.125% Senior Notes due April 2024, effective interest rate 3.32%	300,000	300,000
3.250% Senior Notes due April 2025, effective interest rate 3.36%	400,000	400,000
3.625% Senior Notes due April 2025, effective interest rate 3.78%	500,000	—
3.125% Senior Notes due April 2026, effective interest rate of 3.28%	400,000	400,000
3.750% Senior Notes due June 2027, effective interest rate of 3.83%	600,000	600,000
3.750% Senior Notes due April 2029, effective interest rate of 3.86%	450,000	450,000
4.000% Senior Notes due April 2030, effective interest rate 4.09%	750,000	—
1.650% Senior Notes due January 2031, effective interest rate of 2.19%	600,000	—
Commercial paper, weighted average interest rate of 2.28% at August 31, 2019.	—	1,030,000
Total debt before discounts and debt issuance costs	5,550,000	5,230,000
Less: Discounts and debt issuance costs	36,629	23,656
Long-term debt	<u>\$ 5,513,371</u>	<u>\$ 5,206,344</u>

The Company entered into a Master Extension, New Commitment and Amendment Agreement dated as of November 18, 2017 (the “Extension Amendment”) to the Third Amended and Restated Credit Agreement dated as of November 18, 2016, as amended, modified, extended or restated from time to time (the “Revolving Credit Agreement”). Under the Extension Amendment: (i) the Company’s borrowing capacity under the Revolving Credit Agreement was increased from \$1.6 billion to \$2.0 billion; (ii) the maximum borrowing under the Revolving Credit Agreement may, at the Company’s option, subject to lenders approval, be increased from \$2.0 billion to \$2.4 billion; (iii) the termination date of the Revolving Credit Agreement was extended from November 18, 2021 until November 18, 2022; and (iv) the Company has the option to make one additional written request of the lenders to extend the termination date then in effect for an additional year. Under the Revolving Credit Agreement, the Company may borrow funds consisting of Eurodollar loans, base rate loans or a combination of both. Interest accrues on Eurodollar loans at a defined Eurodollar rate, defined as LIBOR plus the applicable percentage, as defined in the Revolving Credit Agreement, depending upon the Company’s senior, unsecured, (non-credit enhanced) long-term debt ratings. Interest accrues on base rate loans as defined in the Revolving Credit Agreement.

On April 3, 2020, the Company entered into a 364-Day Credit Agreement (the “364-Day Credit Agreement”) to augment the Company’s access to liquidity due to current macroeconomic conditions and supplement the Company’s existing Revolving Credit Agreement. The 364-Day Credit Agreement provides for loans in the aggregate principal amount of up to \$750 million. The 364-Day Credit Agreement will terminate, and all amounts borrowed under the 364-Day Credit Agreement will be due and payable, on April 2, 2021. Revolving loans under the 364-Day Credit Agreement may be base rate loans, Eurodollar loans, or a combination of both, at the Company’s election.

As of August 29, 2020, the Company had no outstanding borrowings under each of the revolving credit agreements and \$1.7 million of outstanding letters of credit under the Revolving Credit Agreement.

Under its revolving credit agreement, covenants include restrictions on liens, a maximum debt to earnings ratio, a minimum fixed charge coverage ratio and a change of control provision that may require acceleration of the repayment obligations under certain circumstances.

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The Revolving Credit Agreement requires that the Company's consolidated interest coverage ratio as of the last day of each quarter shall be no less than 2.5:1. This ratio is defined as the ratio of (i) consolidated earnings before interest, taxes and rents to (ii) consolidated interest expense plus consolidated rents. The Company's consolidated interest coverage ratio as of August 29, 2020 was 6.1:1.

As of August 29, 2020, the \$250 million 2.500% Senior Notes due April 2021 are classified as long-term in the accompanying Consolidated Balance Sheets as the Company has the ability and intent to refinance the notes on a long-term basis through available capacity in its revolving credit agreements. As of August 29, 2020, the Company had \$2.748 billion of availability, before giving effect to commercial paper borrowings, under its \$2.750 billion revolving credit agreements which would allow the Company to replace these short-term obligations with long-term financing facilities.

The Company also maintains a letter of credit facility that allows it to request the participating bank to issue letters of credit on its behalf up to an aggregate amount of \$25 million. The letter of credit facility is in addition to the letters of credit that may be issued under the Revolving Credit Agreement. As of August 29, 2020, the Company had \$25.0 million in letters of credit outstanding under the letter of credit facility which expires in June 2022.

In addition to the outstanding letters of credit issued under the committed facilities discussed above, the Company had \$220.3 million in letters of credit outstanding as of August 29, 2020. These letters of credit have various maturity dates and were issued on an uncommitted basis.

On August 14, 2020, the Company issued \$600 million in 1.650% Senior Notes due January 2031 under its automatic shelf registration statement on Form S-3, filed with the SEC on April 4, 2019 (File No. 333-230719) (the "2019 Shelf Registration"). The 2019 Shelf Registration allows the Company to sell an indeterminate amount in debt securities to fund general corporate purposes, including repaying, redeeming or repurchasing outstanding debt and for working capital, capital expenditures, new store openings, stock repurchases and acquisitions. Proceeds from the debt issuance were used for general corporate purposes, including the repayment of the \$500 million in 4.000% Senior Notes due in November 2020 that were callable at par in August 2020.

On March 30, 2020, the Company issued \$500 million in 3.625% Senior Notes due April 2025 and \$750 million in 4.000% Senior Notes due April 2030 under the 2019 Shelf Registration. Proceeds from the debt issuance were used to repay a portion of the outstanding commercial paper borrowings and for other general corporate purposes.

On April 18, 2019, the Company issued \$300 million in 3.125% Senior Notes due April 2024 and \$450 million in 3.750% Senior Notes due April 2029 under the 2019 Shelf Registration. Proceeds from the debt issuance were used to repay a portion of the outstanding commercial paper borrowings, the \$250 million in 1.625% Senior Notes due in April 2019 and for other general corporate purposes.

All Senior Notes are subject to an interest rate adjustment if the debt ratings assigned to the Senior Notes are downgraded (as defined in the agreements). Further, the Senior Notes contain a provision that repayment of the Senior Notes may be accelerated if the Company experiences a change in control (as defined in the agreements). The Company's borrowings under its senior notes contain minimal covenants, primarily restrictions on liens. All of the repayment obligations under its borrowing arrangements may be accelerated and come due prior to the scheduled payment date if covenants are breached or an event of default occurs.

As of August 29, 2020, the Company was in compliance with all covenants related to its borrowing arrangements.

All of the Company's debt is unsecured. Scheduled maturities of debt are as follows:

<i>(in thousands)</i>	Scheduled Maturities
2021	\$ 250,000
2022	500,000
2023	800,000
2024	300,000
2025	900,000
Thereafter	<u>2,800,000</u>
Subtotal	5,550,000
Discount and debt issuance costs	36,629
Total Debt	<u>\$ 5,513,371</u>

The fair value of the Company's debt was estimated at \$6.081 billion as of August 29, 2020, and \$5.419 billion as of August 31, 2019, based on the quoted market prices for the same or similar issues or on the current rates available to the Company for debt of the same terms (Level 2). Such fair value is greater than the carrying value of debt by \$567.5 million at August 29, 2020, which reflects face amount, adjusted for any unamortized debt issuance costs and discounts. At August 31, 2019, the fair value was greater than the carrying value of debt by \$212.7 million.

Note J – Interest Expense

Net interest expense consisted of the following:

<i>(in thousands)</i>	Year Ended		
	<u>August 29, 2020</u>	<u>August 31, 2019</u>	<u>August 25, 2018</u>
Interest expense	\$ 208,021	\$ 193,671	\$ 181,668
Interest income	(5,689)	(7,396)	(5,636)
Capitalized interest	<u>(1,167)</u>	<u>(1,471)</u>	<u>(1,505)</u>
	<u>\$ 201,165</u>	<u>\$ 184,804</u>	<u>\$ 174,527</u>

Note K – Stock Repurchase Program

During 1998, the Company announced a program permitting the Company to repurchase a portion of its outstanding shares not to exceed a dollar maximum established by the Board. On October 7, 2019, the Board voted to authorize the repurchase of an additional \$1.25 billion of its common stock in connection with its ongoing share repurchase program. Since the inception of the repurchase program in 1998, the Board has authorized \$23.15 billion in share repurchases. The Company has \$795.9 million remaining under the Board's authorization to repurchase its common stock.

The Company's share repurchase activity consisted of the following:

<i>(in thousands)</i>	Year Ended		
	<u>August 29, 2020</u>	<u>August 31, 2019</u>	<u>August 25, 2018</u>
Amount	\$ 930,903	\$ 2,004,896	\$ 1,592,013
Shares	826	2,182	2,398

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During fiscal year 2020, the Company retired 1.9 million shares of treasury stock which had previously been repurchased under the Company's share repurchase program. The retirement increased Retained deficit by \$1.879 billion and decreased Additional paid-in capital by \$99.7 million. During the comparable prior year period, the Company retired 2.6 million shares of treasury stock, which increased Retained deficit by \$1.707 billion and decreased Additional paid-in capital by \$125.4 million.

During fiscal 2020, the Company temporarily ceased share repurchases to conserve liquidity in response to the uncertainty related to COVID-19. While the Company restarted share repurchases during the first quarter of fiscal year 2021, the Company will continue to evaluate current and expected business conditions and adjust the level of share repurchases as the Company deems appropriate.

Subsequent to August 29, 2020, the Company has repurchased 269,795 shares of common stock at an aggregate cost of \$314.4 million. Considering the cumulative repurchases subsequent to August 29, 2020, the Company has \$481.5 million remaining under the Board's authorization to repurchase its common stock.

Note L – Pension and Savings Plans

Prior to January 1, 2003, substantially all full-time employees were covered by a defined benefit pension plan. The benefits under the plan were based on years of service and the employee's highest consecutive five-year average compensation. On January 1, 2003, the plan was frozen, resulting in pension plan participants earning no new benefits under the plan formula and no new participants joining the pension plan.

On January 1, 2003, the Company's supplemental defined benefit pension plan for certain highly compensated employees was also frozen, resulting in pension plan participants earning no new benefits under the plan formula and no new participants joining the pension plan.

On December 19, 2017, the Board of Directors approved a resolution to terminate both of the Company's pension plans, effective March 15, 2018. The Company offered plan participants the option to receive an annuity purchased from an insurance carrier or a lump-sum cash payment based on a number of factors. During the fourth quarter of 2018, the Company contributed \$11.4 million to the pension plans to ensure that sufficient assets were available for the lump-sum payments and annuity purchases, completed the transfer of all lump sum payments, transferred all remaining benefit obligations related to the pension plans to a highly rated insurance company, and recognized \$130.3 million of non-cash pension termination charges in Operating, selling, general and administrative expenses in the Consolidated Statements of Income. During fiscal 2019, the Company received a refund of \$6.8 million related primarily to annuity purchase overpayments, recorded in Operating, selling, general and administrative expenses, net within the Consolidated statements of income. No refunds or expenses related to pension termination occurred in fiscal 2020. There are no actuarial assumptions reflected in any pension plans estimates. The Company will no longer have any remaining defined pension benefit obligation and thus no periodic pension benefit expense.

Net periodic benefit expense consisted of the following:

<i>(in thousands)</i>	Year Ended August 25 2018⁽¹⁾
Interest cost	\$ 10,356
Expected return on plan assets	(18,997)
Recognized net actuarial losses	10,736
Settlement loss	<u>130,263</u>
Net periodic benefit expense	<u>\$ 132,358</u>

(1) The pension plans were terminated in fiscal 2018.

The Company has a 401(k) plan that covers all domestic employees who meet the plan's participation requirements. The plan features include Company matching contributions, immediate 100% vesting of Company contributions and a savings option up to 25% of qualified earnings. The Company makes matching contributions, per pay period, up to a specified percentage of employees' contributions as approved by the Board. The Company made matching contributions to employee accounts in connection with the 401(k) plan of \$29.8 million in fiscal 2020, \$25.8 million in fiscal 2019 and \$23.1 million in fiscal 2018.

Note M – Sale of Assets

During the second quarter of fiscal 2018, the Company determined that the approximate fair value less costs to sell its IMC and AutoAnything businesses was significantly lower than the carrying value of the net assets based on recent offers received and recorded impairment charges totaling \$193.2 million within Operating, selling, general and administrative expenses in its Condensed Consolidated Statements of Income.

The Company recorded an impairment charge of \$93.6 million for its IMC business, which was reflected as a component of Auto Parts Locations in its segment reporting in fiscal 2018. Impairment charges for AutoAnything, which were reflected as a component of the Other category in the Company's segment reporting, totaled \$99.6 million in fiscal 2018.

During the third quarter of fiscal 2018, the Company completed the IMC and AutoAnything sales for total consideration that approximated the remaining net book value at the closing date.

Note N – Goodwill and Intangibles

The Company had approximately \$302.6 million of goodwill, which is allocated to the Auto Parts Locations operating segment at August 29, 2020 and August 31, 2019. The Company performs its annual goodwill and intangibles impairment test in the fourth quarter of each fiscal year. In the fourth quarter of fiscal 2020 and 2019, the Company concluded its remaining goodwill was not impaired.

The carrying amounts of intangible assets are included in Other long-term assets as follows:

<i>(in thousands)</i>	August 29, 2020			
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:				
Customer relationships	3-10 years	29,376	(27,933)	1,443
Total intangible assets other than goodwill		<u>\$ 29,376</u>	<u>\$ (27,933)</u>	<u>\$ 1,443</u>

<i>(in thousands)</i>	August 31, 2019			
	Estimated Useful Life	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Amortizing intangible assets:				
Technology	3-5 years	\$ 870	\$ (870)	\$ —
Customer relationships	3-10 years	29,376	(23,760)	5,616
Total intangible assets other than goodwill		<u>\$ 30,246</u>	<u>\$ (24,630)</u>	<u>\$ 5,616</u>

Amortization expense of intangible assets for the years ended August 29, 2020 and August 31, 2019 was \$4.2 million, respectively.

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Total future amortization expense for intangible assets that have finite lives, based on the existing intangible assets and their current estimated useful lives as of August 29, 2020, is estimated to be \$1.4 million for fiscal 2021 and none thereafter.

Note O – Leases

The Company adopted ASU 2016-02, Leases (Topic 842), beginning with its first quarter ended November 23, 2019 which requires leases to be recognized on the balance sheet. Leases with an original term of 12 months or less are not recognized in the Company’s Condensed Consolidated Balance Sheets, and the lease expense related to these short-term leases is recognized over the lease term. The Company aggregates lease and non-lease components, which includes fixed common-area maintenance costs at its retail store locations, for all classes of leased assets, except vehicles. The Company’s vehicle leases typically include variable non-lease components, such as maintenance and fuel charges. The Company excludes these variable non-lease components from vehicle lease payments for the purpose of calculating the right-of-use assets and liabilities. These variable lease payments are expensed as incurred.

The Company’s leases primarily relate to its retail stores, distribution centers and vehicles under various non-callable leases. Leases are categorized at their commencement date, which is the date the Company takes possession or control of the underlying asset. Most of the Company’s leases are operating leases; however, certain land and vehicles are leased under finance leases. The leases have varying terms and expire at various dates through 2040. Retail leases typically have initial terms of between one and 20 years, with one to six optional renewal periods of one to five years each. Finance leases for vehicles typically have original terms between one and five years, and finance leases for real estate leases typically have terms of 20 or more years. The exercise of lease renewal options is at the Company’s sole discretion. The Company evaluates renewal options at lease commencement and on an ongoing basis and includes options that are reasonably certain to exercise in its expected lease terms when classifying leases and measuring lease liabilities. The Company subleases certain properties that are not used in its operations. Sublease income was not significant for the periods presented. Certain lease agreements require variable payments based upon actual costs of common-area maintenance, real estate taxes and insurance. The Company’s lease agreements do not contain any material residual value guarantees or material restrictive covenants.

The Company’s finance leases for vehicles have a stated borrowing rate which it uses in determining the present value of the lease payments over the lease term. Substantially all the operating leases and finance leases for real estate do not provide a stated borrowing rate. Accordingly, the Company uses its incremental borrowing rate at commencement or modification date in determining the present value of lease payments over the lease term. For operating leases that commenced prior to the date of adoption of the new standard, the Company used the incremental borrowing rate that corresponded to the remaining lease term as of the date of adoption.

Lease-related assets and liabilities recorded on the Condensed Consolidated Balance Sheet are as follows:

<i>(in thousands)</i>	Classification	August 29, 2020
Assets:		
Operating.....	Operating lease right-of-use assets	\$ 2,581,677
Finance	Property and equipment	327,006
Total lease assets		<u>\$ 2,908,683</u>
Liabilities:		
Current:		
Operating.....	Current portion of operating lease liabilities	\$ 223,680
Finance	Accrued expenses and other	67,498
Noncurrent:		
Operating.....	Operating lease liabilities, less current portion	2,501,726
Finance	Other long-term liabilities	155,855
Total lease liabilities		<u>\$ 2,948,759</u>

Accumulated amortization related to finance lease assets was \$107.3 million as of August 29, 2020.

Lease costs for finance and operating leases are as follows:

<i>(in thousands)</i>	Statement of Income Location	For year ended August 29, 2020
Finance lease cost:		
Amortization of lease assets	Depreciation and amortization	\$ 55,920
Interest on lease liabilities	Interest expense, net	4,355
Operating lease cost ⁽¹⁾	Selling, general and administrative expenses	355,230
Total lease cost		<u>\$ 415,505</u>

(1) Includes short-term leases, variable lease costs and sublease income, which are immaterial.

The future rental payments, inclusive of renewal options that have been included in defining the expected lease term, of our operating and finance lease obligations as of August 29, 2020 having initial or remaining lease terms in excess of one year are as follows:

<i>(in thousands)</i>	Finance Leases	Operating Leases	Total
2021	\$ 69,013	\$ 302,890	\$ 371,903
2022	57,188	324,860	382,048
2023	45,377	307,859	353,236
2024	24,590	284,296	308,886
2025	10,447	259,099	269,546
Thereafter	<u>44,765</u>	<u>2,055,365</u>	<u>2,100,130</u>
Total lease payments	251,380	3,534,369	3,785,749
Less: Interest	<u>(28,027)</u>	<u>(808,963)</u>	<u>(836,990)</u>
Present value of lease liabilities	<u>\$ 223,353</u>	<u>\$ 2,725,406</u>	<u>\$ 2,948,759</u>

The following table summarizes the Company's lease term and discount rate assumptions:

	August 29, 2020
Weighted-average remaining lease term in years, inclusive of renewal options that are reasonably certain to be exercised	
Finance leases – real estate	27
Finance leases – vehicles	3
Operating leases	15
Weighted-average discount rate:	
Finance leases – real estate	3.49 %
Finance leases – vehicles	2.29 %
Operating leases	3.46 %

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Cash paid for amounts included in the measurement of operating lease liabilities of \$352.9 million was reflected in cash flows from operating activities in the consolidated statement of cash flows for fiscal 2020.

As of August 29, 2020, the Company has entered into additional leases which have not yet commenced and are therefore not part of the right-of-use asset and liability. These leases are generally for real estate and have undiscounted future payments of approximately \$16.7 million and will commence when the Company obtains possession of the underlying leased asset. Commencement dates are expected to be from fiscal 2021 to fiscal 2022.

Note P – Commitments and Contingencies

Construction commitments, primarily for new stores, totaled approximately \$50.9 million at August 29, 2020.

The Company had \$246.9 million in outstanding standby letters of credit and \$56.7 million in surety bonds as of August 29, 2020, which all have expiration periods of less than one year. A substantial portion of the outstanding standby letters of credit (which are primarily renewed on an annual basis) and surety bonds are used to cover reimbursement obligations to our workers' compensation carriers. There are no additional contingent liabilities associated with these instruments as the underlying liabilities are already reflected in the Consolidated Balance Sheets. The standby letters of credit and surety bonds arrangements have automatic renewal clauses.

Note Q – Litigation

The Company is involved in various legal proceedings incidental to the conduct of its business, including, but not limited to, several lawsuits containing class-action allegations in which the plaintiffs are current and former hourly and salaried employees who allege various wage and hour violations and unlawful termination practices. The Company does not currently believe that, either individually or in the aggregate, these matters will result in liabilities material to the Company's financial condition, results of operations or cash flows.

Note R – Revenue Recognition

The Company adopted ASU 2014-09, Revenue from Contracts with Customers using the modified retrospective method beginning with our first quarter ending in fiscal 2019, November 17, 2018. The cumulative effect of initially applying ASU 2014-09 resulted in an increase to the opening retained deficit balance of \$6.8 million, net of taxes at August 26, 2018, and a related adjustment to accounts receivable, other current assets, other long-term assets, other current liabilities and deferred income taxes as of that date. Revenue for periods prior to August 26, 2018 were not adjusted and continue to be reported under the accounting standards in effect for the prior periods.

There were no material contract assets, liabilities or deferred costs recorded on the Consolidated Balance Sheet as of August 29, 2020. Revenue related to unfulfilled performance obligations as of August 29, 2020 and August 31, 2019 is not significant. Refer to "Note S – Segment Reporting" for additional information related to revenue recognized during the period.

Note S – Segment Reporting

The Company's operating segments (Domestic Auto Parts, Mexico and Brazil; and IMC results through April 4, 2018) are aggregated as one reportable segment: Auto Parts Locations. The criteria the Company used to identify the reportable segment are primarily the nature of the products the Company sells and the operating results that are regularly reviewed by the Company's chief operating decision maker to make decisions about the resources to be allocated to the business units and to assess performance. The accounting policies of the Company's reportable segment are the same as those described in "Note A – Significant Accounting Policies."

The Auto Parts Locations segment is a retailer and distributor of automotive parts and accessories through the Company's 6,549 locations in the U.S., Mexico and Brazil. Each location carries an extensive product line for cars, sport utility vehicles, vans and light trucks, including new and remanufactured automotive hard parts, maintenance items, accessories and non-automotive products.

The Other category reflects business activities of three operating segments that are not separately reportable due to the materiality of these operating segments. The operating segments include ALLDATA, which produces, sells and maintains diagnostic and repair information software used in the automotive repair industry and E-commerce, which includes direct sales to customers through www.autozone.com for sales that are not fulfilled by local stores; and AutoAnything, which includes direct sales to customers through www.autoanything.com, prior to the Company's sale of substantially all of its assets on February 26, 2018.

The Company evaluates its reportable segment primarily on the basis of net sales and segment profit, which is defined as gross profit. The following table shows segment results for the following fiscal years:

<i>(in thousands)</i>	Year Ended		
	August 29, 2020	August 31, 2019	August 25, 2018
Net Sales			
Auto Parts Locations	\$ 12,405,929	\$ 11,645,235	\$ 10,951,498
Other	226,038	218,508	269,579
Total	<u>\$ 12,631,967</u>	<u>\$ 11,863,743</u>	<u>\$ 11,221,077</u>
Segment Profit			
Auto Parts Locations	\$ 6,617,508	\$ 6,209,229	\$ 5,805,561
Other	153,245	155,772	168,185
Gross profit	6,770,753	6,365,001	5,973,746
Operating, selling, general and administrative expenses ⁽¹⁾	(4,353,074)	(4,148,864)	(4,162,890)
Interest expense, net	(201,165)	(184,804)	(174,527)
Income before income taxes	<u>\$ 2,216,514</u>	<u>\$ 2,031,333</u>	<u>\$ 1,636,329</u>
Segment Assets:			
Auto Parts Locations	\$ 14,303,427	\$ 9,781,926	\$ 9,231,021
Other	120,445	113,987	115,959
Total	<u>\$ 14,423,872</u>	<u>\$ 9,895,913</u>	<u>\$ 9,346,980</u>
Capital Expenditures:			
Auto Parts Locations	\$ 432,067	\$ 479,120	\$ 499,762
Other	25,669	16,930	22,026
Total	<u>\$ 457,736</u>	<u>\$ 496,050</u>	<u>\$ 521,788</u>
Auto Parts Locations Sales by Product Grouping:			
Failure	\$ 6,088,859	\$ 5,728,294	\$ 5,338,890
Maintenance items	4,284,913	4,140,987	3,914,546
Discretionary	2,032,157	1,775,954	1,698,062
Auto Parts Locations net sales	<u>\$ 12,405,929</u>	<u>\$ 11,645,235</u>	<u>\$ 10,951,498</u>

(1) Operating, selling, general and administrative expenses for fiscal 2018 include \$130.3 million related to pension termination charges and \$193.2 million related to impairment charges.

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Note T – Quarterly Summary⁽¹⁾

(Unaudited)

	Twelve Weeks Ended			Sixteen
	November 23, 2019	February 15, 2020	May 9, 2020	Weeks Ended August 29, 2020 ⁽²⁾
<i>(in thousands, except per share data)</i>				
Net sales	\$ 2,793,038	\$ 2,513,663	\$ 2,779,299	\$ 4,545,968
Gross profit	1,501,068	1,366,063	1,490,648	2,412,975
Operating profit	500,023	407,938	491,673	1,018,045
Income before income taxes	456,280	363,603	444,223	952,407
Net income	350,338	299,282	342,896	740,457
Basic earnings per share	14.67	12.70	14.66	31.67
Diluted earnings per share	14.30	12.39	14.39	30.93

	Twelve Weeks Ended			Seventeen
	November 17, 2018	February 9, 2019	May 4, 2019	Weeks Ended August 31, 2019 ⁽²⁾
<i>(in thousands, except per share data)</i>				
Net sales	\$ 2,641,733	\$ 2,450,568	\$ 2,783,006	\$ 3,988,435
Gross profit	1,417,474	1,325,107	1,492,020	2,130,400
Operating profit	487,818	400,020	547,523	780,775
Income before income taxes	448,812	358,658	504,284	719,578
Net income ⁽³⁾	351,406	294,638	405,949	565,228
Basic earnings per share	13.71	11.71	16.35	23.15
Diluted earnings per share	13.47	11.49	15.99	22.59

- (1) The sum of quarterly amounts may not equal the annual amounts reported due to rounding. In addition, the earnings per share amounts are computed independently for each quarter while full year is based on the annual weighted average shares outstanding.
- (2) The fourth quarter for fiscal 2020 is based on a 16-week period while fiscal 2019 is based on a 17-week period. All other quarters presented are based on a 12-week period.

Item 9. Changes In and Disagreements with Accountants on Accounting and Financial Disclosure

Not applicable.

Item 9A. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

As of August 29, 2020, an evaluation was performed under the supervision and with the participation of AutoZone's management, including the Chief Executive Officer and the Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, as amended. Based on that evaluation, our management, including the Chief Executive Officer and the Chief Financial Officer, concluded that our disclosure controls and procedures were effective as of August 29, 2020.

Internal Control Over Financial Reporting

A report of AutoZone's management on our internal control over financial reporting (as such term defined in Rule 13a-15(f) under the Exchange Act) as a report of Ernst & Young, LLP, an independent registered public accounting firm, on the effectiveness of AutoZone's internal control over financial reporting are included in Part I, Item 8 of this document and is incorporated herein by reference.

Changes in Internal Control Over Financial Reportings

There were no changes in our internal control over financial reporting that occurred during the quarter ended August 29, 2020 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Attestation Report of Registered Public Accounting Firm

Our internal control over financial reporting as of August 29, 2020 has been audited by Ernst & Young, LLP, an independent registered public accounting firm, which also audited our Consolidated Financial Statements for the year ended August 29, 2020, as stated in their report included herein, which expresses an unqualified opinion on the effectiveness of our internal control over financial reporting as of August 29, 2020.

Item 9B. Other Information

Not applicable.

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PART III

Item 10. Directors, Executive Officers and Corporate Governance

The information set forth in Part I, Item 1 of this document in the section entitled “Information about our Executive Officers,” is incorporated herein by reference in response to this item. Additionally, the information contained in AutoZone, Inc.’s Proxy Statement dated October 26, 2020, in the sections entitled “Corporate Governance Matters,” “Proposal 1 – Election of Directors” and “Delinquent Section 16(a) Reports,” is incorporated herein by reference in response to this item.

The Company has adopted a Code of Ethical Conduct for Financial Executives that applies to its chief executive officer, chief financial officer, chief accounting officer and other financial executives. The Company has made the Code of Ethical Conduct available at www.autozone.com, which can be accessed by clicking “Investor Relations” located at the bottom of the page.

Item 11. Executive Compensation

The information contained in AutoZone, Inc.’s Proxy Statement dated October 26, 2020, in the section entitled “Executive Compensation,” is incorporated herein by reference in response to this item.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

The information contained in AutoZone, Inc.’s Proxy Statement dated October 26, 2020, in the sections entitled “Security Ownership of Management and Board of Directors,” “Security Ownership of Certain Beneficial Owners” and “Equity Compensation Plans” is incorporated herein by reference in response to this item.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information contained in AutoZone, Inc.’s Proxy Statement dated October 26, 2020, in the sections entitled “Related Party Transactions” and “Corporate Governance Matters – Independence” is incorporated herein by reference in response to this item.

Item 14. Principal Accounting Fees and Services

The information contained in AutoZone, Inc.’s Proxy Statement dated October 26, 2020, in the section entitled “Proposal 2 – Ratification of Independent Registered Public Accounting Firm,” is incorporated herein by reference in response to this item.

PART IV

Item 15. Exhibits and Financial Statement Schedules

The following information required under this item is filed as part of this report.

(a) Financial Statements

The following financial statements, related notes and reports of independent registered public accounting firm are filed with this Annual Report on Form 10-K in Part II, Item 8:

Reports of Independent Registered Public Accounting Firm

Consolidated Statements of Income for the fiscal years ended August 29, 2020, August 31, 2019, and August 25, 2018

Consolidated Statements of Comprehensive Income for the fiscal years ended August 29, 2020, August 31, 2019, and August 25, 2018

Consolidated Balance Sheets as of August 29, 2020, and August 31, 2019

Consolidated Statements of Cash Flows for the fiscal years ended August 29, 2020, August 31, 2019, and August 25, 2018

Consolidated Statements of Stockholders' Deficit for the fiscal years ended August 29, 2020, August 31, 2019, and August 25, 2018

Notes to Consolidated Financial Statements

(b) Exhibits

The following exhibits are being filed herewith:

- 3.1 Restated Articles of Incorporation of AutoZone, Inc. Incorporated by reference to Exhibit 3.1 to the Quarterly Report on Form 10-Q for the quarter ended February 13, 1999.
- 3.2 Seventh Amended and Restated By-Laws of AutoZone, Inc. Incorporated by reference to Exhibit 3.1 to the Current Report on Form 8-K dated March 19, 2018.
- 4.1 Indenture dated as of August 8, 2003, between AutoZone, Inc. and Bank One Trust Company, N.A. Incorporated by reference to Exhibit 4.1 to the Registration Statement on Form S-3 (No. 333-107828) filed August 11, 2003.
- 4.2 Officers' Certificate dated April 24, 2012, pursuant to Section 3.2 of the indenture dated August 8, 2003, setting forth the terms of the 3.700% Senior Notes due 2022. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated April 24, 2012.
- 4.3 Form of 3.700% Senior Notes due 2022. Incorporated by reference from the Form 8-K dated April 24, 2012.
- 4.4 Officers' Certificate dated November 13, 2012, pursuant to Section 3.2 of the indenture dated August 8, 2003, setting forth the terms of the 2.875% Senior Notes due 2023. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated November 13, 2012.
- 4.5 Form of 2.875% Senior Notes due 2023. Incorporated by reference from the Form 8-K dated November 13, 2012.
- 4.6 Officers' Certificate dated April 29, 2013, pursuant to Section 3.2 of the indenture dated August 8, 2003, setting forth the terms of the 3.125% Senior Notes due 2023. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated April 29, 2013.

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- 4.7 Form of 3.125% Senior Notes due 2023. Incorporated by reference to Exhibit 4.2 to the Form 8-K dated April 29, 2013.
- 4.8 Officers' Certificate dated April 29, 2015, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 2.500% Senior Notes due 2021. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated April 29, 2015.
- 4.9 Form of 2.500% Senior Notes due 2021. Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K dated April 29, 2015.
- 4.10 Officers' Certificate dated April 29, 2015, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 3.250% Senior Notes due 2025. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated April 29, 2015.
- 4.11 Form of 3.250% Senior Notes due 2025. Incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K dated April 29, 2015.
- 4.12 Officers' Certificate dated April 21, 2016, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 3.125% Senior Notes due 2026. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated April 21, 2016.
- 4.13 Form 3.125% Senior Notes due 2026. Incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K dated April 21, 2016.
- 4.14 Officers' Certificate dated April 18, 2017, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 3.750% Senior Notes due 2027. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated April 18, 2017.
- 4.15 Form of 3.750% Senior Notes due 2027. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated April 18, 2017.
- 4.16 Officers' Certificate dated April 18, 2019, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 3.125% Senior Notes due 2024. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated April 18, 2019.
- 4.17 Officers' Certificate dated April 18, 2019, pursuant to Section 3.2 of the Indenture dated August 8, 2003, setting forth the terms of the 3.750% Senior Notes due 2029. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated April 18, 2019.
- 4.18 Form of 3.125% Senior Notes due 2024. Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K dated April 18, 2019.
- 4.19 Form of 3.750% Senior Notes due 2029. Incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K dated April 18, 2019.
- 4.20 Officers' Certificate dated March 30, 2020, pursuant to Section 3.2 of the Indenture, dated March 30, 2020, setting forth the terms of the 3.625% Senior Notes due 2025. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated March 30, 2020.
- 4.21 Officers' Certificate dated March 30, 2020, pursuant to Section 3.2 of the Indenture, dated March 30, 2020, setting forth the terms of the 4.000% Senior Notes due 2030. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated March 30, 2020.

- 4.22 Form of 3.625% Note due 2025. Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K dated March 30, 2020.
- 4.23 Form of 4.000% Note due 2030. Incorporated by reference to Exhibit 4.4 to the Current Report on Form 8-K dated March 30, 2020.
- 4.24 Form of 4.000% Note due 2030. Incorporated by reference to Exhibit 4.5 to the Current Report on Form 8-K dated March 30, 2020.
- 4.25 Form of 1.650% Note due 2031. Incorporated by reference to Exhibit 4.2 to the Current Report on Form 8-K dated August 14, 2020.
- 4.26 Form of 1.650% Note due 2031. Incorporated by reference to Exhibit 4.3 to the Current Report on Form 8-K dated August 14, 2020.
- 4.27 Officers' Certificate dated August 14, 2020, pursuant to Section 3.2 of the Indenture, dated August 14, 2020, setting forth the terms of the 1.650% Senior Notes due 2031. Incorporated by reference to Exhibit 4.1 to the Current Report on Form 8-K dated August 14, 2020.
- 4.28 Description of Securities of AutoZone, Inc.
- *10.1 Second Amended and Restated 1998 Director Compensation Plan. Incorporated by reference to Exhibit 10.2 to the Annual Report on Form 10-K for the fiscal year ended August 26, 2000.
- *10.2 AutoZone, Inc. 2003 Director Compensation Plan. Incorporated by reference to Appendix D to the definitive proxy statement dated November 1, 2002, for the Annual Meeting of Stockholders held December 12, 2002.
- *10.3 Third Amendment to the AutoZone, Inc. Executive Deferred Compensation Plan. Incorporated by reference to Exhibit 10.1 to the Form 8-K dated December 12, 2012.
- *10.4 AutoZone, Inc. 2006 Stock Option Plan. Incorporated by reference to Appendix A to the definitive proxy statement dated October 25, 2006, for the Annual Meeting of Stockholders held December 13, 2006.
- *10.5 Form of Stock Option Agreement. Incorporated by reference to Exhibit 10.26 to the Annual Report on Form 10-K for the fiscal year ended August 25, 2007.
- *10.6 Amended and Restated AutoZone, Inc. 2003 Director Compensation Plan. Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K dated January 4, 2008.
- *10.7 Form of non-compete and non-solicitation agreement for Section 16 executive officers and by AutoZone, Inc. Incorporated by reference to Exhibit 99.2 to the Current Report on Form 8-K dated February 15, 2008.
- *10.8 Agreement dated February 14, 2008, between AutoZone, Inc. and William C. Rhodes, III. Incorporated by reference to Exhibit 99.4 to the Current Report on Form 8-K dated February 15, 2008.
- *10.9 AutoZone, Inc. 2015 Executive Incentive Compensation Plan incorporated by reference to Exhibit A to the definitive proxy statement dated October 27, 2014, for the Annual Meeting of Stockholders held December 18, 2014.

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- *10.10 AutoZone, Inc. 2011 Equity Incentive Award Plan, incorporated by reference to Exhibit A to the definitive proxy statement dated October 25, 2010, for the Annual Meeting of Stockholders held December 15, 2010.
- *10.11 Form of Stock Option Agreement under the 2006 Stock Option Plan, effective September 2010. Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q dated December 16, 2010.
- *10.12 Form of Stock Option Agreement under the 2006 Stock Option Plan for certain executive officers, effective September 2010. Incorporated by reference to Exhibit 10.3 to the Quarterly Report on Form 10-Q dated December 16, 2010.
- *10.13 Form of Letter Agreement dated as of December 14, 2010, amending certain Stock Option Agreements of executive officers. Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q dated December 16, 2010.
- *10.14 Form of Stock Option Agreement under the 2011 Equity Incentive Award Plan. Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q dated March 17, 2011.
- *10.15 Form of Stock Option Agreement under the 2011 Equity Incentive Award Plan for officers effective September 27, 2011. Incorporated by reference to Exhibit 10.37 to the Annual Report on Form 10-K for the fiscal year ended August 27, 2011.
- *10.16 First Amended and Restated AutoZone, Inc. Enhanced Severance Pay Plan. Incorporated by reference to Exhibit 10.4 to the Quarterly Report on Form 10-Q dated March 17, 2011.
- *10.17 Form of Stock Option Agreement under the 2011 Equity Incentive Award Plan for officers effective September 27, 2011. Incorporated by reference to Exhibit 10.37 to the Annual Report on Form 10-K for the fiscal year ended August 27, 2011.
- *10.18 Form of Stock Option Agreement under the 2011 Equity Incentive Award Plan for certain executive officers effective September 27, 2011. Incorporated by reference to Exhibit 10.38 to the Annual Report on Form 10-K for the fiscal year ended August 27, 2011.
- *10.19 Second Amendment to the AutoZone, Inc. Executive Deferred Compensation Plan. Incorporated by reference to Exhibit 10.1 to the Current Report on Form 8-K dated December 14, 2011.
- *10.20 Offer letter dated August 5, 2020, to Jamere Jackson. Incorporated by reference to Exhibit 10.1 on Form 8-K dated September 14, 2020.
- *10.21 Amended and Restated AutoZone, Inc. Executive Deferred Compensation Plan dated December 17, 2013. Incorporated by reference to Exhibit 10.2 to the Quarterly Report on Form 10-Q dated March 25, 2014.
- *10.22 AutoZone, Inc. Director Compensation Program effective January 1, 2020.
- *10.23 Amended and Restated AutoZone, Inc. 2011 Equity Incentive Award Plan dated December 16, 2015. Incorporated by reference to Exhibit A to the definitive proxy statement dated October 26, 2015, for the Annual Meeting of Stockholders held December 16, 2015.
- 10.24 Third Amended and Restated Credit Agreement dated as of November 18, 2016, among AutoZone, Inc., as Borrower, the lenders party thereto and Bank of America, N.A. as Administrative Agent, incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated November 21, 2016.

- *10.25 AutoZone, Inc. Sixth Amended and Restated Executive Stock Purchase Plan. Incorporated by reference to Exhibit A to the definitive proxy statement dated October 24, 2016, for the Annual Meeting of Stockholders held December 14, 2016.
- 10.26 Master Extension, New Commitment and Amendment Agreement dated as of November 18, 2017 among AutoZone, Inc. as Borrower; Bank of America, N.A. as Administrative Agent and Swingline Lender; JPMorgan Chase Bank, N.A. as Syndication Agent; Merrill Lynch, Pierce, Fenner & Smith Incorporated and J.P. Morgan Chase Bank, N.A. as Joint Lead Arrangers; Merrill Lynch, Pierce, Fenner & Smith Incorporated, J.P. Morgan Chase Bank, N.A., SunTrust Robinson Humphrey, Inc., U.S. Bank National Association, Wells Fargo Securities, LLC and Barclay’s Capital as Joint Book Runners; SunTrust Bank, U.S. Bank National Association, Wells Fargo Bank, National Association and Barclay’s Bank PLC as Documentation Agents; and the several lenders party thereto.
- *10.27 Form of Restricted Stock Unit Grant Notice and Restricted Stock Unit Award Agreement under the 2011 Equity Incentive Award Plan for officers effective September 27, 2011. Incorporated by reference to Exhibit 10.1 to the Quarterly Report on Form 10-Q dated December 17, 2018.
- *10.28 364-Day Credit Agreement, dated April 3, 2020, by and among the Company, as borrower, the several lenders from time to time party thereto, and U.S. Bank, National Association., as administrative agent for the lenders. Incorporated by reference to Exhibit 10.1 of the Current Report on Form 8-K dated April 7, 2020.
- 21.1 Subsidiaries of the Registrant.
- 23.1 Consent of Independent Registered Public Accounting Firm.
- 31.1 Certification of Principal Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 31.2 Certification of Principal Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) under the Securities Exchange Act of 1934, as Adopted Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- 32.1 Certification of Principal Executive Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 32.2 Certification of Principal Financial Officer Pursuant to 18 U.S.C. Section 1350 as adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- 101.INS Inline XBRL Instance Document – the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
- 101.SCH Inline XBRL Taxonomy Extension Schema Document
- 101.CAL Inline XBRL Taxonomy Extension Calculation Document
- 101.LAB Inline XBRL Taxonomy Extension Labels Document
- 101.PRE Inline XBRL Taxonomy Extension Presentation Document
- 101.DEF Inline XBRL Taxonomy Extension Definition Document

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* Management contract or compensatory plan or arrangement.

(c) Financial Statement Schedules

Schedules are omitted because the information is not required or because the information required is included in the financial statements or notes thereto.

Item 16. Form 10-K Summary

None.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

AUTOZONE, INC.

By: /s/ WILLIAM C. RHODES, III

William C. Rhodes, III
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

Dated: October 26, 2020

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Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated:

<u>SIGNATURE</u>	<u>TITLE</u>	<u>DATE</u>
<u>/s/ WILLIAM C. RHODES, III</u> William C. Rhodes, III	Chairman, President and Chief Executive Officer (Principal Executive Officer)	October 26, 2020
<u>/s/ WILLIAM T. GILES</u> William T. Giles	Chief Financial Officer and Executive Vice President – Finance, Information Technology and Store Development (Principal Financial Officer)	October 26, 2020
<u>/s/ CHARLIE PLEAS, III</u> Charlie Pleas, III	Senior Vice President and Controller (Principal Accounting Officer)	October 26, 2020
<u>/s/ DOUGLAS H. BROOKS</u> Douglas H. Brooks	Director	October 26, 2020
<u>/s/ MICHAEL M. CALBERT</u> Michael M. Calbert	Director	October 26, 2020
<u>/s/ LINDA A. GOODSPEED</u> Linda A. Goodspeed	Director	October 26, 2020
<u>/s/ EARL G. GRAVES, JR.</u> Earl, G. Graves, Jr.	Director	October 26, 2020
<u>/s/ ENDERSON GUIMARAES</u> Enderson Guimaraes	Director	October 26, 2020
<u>/s/ D. BRYAN JORDAN</u> D. Bryan Jordan	Director	October 26, 2020
<u>/s/ GALE V. KING</u> Gale V. King	Director	October 26, 2020
<u>/s/ GEORGE R. MRKONIC, JR.</u> George R. Mrkonic, Jr.	Director	October 26, 2020
<u>/s/ JILL A. SOLTAU</u> Jill A. Soltau	Director	October 26, 2020

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SUBSIDIARIES OF THE REGISTRANT

<u>NAME</u>	<u>STATE OR COUNTRY OF ORGANIZATION OR INCORPORATION</u>
ALLDATA LLC	Nevada
AutoZone.com, Inc.	Virginia
AutoZone de México, S. de R.L. de C.V.	Mexico
AutoZone Development LLC	Nevada
AutoZone IP LLC	Nevada
AutoZone Northeast LLC	Nevada
AutoZone Parts, Inc.	Nevada
AutoZone Puerto Rico, Inc.	Puerto Rico
AutoZone Stores LLC	Nevada
AutoZone Texas LLC	Nevada
AutoZone West LLC	Nevada
Riverside Captive Insurance Company	Arizona

In addition, 44 subsidiaries operating in the United States and 27 subsidiaries operating outside of the United States have been omitted as they would not, considered in the aggregate as a single subsidiary, constitute a significant subsidiary as defined by Rule 1-02(w) of Regulation S-X.

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the following Registration Statements:

Registration Statement (Form S-8 No. 333-139559) pertaining to the AutoZone, Inc. 2006 Stock Option Plan

Registration Statement (Form S-8 No. 333-103665) pertaining to the AutoZone, Inc. 2003 Director Compensation Award Plan

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

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

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

Registration Statement (Form S-3ASR No. 333-230719) pertaining to a shelf registration to sell debt securities

Registration Statement (Form S-3ASR No. 333-152592) pertaining to a shelf registration to sell debt securities

Registration Statement (Form S-8 No. 333-171186) pertaining to the AutoZone, Inc. 2011 Equity Incentive Award Plan

Registration Statement (Form S-3ASR No. 333-180768) pertaining to a shelf registration to sell debt securities

Registration Statement (Form S-3ASR No. 333-203439) pertaining to a shelf registration to sell debt securities

of our reports dated October 26, 2020, with respect to the Consolidated Financial Statements of AutoZone, Inc. and the effectiveness of internal control over financial reporting of AutoZone, Inc., included in this Annual Report (Form 10-K) of AutoZone, Inc. for the year ended August 29, 2020.

/s/ Ernst & Young LLP

Memphis, Tennessee
October 26, 2020

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William C. Rhodes, III, certify that:

1. I have reviewed this Annual Report on Form 10-K of AutoZone, Inc. (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

October 26, 2020

/s/ WILLIAM C. RHODES, III

William C. Rhodes, III
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION PURSUANT TO
RULES 13a-14(a) AND 15d-14(a) UNDER THE SECURITIES EXCHANGE ACT OF 1934,
AS ADOPTED PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002**

I, William T. Giles, certify that:

1. I have reviewed this Annual Report on Form 10-K of AutoZone, Inc. (“registrant”);
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant’s other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant’s disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant’s internal control over financial reporting that occurred during the registrant’s most recent fiscal quarter (the registrant’s fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant’s internal control over financial reporting; and
5. The registrant’s other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant’s auditors and the audit committee of the registrant’s board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant’s ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant’s internal control over financial reporting.

October 26, 2020

/s/ WILLIAM T. GILES

William T. Giles
Chief Financial Officer and Executive
Vice President – Finance, Information
Technology and Store Development
(Principal Financial Officer)

**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AutoZone, Inc. (the “Company”) on Form 10-K for the fiscal year ended August 29, 2020 as filed with the SEC on the date hereof (the “Report”), I, William C. Rhodes, III, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 26, 2020

/s/ WILLIAM C. RHODES, III

William C. Rhodes, III
Chairman, President and
Chief Executive Officer
(Principal Executive Officer)

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**CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of AutoZone, Inc. (the “Company”) on Form 10-K for the fiscal year ended August 29, 2020, as filed with the SEC on the date hereof (the “Report”), I, William T. Giles, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

- (i) the Report fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934; and
- (ii) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

October 26, 2020

/s/ WILLIAM T. GILES

William T. Giles
Chief Financial Officer and Executive
Vice President – Finance, Information
Technology and Store Development
(Principal Financial Officer)

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Corporate Information



AutoZone's CEO Team

Our leadership team works tirelessly to support and continue to enhance the AutoZone that exists today. We lead as a team and we win as a team. Through their support and guidance, but most importantly through the commitment and passion of approximately 100,000 AutoZoners, the Company is well positioned for future growth and prosperity.

Officers Customer Satisfaction

William C. Rhodes, III[†]
Chairman, President and
Chief Executive Officer

Executive Vice Presidents Customer Satisfaction

Mark A. Finestone[†]
Merchandising, Supply
Chain and Marketing

William T. Giles[†]
Chief Financial Officer,
Finance, Information
Technology and Store
Development

Jamere Jackson[†]
Chief Financial Officer,
Finance and Store
Development – Elect

Thomas B. Newbern[†]
Store Operations,
Commercial, Loss
Prevention and ALLDATA

Senior Vice Presidents Customer Satisfaction

Philip B. Daniele[†]
Commercial

William R. Hackney[†]
Merchandising

Mitchell C. Major[†]
Supply Chain

Charlie Pleas, III[†]
Controller

Richard C. Smith[†]
Human Resources

Preston B. Frazer[†]
Store Operations

Domingo Hurtado[†]
International

Seong Ohm[†]
Merchandising – Elect

Albert Saltiel[†]
Marketing and
E-Commerce

Kristen Collier Wright[†]
General Counsel and
Secretary

Ronald B. Griffin[†]
Chief Information Officer,
Information Technology

Vice Presidents Customer Satisfaction

Stephen E. Agar, Jr.
Chief Information
Security Officer

Catherine M. Culnane
Information Technology

Eric S. Gould
Replenishment

John R. Lammers
Merchandising

J. Scott Murphy
Strategic Planning and
Business Development

Jarvis D. Allen
Stores

Anthony J. Dudek
Information Technology

Matthew C. Harmon
Benefits, Compensation
and HR Systems

Maria M. Leggett
Assistant General Counsel
and Assistant Secretary

Anthony D. Rose, Jr.
Visual Merchandising

Jennie E. Anderson
Loss Prevention

Robert A. Durkin
Distribution

Matt Henson
Field Human Resources

Lindsay Lehman
Marketing

Nick Sarraf
Information Technology

Edward Beltran
Stores

William R. Edwards II
Merchandising

Troy L. Hitchcock
Merchandising

Dennis W. LeRiche
Stores

Joe L. Sellers, Jr.
Commercial

B. Craig Blackwell
Stores

Joseph Espinosa
Stores

Robert C. Hunter
Merchandising Pricing
and Analysis

S. Jame Maki
E-Commerce

Brett L. Shanaman
Store Operations

Charles D. Blank
Stores

Duane M. Findley
Commercial

Joyce L. Johns
Internal Audit

Satwinder Mangat
President ALLDATA

Steven M. Stoll
Merchandising

Mauricio Braz
Presidente
AutoZone do Brasil

Priya A. Galante
Assistant General Counsel
and Assistant Secretary

Thomas A. Kliman
Tax

Grant E. McGee
Stores

Patrick D. B. Webb
Presidente
AutoZone de Mexico

Michael B. Campanaro
Information Technology

Patricia N. Glancy
Talent Development,
Diversity and
Communications

Manoj Koratty
Chief Technology Officer

David E. McKinney
Government and
Community Relations

Solomon A. Woldelessie
Transportation

Brian L. Campbell
Tax, Treasury and
Investor Relations

Timothy J. Goddard
Store Development

Jason M. McNeil
Global Sourcing

Board of Directors

Douglas H. Brooks ⁽²⁾
Former Chairman, President and
CEO – Brinker International

Michael M. Calbert ⁽¹⁾
Chairman
Dollar General Corporation
Retired Partner
Kohlberg Kravis Roberts & Co.

Linda A. Goodspeed ^(1,2)
Former Managing Partner and COO
WealthStrategies Financial Advisors

Earl G. Graves, Jr. ^(3*,†)
President and CEO
Black Enterprise

Enderson Guimaraes ⁽³⁾
Former President and COO
Laureate Education Inc. and
President at PepsiCo

D. Bryan Jordan ^(1*,3)
President and CEO
First Horizon National Corporation

Gale V. King ⁽²⁾
Executive Vice President & Chief
Administrative Officer
Nationwide

George R. Mrkonic, Jr. ^(1,2*)
Non-Executive Chairman
MARU Group

William C. Rhodes, III
Chairman, President and CEO
AutoZone, Inc.

Jill Soltau ⁽³⁾
CEO
J.C. Penney Company, Inc.

(1) Audit Committee, (2) Compensation Committee, (3) Nominating and Corporate Governance Committee, * Committee Chair, † Lead Director

Transfer Agent and Registrar

Computershare Investor Services
P.O. Box 43069
Providence, RI 02940-3069
(877) 282-1168
(781) 575-2723
www.computershare.com

Annual Meeting

The Annual Meeting of Stockholders of AutoZone, Inc. will be held on Wednesday, December 16, 2020, 8.00 am Central Standard Time. The meeting will be held online via live webcast at www.meetingcenter.io/276027987. Instructions as to how shareholders can attend the annual meeting are provided in the Proxy Statement.

Investor Relations Website

Available at www.autozone.com and click on “investor relations” at the bottom of the page

Company Websites

www.autozone.com
www.autozonepro.com
www.alldata.com
www.duralastparts.com

Stock Exchange Listing

New York Stock Exchange
Ticker Symbol: AZO

Auditors

Ernst & Young, LLP
Memphis, Tennessee

Code of Ethical Conduct

Available at www.autozone.com and click on “investor relations” at the bottom of the page

Corporate Social Responsibility Report

Available at www.autozone.com and click on “corporate and social responsibility report” at the bottom of the page

Form of 10-K / Quarterly Report

Stockholders may obtain, free of charge, a copy of AutoZone’s annual report on Form 10-K, its quarterly reports on Form 10-Q as filed with the Securities and Exchange Commission and quarterly press releases by contacting

- Investor Relations
P.O. Box 2198
Memphis, TN 38101
- Phoning (901) 495-7185 or
- Emailing investor.relations@autozone.com

Copies of all documents filed by AutoZone with the Securities and Exchange Commission, including Annual Reports on Form 10-K and Quarterly Reports on Form 10-Q, are also available at the SEC’s EDGAR server at www.sec.gov.

Stockholders of Record

As of August 29, 2020, there were 2,032 stockholders of record, excluding the number of beneficial owners whose shares were represented by security position listing.



**Auto
Zone**

AutoZone

123 S. Front Street
Memphis, TN 38103-3607
(901) 495-6500
www.autozone.com

