

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

O REILLY AUTOMOTIVE INC
Form 10-K
March 01, 2007
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

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 0-21318

O'REILLY AUTOMOTIVE, INC.
(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction)

44-0618012
(IRS Employer Identification No.)

of incorporation or organization)

233 South Patterson
Springfield, Missouri 65802
(Address of principal executive offices, zip code)

(417) 862-6708
(Registrant's telephone number, including area code)

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

Securities registered pursuant to Section 12(g) of the Act: Common Stock, \$.01 par value

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

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 o No X

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

Note Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

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 period 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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained here, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

At February 28, 2007, an aggregate of 113,981,927 shares of the common stock of the registrant was outstanding. As of that date, the aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$3,924,397,747 based on the last sale price of the common stock reported by the Nasdaq Stock Market (National Market).

At June 30, 2006, an aggregate of 113,394,091 shares of the common stock of the registrant was outstanding. As of that date, the aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$3,536,761,698 based on the last sale price of the common stock reported by the Nasdaq Stock Market (National Market).

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

DOCUMENTS INCORPORATED BY REFERENCE

As provided below, portions of the registrant's documents specified below are incorporated here by reference:

Document	Form 10-K Part
Portions of the Annual Shareholders' Report for the Year Ended December 31, 2006	Parts II and IV
Proxy Statement for 2007 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A within 120 days of the end of registrant's most recently completed fiscal year)	Part III

Forward Looking Information

We claim the protection of the safe-harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as expect, believe, anticipate, should, plan, intend, estimate, or similar words. In addition, statements contained within this annual report that are not historical facts are forward-looking statements, such as statements discussing among other things, expected growth, store development and expansion strategy, business strategies, future revenues and future performance. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties and assumptions, including, but not limited to, competition, product demand, the market for auto parts, the economy in general, inflation, consumer debt levels, governmental approvals, our ability to hire and retain qualified employees, risks associated with the integration of acquired businesses, weather, terrorist activities, war and the threat of war. Actual results may materially differ from anticipated results described or implied in these forward-looking statements. Please refer to the Risk Factors section of this annual report on Form 10-K for the year ended December 31, 2006, for additional factors that could materially affect our financial performance.

PART I

Item 1. Business

General

O'Reilly Automotive, Inc. is one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States, selling our products to both do-it-yourself (DIY) customers and professional installers. At December 31, 2006, we operated 1,640 stores in Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia, Wisconsin and Wyoming. Our stores carry an extensive product line consisting of:

- new and remanufactured automotive hard parts, such as alternators, starters, fuel pumps, water pumps, brake shoes and pads, belts, hoses, chassis parts and engine parts;
- maintenance items, such as oil, antifreeze, fluids, filters, wiper blades, lighting, engine additives and appearance products;
- accessories, such as floor mats and seat covers; and
- a complete line of auto body paint and related materials, automotive tools and professional service equipment.

We do not sell tires or perform automotive repairs or installations.

We were founded in 1957 by Charles F. O'Reilly and his son, Charles H. "Chub" O'Reilly, Sr. and initially operated from a single store in Springfield, Missouri. The O'Reilly family has managed the Company since our inception.

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

Our goal is to continue to achieve growth in sales and profitability by capitalizing on our competitive advantages and executing our growth and expansion strategies.

Our Internet address is www.oreillyauto.com. Interested readers can access the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Securities and Exchange Commission website at www.sec.gov. Such reports are generally available on the day they are filed. Upon request, the Company will furnish interested readers a paper copy of such reports free of charge.

See "Risk Factors" beginning on page 13 for a description of certain risks relevant to our business. These risk factors include, among others, risks related to competition in the automotive aftermarket business, our growth strategy, our acquisition strategy, our sensitivity to regional economic and weather conditions, our dependence upon key and other personnel, the significant voting control held by our principal shareholders, the volatility of the market price of our common stock and the effect of sales of shares of our common stock eligible for future sale.

Competitive Advantages

Proven Ability to Execute Dual Market Strategy. We have an established track record of serving both DIY customers and professional installers. We believe our ability to execute a dual market strategy is a competitive advantage, which enables us to:

- target a larger base of consumers of automotive aftermarket parts;
- capitalize on our existing retail and distribution infrastructure;
- profitably operate in both large markets and less densely populated geographic areas that typically attract fewer competitors; and
- enhance service levels offered to our DIY customers by offering a broad selection of stock keeping units (SKUs) and the extensive product knowledge required by professional installers.

We have been committed to a dual market strategy for over 20 years. In 2006, we derived approximately 52% of our sales from our DIY customers and approximately 48% from our professional installer customers. As a result of our historical success in executing our dual market strategy and our 264 full-time sales representatives dedicated solely to calling upon and selling to the professional installer, we believe we will increase the sales to professional installers and will continue to have a competitive advantage over our retail competitors who derive a high concentration of their sales from the DIY market.

Superior Customer Service. We seek to attract new DIY and professional installer customers and to retain existing customers by offering superior customer service, the key elements of which include:

- superior in-store service through highly-motivated, technically proficient store personnel (Professional Parts People) using advanced point-of-sale systems;
- an extensive selection and availability of products;
- attractive stores in convenient locations; and
- competitive pricing, with a low price guarantee.

Technically Proficient Professional Parts People. Our highly proficient Professional Parts People provide us with a significant competitive advantage, particularly over less specialized retail operators. We require our Professional Parts People to undergo extensive and ongoing training and to be technically knowledgeable, particularly with respect to hard parts, in order to better serve the technically oriented professional installers with whom they interact on a daily basis. Such technical proficiency also enhances the customer service we provide to our DIY customers, who appreciate the expert assistance provided by our Professional Parts People.

Strategic Distribution Systems. We believe that the geographic concentration of our store network in 25 contiguous states and the strategic locations of our 14 distribution centers enable us to maintain optimum inventory levels throughout our store network. In addition, our inventory management and distribution systems electronically link each of our stores to a distribution center, providing for efficient inventory control and management. Our distribution system provides each of our stores with same day or overnight access to over 100,000 SKUs, many of which are hard to find items not typically stocked by other auto parts retailers. We believe the timely availability of a broad range of products is a key competitive advantage in satisfying customer demand and generating repeat business.

Experienced Management Team. Our management team has demonstrated the consistent ability to successfully execute our business plan, including the identification and integration of strategic acquisitions. We have experienced fourteen consecutive years of record revenues and earnings growth since becoming a public company in April 1993. We have a strong senior management team comprised of 87 professionals who average over 15 years of experience with O'Reilly. In addition, our 125 corporate managers average over 12 years of experience with us and our 156 district managers average over 9 years of experience with us.

Growth and Expansion Strategies

Aggressively Open New Stores. We intend to continue to aggressively open new stores in order to achieve greater penetration in existing markets and to expand into new, contiguous markets. We plan to open approximately 190 to 195 stores in 2007 and approximately 210 to 215 stores in 2008. A majority of the sites for our proposed 2007 store openings and several of the sites for our proposed 2008 store openings have been identified. In selecting sites for new stores, we seek to strategically locate store sites in clusters within geographic areas in order to achieve economies of scale in areas such as management, advertising and distribution.

We target both small and large markets for expansion of our store network. (See the store locations table on page 7 for a breakdown of net new stores by state.) While we have faced, and expect to continue to face, aggressive competition in the more densely populated markets, we believe that we have competed effectively, and that we are well positioned to continue to compete

effectively, in such markets and achieve our goal of continued sales and profit growth within these markets. We also believe that because of our dual market strategy, we are better able to operate stores in less densely populated areas within our regional markets, which would not otherwise support a national or regional chain store selling primarily to one portion of the market or the other. Consequently, we also expect to continue to open new stores in less densely populated market areas.

To date, we have not experienced significant difficulties in locating suitable store sites for construction of new stores or identifying suitable acquisition candidates for conversion to O'Reilly stores. We typically open new stores either by (i) constructing a new store at a site we purchase or lease and stocking the new store with fixtures and inventory, or (ii) acquiring an independently owned auto parts store, typically by the purchase of substantially all of the inventory and other assets (other than realty) of such store. Store sites are strategically located in clusters within geographic areas that complement our distribution system in order to achieve economies of scale in management, advertising and distribution costs. Other key factors we consider in the site selection process include population density and growth patterns, age and per capita income, vehicle traffic counts, the number and type of existing automotive repair facilities, other competing auto parts stores, and other competitors within a pre-determined radius, and the operational strength of such competitors. When entering new, more densely populated markets, we generally seek to initially open several stores within a short span of time in order to maximize the effect of initial promotional programs and achieve further economies of scale.

Profitable same store sales growth is also an important part of our growth strategy. To achieve improved sales and profitability at existing O'Reilly stores, we continually strive to improve the service provided to our customers. We believe that while competitive pricing is essential in the competitive environment of the automotive aftermarket business, it is customer satisfaction (whether of the DIY consumer or professional installer), resulting from superior customer service, which generates increased sales and profitability.

Selectively Pursue Strategic Acquisitions. Although the automotive aftermarket industry is still highly fragmented, we believe the ability of national and regional specialty retail chains, such as ourselves, to operate more efficiently than smaller independent operators or mass merchandisers will result in continued industry consolidation. Thus, we intend to selectively pursue acquisition targets that will strengthen our position as a leading automotive products retailer.

Continually Enhance Store Design and Location. Our current prototype store design features enhancements such as greater square footage, higher ceilings, more convenient interior store layouts, improved in-store signage, brighter lighting, increased parking availability and dedicated counters to serve professional installers, each designed to increase sales and operating efficiencies and enhance customer service. We continually update the location and condition of our store network through systematic renovation and relocation of our existing stores to enhance store performance. We believe that our ability to consistently achieve growth in same store sales is due in part to our commitment to maintaining an attractive store network, which is strategically located to best serve our customers.

Products and Purchasing

Our stores offer DIY and professional installer customers a wide selection of brand name and private label products for domestic and imported automobiles, vans and trucks. We do not sell tires or perform automotive repairs or installations. Our merchandise generally consists of nationally recognized, well-advertised, name brand products such as AC Delco, Moog, Murray, Wagner, Gates Rubber, Federal Mogul, Monroe, Prestone, Quaker State, Pennzoil, Castrol, Valvoline, STP, BWD, Cardone, Wix, Armor All and Turtle Wax. In addition to name brand products, our stores carry a wide variety of high-quality private label products under our O'Reilly Auto Parts®, SuperStart®, BrakeBest®, Ultima®, Master Pro® and Omnispark® proprietary name brands. Because most of our private label products are produced by nationally recognized manufacturers in accordance with our specifications, we believe that the private label products are generally of equal or, in some cases, better quality than comparable name brand products, a characteristic which is important to our DIY customers. We further believe that our private label products are packaged attractively to promote customer interest and are generally priced below comparable name brand products carried in our stores.

We purchase automotive products in substantial quantities from over 400 vendors, the five largest of which accounted for approximately 30% of our total purchases in 2006. Our largest vendor in 2006 accounted for approximately 13% of our total purchases and the next four largest vendors accounted for 3-5% of such purchases each. We have no long-term contractual purchase commitments with any of our vendors, nor have we experienced difficulty in obtaining satisfactory alternative sources of supply for automotive parts. We believe that alternative supply sources exist at substantially similar costs, for substantially all of the automotive products that we sell. It is our policy to take advantage of payment and seasonal purchasing discounts offered by our vendors and to utilize extended dating terms available from vendors. During 2006, we entered into various programs and arrangements with certain of our vendors that provided for extended dating and payment terms for inventory purchases, including pay-on-scan arrangements. As a whole, we consider our relationships with our vendors to be very good.

Inflation and Seasonality

We have been successful, in many cases, in reducing the effects of merchandise cost increases principally by taking advantage of vendor incentive programs, economies of scale resulting from increased volume of purchases and selective forward buying. As a result, we do not believe our operations have been materially affected by inflation.

To some extent, our business is seasonal primarily as a result of the impact of weather conditions on customer buying patterns. Store sales and profits have historically been higher in the second and third quarters (April through September) than in the first and fourth quarters.

Store Network

Store Locations. As a result of our dual market strategy, we are able to profitably operate in both large, densely populated markets and small, less densely populated areas that would not otherwise support a national or regional chain selling primarily to just one portion of the automotive aftermarket. The following table sets forth the geographic distribution of our stores:

State	December 31, 2005 Store Count	Net Stores Added In 2006	December 31, 2006 Store Count
Texas	404	30	434
Missouri	149	5	154
Tennessee	99	13	112
Oklahoma	100	1	101
Alabama	81	14	95
Georgia	64	30	94
Arkansas	81	6	87
Iowa	65	-	65
Louisiana	64	1	65
Kansas	59	2	61
Mississippi	52	7	59
Illinois	49	8	57
Minnesota	40	3	43
Kentucky	39	3	42
Indiana	13	22	35
North Carolina	27	3	30
Nebraska	26	-	26
South Carolina	12	12	24
Montana	16	2	18
Florida	11	3	14
Wisconsin	7	4	11
Wyoming	4	-	4
North Dakota	3	-	3
South Dakota	2	1	3
Virginia	3	-	3
Total	1,470	170	1,640

Our stores on average carry approximately 21,000 SKUs and average approximately 6,700 total square feet in size. At December 31, 2006, we had a total of approximately 11.0 million square feet in our 1,640 stores. Our stores are served primarily by the nearest distribution center, but they also have access to the broader selection of inventory available at one of our 94 Master Inventory Stores, which on average carry approximately 35,000 SKUs and average approximately 9,000 square feet in size. In addition to serving DIY and professional installer customers in their markets, Master Inventory Stores also provide our other stores within their area access to a greater selection of SKUs on a same-day basis.

We believe that our stores are "destination stores" generating their own traffic rather than relying on traffic created by the presence of other stores in the immediate vicinity. Consequently, most of our stores are freestanding buildings situated on or near major traffic thoroughfares, and offer ample parking and easy customer access.

Store Layout. We utilize a computer-assisted "plan-o-grammed" store layout system to provide a uniform and consistent merchandise presentation; however, each store's inventory assortment is customized to meet the specific needs of a particular market area. Merchandise is arranged to provide easy customer access, maximum selling space and to prominently display high-turnover products and accessories to customers. To ensure the best customer experience possible, we have implemented bilingual in-store signage based on the demographics in each store's geographic area. Aisle displays are used to feature high-demand or seasonal merchandise, new items and advertised specials.

Store Automation. To enhance store level operations and customer service, we use IBM AS/400 computer systems in all of our stores. These systems are linked with the IBM AS/400 computers located in each of our distribution centers. Our point-of-sale terminals provide immediate access to our electronic catalog to display parts and pricing information by make, model and year of vehicle and use bar code scanning technology to price our merchandise. This system speeds transaction times, reduces the customer's checkout time and provides enhanced customer service. Moreover, our store automation systems capture detailed sales information which assists in store management, strategic planning, inventory control and distribution efficiency.

New Store Site Selection. In selecting sites for new stores, we seek to strategically locate store sites in clusters within geographic areas in order to achieve economies of scale in management, advertising and distribution. Other key factors we consider in the site selection process include:

population density and growth patterns;

age and per capita income;

vehicle traffic counts;

the number and type of existing automotive repair facilities; and

the number of auto parts stores and other competitors within a pre-determined radius and the operational strength of such competitors.

When entering new, more densely populated markets, we generally seek to initially open several stores within a short span of time in order to maximize the effect of initial promotional programs and achieve further economies of scale. After opening this initial cluster of new stores, we seek to begin penetrating the less densely populated surrounding areas. This strategy enables us to achieve additional distribution and advertising efficiencies in each market.

Distribution System

We currently operate 14 distribution centers comprised of approximately 4.5 million square feet (see the Properties table in Item 2 of this Form 10-K for a detailed listing of distribution center square footages). Our distribution centers are equipped with highly automated conveyor systems, which expedite the movement of our products to loading areas for shipment to individual stores on a nightly basis. The distribution centers utilize technology to electronically receive orders from computers located in each of our stores. In addition to the bar code system employed in our stores, each of our stores is connected through secured data transmission technology to our distribution centers and corporate headquarters.

We believe that our distribution system assists us in lowering our inventory-carrying costs, improving our store in-stock positions and controlling and managing our inventory. Moreover, we believe that our expanding network of distribution centers allows us to more efficiently service existing stores, as well as new stores planned to open in contiguous market areas. Our distribution center expansion strategy also complements our new store opening strategy by supporting newly established clusters of stores located in the regions surrounding each distribution center. As part of our continuing efforts to enhance our distribution network, in 2007 we plan to:

relocate our distribution center in St. Paul, Minnesota to a more efficient facility that will provide greater capacity for growth in surrounding markets;

continue to implement a hands-free/eyes-free voice picking system in additional distribution centers;

continue to define and implement best practice procedures in all distribution centers; and make proven, ROI based capital enhancements to material handling equipment in distribution centers including conveyor systems, picking modules and lift equipment.

Marketing

Marketing to the DIY Customer. We aggressively promote sales to DIY customers through an extensive advertising program, which includes direct mail, newspaper, radio and television advertising in selected markets. We believe that our advertising and promotional activities have resulted in significant name recognition in each of our market areas. Newspaper and radio advertisements are generally directed towards specific product and price promotions, frequently in connection with specific sale events or promotions. To promote sales to car enthusiasts, who we believe on an individual basis spend more on automotive products than the general public, we sponsored 11 nationally televised races and over 1,400 motorsports races and car shows in 25 states, including 3 NASCAR Craftsman Truck Series Races, 2 NASCAR Busch Series Races, 6 National Hotrod Racing Association races, as well as the O Reilly Chili Bowl. O Reilly Auto Parts is the official auto parts store of Texas Motor Speedway, Kansas Speedway, Bristol Motor

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

Speedway, Houston Raceway Park, Texas Motorplex, Memphis Motorsports Park, Heartland Park, Gateway International, Atlanta Motor Speedway, Atlanta Dragway, O'Reilly Raceway Park at Indianapolis and Talladega Speedway.

Since 2003, we have aggressively sought to market the O'Reilly name in the National Collegiate Athletic Association. Our first initiative was to partner with Texas Tech University through a variety of programs including sponsoring a television show featuring Bobby Knight, the coach of the men's basketball team at Texas Tech University, placing the O'Reilly logo on the home basketball court and coach Knight's sweater and advertising on the seatbacks and scoring table banners. This has led to additional opportunities with approximately 63 colleges and 3 conferences in our current markets. In 2006, we signed an agreement with Steve Alford, Head Coach of the Iowa Hawkeyes for radio and television coverage. We have found that the more progressive marketing concepts utilized in the DIY portion of our business have also resulted in increased sales to our professional installer customers.

Marketing to the Professional Installer. We have 264 full-time O'Reilly sales representatives strategically located in the more densely populated market areas that we serve, and each is dedicated solely to calling upon and selling to the professional installer. Our First Call program includes a dedicated sales force, sales and promotions directed to the professional installer and same day or overnight delivery service from the distribution center to the professional customer. Moreover, each district manager and store manager throughout our store network calls upon existing and potential new professional installer customers on a regular basis. Our First Call marketing strategy, with respect to professional installers, emphasizes our ability to offer:

- prompt delivery using small trucks or vans operated at all of our stores;
- a separate counter in every store dedicated exclusively to serving professional installers;
- trade credit for qualified professional installers;
- broad selection of merchandise at competitive prices;
- First Call Online, a dedicated internet based catalog system designed for our professional installers that connects directly to our inventory system;
- seminars covering topics of interest to professional installers, such as technical updates, safety and general business management;
- access to inventory of the equipment needed by professional installers to operate a shop;
- the Certified Auto Repair Center Program, a program that provides professional installers with the business tools that they need to grow and market their shops profitably.

Marketing to the Independently Owned Parts Store. Along with the operation of the distribution centers and the distribution of automotive products to our stores, Ozark Automotive Distributors, Inc., our wholly-owned subsidiary (Ozark), also sells automotive products to independently owned parts stores (jobber stores) throughout our trade areas. These jobber stores are generally located in areas not directly serviced by an O'Reilly store. Ozark operates its own separate marketing program to jobber stores.

Of the approximately 211 jobber stores currently purchasing automotive products from Ozark, 144 participate in the Auto Value® program and 67 participate in the Bumper to Bumper® program through Ozark. As a participant in these programs, a jobber store which meets certain minimum financial and operational standards is permitted to indicate its Auto Value® or Bumper to Bumper® membership through the display of the respective logo, which is owned by The Alliance, Inc., a non-profit buying group consisting of approximately 2,800 member stores, as of December 31, 2006, including O'Reilly, engaged in the distribution or sale of automotive products. Additionally, we provide advertising and promotional assistance to Auto Value® and Bumper to Bumper® stores purchasing automotive products from Ozark, as well as marketing and sales support. In return for a commitment to purchase automotive products from Ozark, we offer assistance to an Auto Value® or Bumper to Bumper® jobber store by making available computer software for business management and inventory control.

Management Structure

Each of our stores is staffed with a store manager and an assistant manager, in addition to the parts specialists and support staff required to meet the specific needs of each store. Each of our 156 district managers has general supervisory responsibility for an average of 11 stores.

Each district manager receives comprehensive training on a monthly basis, focusing on management techniques, new product announcements, advanced automotive systems and our policies and procedures. In turn, the information covered at such meetings is covered by the district managers at bi-monthly meetings with their store managers. All assistant managers and manager trainees are required to successfully complete a six-month manager-training program, which includes classroom and field training, as a prerequisite to becoming a store manager. This program covers all facets of store operations, as well as principles of successful management. In addition, all new or prospective managers attend a manager development program, at the corporate office headquarters, which includes 40 hours of classroom training. Upon returning to the stores, managers are given continuous field training throughout their management experience.

We provide financial incentives to our district managers and all store team members through an incentive compensation program. Under our incentive compensation program, base salary is augmented by incentive compensation based upon the achievement of sales and profitability goals. We believe that our incentive compensation program significantly increases the motivation and overall performance of our Professional Parts People and our ability to attract and retain qualified management and other personnel.

Most of our current senior management, district managers and store managers were promoted to their positions from within the Company. Our senior management team averages 15 years of experience with the Company, corporate managers average over 12 years of service and district managers have an average length of service with the Company of over 9 years.

Professional Parts People

We believe our highly trained team of Professional Parts People is essential in providing superior customer service to both DIY and professional installer customers. Each of our Professional Parts People is required to be technically proficient in the workings and application of automotive products due to the significant portion of our business represented by the professional installer. In addition, we have found that the typical DIY customer often seeks assistance from a salesperson, particularly in connection with the purchase of hard parts. We believe that the ability of our Professional Parts People to provide such assistance to the DIY customer creates a favorable impression during a customer's visit to our store and is a significant factor in generating repeat DIY business.

We screen prospective employees, whom we refer to as team members, to identify highly motivated individuals either with experience in automotive parts or repairs, or an aptitude for automotive knowledge. Each person who becomes a team member first participates in an intensive two-day orientation program designed to introduce the team member to our culture and his or her job duties before being assigned specific job responsibilities. The successful completion of extensive training is required before a team member is deemed qualified as a parts specialist and thus able to work at the parts counter at our stores. All new counter people are required to successfully complete a six-month basic automotive systems training course and are then enrolled in a six-month advanced automotive systems course for certification by the National Institute for Automotive Service Excellence (ASE), which administers national exams for various automotive specialties and requires ASE certified specialists to take recertification exams every five years.

Each of our stores participates in our sales specialist-training program. Under this program, selected team members complete two days of extensive sales call training for business development, after which these team members will spend one day per week calling on existing and new professional installer customers. Additionally, each team member engaged in such sales activities participates in quarterly advanced training programs for sales and business development.

Customer Service

We seek to provide our customers with an efficient and pleasant in-store experience by maintaining attractive stores in convenient locations with a wide selection of automotive products. We believe that the satisfaction of DIY and professional installer customers is substantially dependent upon our ability to provide, in a timely fashion, the specific automotive products requested. Accordingly, each O'Reilly store carries a broad selection of automotive products designed to cover a wide range of vehicle specifications. We continuously refine the inventory levels and assortments carried in our stores, based in large part on the sales movement tracked by our computerized inventory control system, market vehicle registration data and management's assessment of the changes and trends in the marketplace.

Pricing

We believe that a competitive pricing policy is essential within product categories to compete successfully. Product pricing is generally established to compete with the pricing policies of competitors in the market area served by each store. Most automotive products that we sell are priced based on a combination of competitive shops and internal gross margin targets and are generally sold at discounts to the manufacturer suggested prices with additional savings offered through volume discounts and special promotional pricing. Consistent with our low price guarantee, each of our stores will match any verifiable price on any in-stock product of the same or comparable quality offered by any of our competitors.

Competition

We compete in both the DIY and professional installer portions of the automotive aftermarket. We compete primarily with:

national and regional retail automotive parts chains (such as AutoZone, Inc., Advance Auto Parts, CSK Auto Corp. and the Pep Boys- Manny, Moe and Jack, Inc.)

independently owned parts stores;

wholesalers or jobber stores (some of which are associated with national automotive parts distributors or associations such as NAPA and CarQuest); automobile dealers; and

mass merchandisers that carry automotive replacement parts, maintenance items and accessories (such as Wal-Mart Stores, Inc.).

We compete on the basis of customer service, which includes merchandise selection and availability, price, helpfulness of store personnel and store layout and location.

Team Members

As of December 31, 2006, we employed 17,153 full-time team members and 4,767 part-time team members, of whom 17,494 were employed at our stores, 3,188 were employed at our distribution centers and 1,238 were employed at our corporate and regional offices. None of our team members are subject to a collective bargaining agreement. We consider our relations with our team members to be excellent, and we strive to promote good relations with our team members through various programs.

Servicemarks and Trademarks

We have registered the servicemarks O'Reilly Automotive®, O'Reilly Auto Parts®, and Parts Payoff® and the trademarks SuperStart®, BrakeBest®, Omnispark®, First Call®, Ultima®, Micro-Gard® and Master Pro®. Further, we are licensed to use the registered trademarks and servicemarks Auto Value®, Parts Master® and Bumper to Bumper® owned by The Alliance, Inc. in connection with our marketing programs. We believe that our business is not otherwise dependent upon any patent, trademark, servicemark or copyright.

Regulations

Although subject to various laws and governmental regulations relating to our business, including those related to the environment, we do not believe that compliance with such laws and regulations has a material adverse effect on our operations. Further, we are unaware of any failure to comply with any such laws and regulations that could have a material adverse effect on our operations. We can not give any assurance, however, that we will not incur significant expenses in the future in order to comply with any such law or regulation.

Item 1A. Risk Factors

Our future performance is subject to a variety of risks and uncertainties. Although the risks described below are the risks that we believe are material, there also may be risks of which we are currently unaware, or that we currently regard as immaterial based on the information available to us that later may prove to be material. You should be aware that the occurrence of the events described in these risk factors and elsewhere in this Form 10-K and in our other filings with the Securities and Exchange Commission could have a material adverse effect on our business, operating results and financial condition. Actual results, therefore, may materially differ from anticipated results described in these forward-looking statements.

The automotive aftermarket business is highly competitive, and we may have to risk our capital to remain competitive.

Both the DIY and professional installer portions of our business are highly competitive, particularly in the more densely populated areas that we serve. Some of our competitors are larger than we are and have greater financial resources. In addition, some of our competitors are smaller than we are overall but have a greater presence than we do in a particular market. We may have to expend more resources and risk additional capital to remain competitive. For a list of our principal competitors, see the "Competition" section of Item 1 of this Form 10-K.

We cannot assure future growth will be achieved.

We believe that our ability to open additional stores at an accelerated rate will be a significant factor in achieving our growth objectives for the future. Our ability to accomplish our growth objectives is dependent, in part, on matters beyond our control, such as weather conditions, zoning and other issues related to new store site development, the availability of qualified management personnel and general business and economic conditions. We cannot be sure that our growth plans for 2007 and beyond will be achieved. Failure to achieve our growth objectives may negatively impact the trading price of our common stock. For a discussion of our growth strategies, see the "Growth and Expansion Strategies" section of Item 1 of this Form 10-K.

Risks associated with acquisitions may not lead to expected growth and could result in increased costs and inefficiencies.

We expect to continue to make acquisitions as an element of our growth strategy. Acquisitions involve certain risks that could cause our actual growth to differ from our expectations. For example:

we may not be able to continue to identify suitable acquisition candidates or to acquire additional companies at favorable prices or on other favorable terms;

our management's attention may be distracted;

we may fail to retain key acquired personnel;

we may assume unanticipated legal liabilities and other problems;

we may not be able to successfully integrate the operations (accounting and billing functions, for example) of businesses we acquire to realize economic, operational and other benefits; and

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

we may fail or be unable to discover liabilities of businesses that we acquire for which we, as a successor owner or operator, may be liable.

We are sensitive to regional economic and weather conditions that could reduce our sales.

All of our stores are located in the Central, Midwest and Southern United States. In particular, approximately 26% of our stores are located in Texas. Therefore, our business is sensitive to the economic and weather conditions of these regions. Unusually inclement weather, such as significant rain, snow, sleet or freezing rain, has historically discouraged our customers from visiting our stores and reduced our sales, particularly to DIY customers.

We depend on certain key personnel to successfully manage and grow our business.

Our success has been largely dependent on the efforts of certain key personnel, including David O'Reilly, Ted Wise and Greg Henslee. Our business and results of operations could be materially adversely affected by the unexpected loss of the services of one or more of these individuals. Additionally, the successful implementation and management of our growth and expansion strategies will depend on our ability to continue to attract and retain qualified personnel. We cannot be sure that we will be able to continue to attract such qualified personnel, which could cause us to be less efficient reducing our sales and profitability. For a further discussion of our

management and personnel, see the "Business" section of Item 1 and Item 4a of this Form 10-K and our Proxy Statement on Schedule 14A for the 2007 Annual Meeting of Shareholders, a portion of which is incorporated herein.

The market price of our common stock may be volatile and could expose us to securities class action litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based on general economic and market conditions. The market price for our common stock may also be affected by our ability to meet analysts' expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock.

In addition, stock market volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. Downturns in the stock market may cause the price of our common stock to decline. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Sales of shares of our common stock eligible for future sale could adversely affect our share price.

All of the shares of common stock currently held by our affiliates may be sold in reliance upon the exemptive provisions of Rule 144 of the Securities Act of 1933, as amended, subject to certain volume and other conditions imposed by such rule. We cannot predict the effect, if any, that future sales of shares of common stock or the availability of such shares for sale will have on the market price of the common stock prevailing from time to time. We believe sales of substantial amounts of common stock, or the perception that such sales might occur, could adversely affect the prevailing market price of the common stock.

Item 1B. **Unresolved Staff Comments**

Not applicable.

Item 2. Properties

The following table provides certain information regarding our administrative offices and distribution centers as of December 31, 2006:

Location	Principal Use(s)	Square Footage	Interest
Atlanta, GA	Distribution Center	482,860	Leased (a)
Billings, MT	Distribution Center	107,000	Leased (b)
Dallas, TX	Distribution Center	464,265	Owned
Des Moines, IA	Distribution Center	229,016	Owned
Houston, TX	Distribution Center	530,138	Owned
Indianapolis, IN	Distribution Center	565,521	Owned
Kansas City, MO	Distribution Center	148,416	Owned
Knoxville, TN	Distribution Center	163,389	Owned
Little Rock, AR	Distribution Center	127,052	Leased (c)
McAllen, TX	Bulk Facility	17,500	Leased (d)
Mobile, AL	Distribution Center	324,789	Leased (e)
Nashville, TN	Distribution Center	433,641	Leased (f)
Oklahoma City, OK	Distribution Center	307,685	Owned
Springfield, MO	Corporate Offices	54,910	Leased (g)
Springfield, MO	Corporate Offices, Training and		
	Technical Center	33,580	Leased (h)
Springfield, MO	Distribution Center, Bulk and		
	Return Facilities and Corporate Offices	342,922	Owned
Springfield, MO	Return Facility	140,970	Leased (i)
St. Paul, MN	Distribution Center	287,560	Leased (j)
		4,761,214	

- (a) Occupied under the terms of a lease expiring October 31, 2024, with an unaffiliated party, subject to renewal for ten five-year terms at our option.
- (b) Occupied under the terms of two separate leases the first lease expiring September 30, 2011, with an unaffiliated party, subject to renewal for two three-year terms at our option and the second lease expiring January 31, 2012, with an unaffiliated party, subject to renewal for two five-year terms at our option.
- (c) Occupied under the terms of a lease expiring March 31, 2012, with an unaffiliated party, subject to renewal for four five-year terms at our option.
- (d) Occupied under the terms of a lease expiring April 30, 2017, with an affiliated party, subject to renewal for three five-year options.
- (e) Occupied under the terms of a lease expiring December 31, 2012, with an unaffiliated party, subject to renewal for ten five-year terms at our option.

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

- (f) Occupied under the terms of two separate leases expiring December 14, 2008 and December 31, 2008, with an unaffiliated party, subject to renewal for two five-year options.
- (g) Occupied under the terms of a lease expiring March 31, 2010, with an unaffiliated party, not subject to renewal.
- (h) Occupied under the terms of a lease expiring July 31, 2007, with an unaffiliated party, subject to renewal for three five-year terms at our option.
- (i) Occupied under the terms of two separate leases both expiring May 31, 2012, with an unaffiliated party, subject to renewal for four five-year terms at our option.

- (j) Occupied under the terms of two separate leases the first lease expiring October 31, 2007, with an unaffiliated party, not subject to renewal and the second lease expiring May 31, 2008, with an unaffiliated party, subject to renewal for one one-year term at our option.

Of the 1,640 stores that we operated at December 31, 2006, 676 stores were owned, 895 stores were leased from unaffiliated parties and 69 stores were leased from one of three entities owned by the O'Reilly family. Leases with unaffiliated parties generally provide for payment of a fixed base rent, payment of certain tax, insurance and maintenance expenses and an original term of 10 years, subject to one or more renewals at our option. We have entered into separate master lease agreements with each of the affiliated entities for the occupancy of the stores covered thereby. Such master lease agreements with two of the three O Reilly family entities have been modified to extend the term of the lease agreement for specific stores. The master lease agreements or modifications thereto expire on dates ranging from March 31, 2008 to October 31, 2026. We believe that the lease agreements with the affiliated entities are on terms comparable to those obtainable from third parties.

We believe that our present facilities are in good condition, are adequately insured and, together with those under construction, are suitable and adequate for the conduct of our current operations.

Item 3. Legal Proceedings

We are involved in various legal proceedings incidental to the ordinary conduct of our business. Although we cannot ascertain the amount of liability that we may incur from any of these matters, we do not currently believe that, in the aggregate, these matters will have a material adverse effect on our consolidated financial position, results of operations or cash flows.

Item 4. Submission Of Matters To A Vote Of Security Holders

No matters were submitted to a vote of security holders, through the solicitation of proxies or otherwise, during the fourth quarter of the fiscal year ended December 31, 2006.

Item 4A. Executive Officers of the Registrant

The following paragraphs discuss information about executive officers of the Company who are not also directors:

Greg L. Henslee, age 46, Chief Executive Officer and Co-President, has been an O Reilly team member for 22 years. Mr. Henslee's primary areas of responsibility are Merchandise, Systems and Distribution. His O Reilly career started as a parts specialist, and during his first five years he served in several positions in retail store operations, including district manager. From there he advanced to Computer Operations Manager, and over the past ten years, he has served as Director of Computer Operations/Loss Prevention, Vice President of Store Operations and as Senior Vice President. He has been President of Merchandise, Distribution, Information Systems and Loss Prevention since July 1999, and in his current positions of Chief Executive Officer and Co-President since February 2005.

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

Ted F. Wise, age 56, Chief Operating Officer and Co-President, has been an O'Reilly team member for 36 years. Mr. Wise's primary areas of responsibility are Sales, Operations and Real Estate. He began his O'Reilly career in sales in 1970, was promoted to store manager in 1973 and became our first district manager in 1977. He continued his progression through the ranks as Operations Manager, Vice President, Senior Vice President of Operations and Sales, and Executive Vice President. He has been President of Sales, Operations and Real Estate since July 1999, and in his current positions of Chief Operating Officer and Co-President since February 2005.

Jeff Shaw, age 44, Senior Vice President of Sales and Operations, has been an O'Reilly team member for 17 years. Mr. Shaw's primary areas of responsibility are managing Store Sales and Operations. His O'Reilly career started as a parts specialist, and has progressed through the roles of store manager, district manager, regional manager and Vice President of the Southern division. He advanced to Vice President of Sales and Operations in 2003 and to his current position as Senior Vice President of Sales and Operations in 2004.

Mike Swarengin, age 46, Senior Vice President of Merchandise, has been an O'Reilly team member 13 years. Mr. Swarengin's primary areas of responsibility are Merchandise, Purchasing and Advertising. His O'Reilly career started as a Product Manager, a position he held for four years. From there he advanced to Senior Product Manager, Director of Merchandise and Vice President of

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

Merchandise with responsibility for product mix and replenishment. He has been in his current position as Senior Vice President since January 2004.

David McCready, age 46, Senior Vice President of Distribution Operations, has been an O'Reilly team member for 11 years. Mr. McCready's primary area of responsibility is distribution. Mr. McCready joined the Company as Distribution Center Manager of the Kansas City facility. He subsequently served as Regional Distribution Center Manager, Director of Distribution and Vice President of Distribution. He has been in his current position as Senior Vice President since 2005.

Thomas McFall, age 36, Senior Vice President of Finance and Chief Financial Officer has been an O'Reilly team member since 2006. Prior to joining O'Reilly, Mr. McFall held the position of Chief Financial Officer - Midwest Operation for CSK Auto Corporation (CSK Auto), following CSK Auto's acquisition of Murray's Discount Auto Stores (Murray's). Mr. McFall served Murray's for 8 years as Controller, Vice President of Finance, and Chief Financial Officer, with direct responsibility for finance and accounting, distribution and logistics operations. Prior to joining Murray's, Mr. McFall was an Audit Manager with Ernst & Young, LLP in Detroit, Michigan.

PART II

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

Common Stock Market Prices and Dividend Information on page 44 of the Annual Shareholders Report for the year ended December 31, 2006, under the captions Market Prices and Dividend Information and Number of Shareholders, are incorporated herein by reference. During fiscal 2006, we made no purchases or repurchases of our common stock.

Item 6. Selected Financial Data

Selected Financial Data on pages 14 through 17 of the Annual Shareholders Report for the year ended December 31, 2006, under the caption Selected Consolidated Financial Data, is incorporated herein by reference.

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

Management's Discussion and Analysis of Financial Condition and Results of Operations on pages 18 through 23 of the Annual Shareholders Report for the year ended December 31, 2006, under the caption Management's Discussion and Analysis of Financial Condition and Results of Operations, is incorporated herein by reference.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

As a policy, we do not engage in speculative or derivative transactions, nor do we hold or issue financial instruments for trading purposes. We are exposed to changes in interest rates primarily as a result of our borrowing activities. Based on our outstanding long-term debt balance at December 31, 2006, a 100 basis point change in interest rates would not have a material impact on our financial condition.

Item 8. Financial Statements and Supplementary Data

Our consolidated financial statements, the notes thereto and the report of Ernst & Young LLP, our independent registered public accounting firm, on pages 26 through 40 of the Annual Shareholders' Report for the year ended December 31, 2006, under the captions Consolidated Financial Statements, Notes to Consolidated Financial Statements and Report of Independent Registered Public Accounting Firm, are incorporated herein by reference.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure

None.

Item 9A. **Controls and Procedures**

Our management, under the supervision and with the participation of our chief executive officer and chief financial officer, have reviewed and evaluated the effectiveness of our disclosure controls and procedures as of December 31, 2006. Based on such review and evaluation, our chief executive officer and chief financial officer have concluded that our disclosure controls and procedures were effective as of December 31, 2006, to ensure that the information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934, as amended, (a) was recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms and (b) was accumulated and communicated to our management, including the principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. There were no changes in our internal control over financial reporting during the fourth quarter of 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Management's assessment of our internal control over financial reporting and the attestation report of the independent registered public accounting firm on pages 24 and 25, respectively, on the Annual Shareholders' Report for the year ended December 31, 2006, under the captions, "Management's Report on Internal Control Over Financial Reporting;" and "Report of Independent Registered Public Accounting Firm," are incorporated herein by reference.

Item 9B. **Other Information**

Not Applicable.

PART III

Item 10. Directors and Executive Officers of the Registrant

The information regarding the directors of the Company contained in the Company's Proxy Statement on Schedule 14A for the 2006 Annual Meeting of Shareholders (the Proxy Statement) under the caption Proposal 1-Election of Class II Directors is incorporated herein by reference. The Proxy Statement will be filed with the Securities and Exchange Commission within 120 days of the end of our most recent fiscal year end. The information regarding executive officers called for by item 401 of Regulation S-K is included in Part I as Item 4A, in accordance with General Instruction G (3) to Form 10-K, for our executive officers who are not also directors.

Our Board of Directors has adopted a code of ethics that applies to all of our directors, officers (including its chief executive officer, chief operating officer, chief financial officer, chief accounting officer, controller and any person performing similar functions) and employees. Our Code of Ethics is available on our website at www.oreillyauto.com.

The Board of Directors has established an Audit Committee pursuant to Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee currently consists of John Murphy, Paul R. Lederer and Ronald Rashkow, each an independent director in accordance with The Nasdaq Stock Market Marketplace Rule 4200(a)(15). In addition, our Board of Directors has determined that Mr. Murphy, Chairman of the Audit Committee, is independent under the standards of Rule 10A-3 of the Exchange Act and the requirements of The Nasdaq Stock Market Marketplace Rule 4350(d)(2) and that Mr. Murphy qualifies as an audit committee financial expert under Item 407(d)(5) of Regulation S-K.

The information regarding compliance with Section 16(a) of the Securities Exchange Act of 1934 included in the Company's Proxy Statement under the caption Section 16(a) Beneficial Ownership Reporting Compliance is incorporated herein by reference.

Item 11. Executive Compensation

The information required by Item 402 of Regulation S-K will be included in the Proxy Statement under the captions Compensation of Executive Officers and Director Compensation and that information is incorporated herein by reference.

The information required by Item 407(e)(4) and (e)(5) of Regulation S-K will be included in the Proxy Statement under the captions Compensation Committee Interlocks and Insider Participation and Compensation Committee Report and that information is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholder Matters

The information required by Item 201(d) of Regulation S-K regarding our equity compensation plans will be included in the Proxy Statement under the caption Securities Authorized for Issuance Under Equity Compensation Plans and is incorporated herein by reference. The information

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

required by Item 403 of Regulation S-K will be included in the Proxy Statement under the captions Security Ownership of Certain Beneficial Owners and Security Ownership of Directors and Management and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The information required by Item 404 of Regulation S-K will be included in the Proxy Statement under the caption Certain Relationships and Related Transactions and is incorporated herein by reference.

The information required by Item 407(a) of Regulation S-K will be included in the Proxy Statement under the caption Director Independence and is incorporated herein by reference.

Item 14. Principal Accountant Fees and Services

The information in the Proxy Statement under the caption Fees Paid to Independent Registered Public Accounting Firm is incorporated herein by reference.

PART IV

Item 15. Exhibits and Financial Statement Schedule .

(a) The following documents are filed as part of this Annual Report on Form 10-K:

1. Financial Statements-O'Reilly Automotive, Inc. and Subsidiaries

The following consolidated financial statements of O'Reilly Automotive, Inc. and Subsidiaries included in the Annual Shareholders' Report of the registrant for the year ended December 31, 2006, incorporated herein by reference in Part II, Item 8:

Report of Independent Registered Public Accounting Firm (page 26)

Consolidated Balance Sheets as of December 31, 2006, and 2005 (page 27)

Consolidated Statements of Income for the years ended December 31, 2006, 2005, and 2004 (page 28)

Consolidated Statements of Shareholders' Equity for the years ended December 31, 2006, 2005, and 2004 (page 29)

Consolidated Statements of Cash Flows for the years ended December 31, 2006, 2005, and 2004 (page 30)

Notes to Consolidated Financial Statements for the years ended December 31, 2006, 2005, and 2004 (pages 31-40)

2. Financial Statement Schedule-O'Reilly Automotive, Inc. and Subsidiaries

The following consolidated financial statement schedule of O'Reilly Automotive, Inc. and Subsidiaries is included in Item 15(c):

Schedule II-Valuation and qualifying accounts

All other schedules for which provision is made in the applicable accounting regulations of the Securities and Exchange Commission are not required under the related instructions or are inapplicable, and therefore have been omitted.

3. Exhibits

See Exhibit Index on page E-1.

20

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS**O REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

Col. A Description	Col. B Balance at Beginning of Period	Col. C Additions Charged to Costs and Expenses	Additions Accounts	Charged to Other Describe	Col. D Deductions Describe	Col. E Balance at End of Period
(Amounts in thousands)						
Year ended December 31, 2006:						
Deducted from asset account:						
Allowance for doubtful accounts	\$ 2,778	\$ 4,585	\$ --		\$ 4,503	(1) \$ 2,861
Year ended December 31, 2005:						
Deducted from asset account:						
Allowance for doubtful accounts	\$ 3,417	\$ 4,968	\$ --		\$ 5,607	(1) \$ 2,778
Year ended December 31, 2004:						
Deducted from asset account:						
Allowance for doubtful accounts	\$ 986	\$ 5,900	\$ --		\$ 3,469	(1) \$ 3,417
(1) Uncollectible accounts written off						

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.

O'REILLY AUTOMOTIVE, INC.
(Registrant)

Date: March 1, 2007

By /s/ Greg Henslee

Greg Henslee
Chief Executive Officer and Co-President

Pursuant to the requirements of the Securities Act of 1934, this report has been signed below by the following persons on behalf of the registrant in the capacities and on the dates indicated.

Signature	Title	Date
/s/ David E. O Reilly David E. O'Reilly	Director and Chairman of the Board	March 1, 2007
/s/ Lawrence P. O Reilly Lawrence P. O'Reilly	Director and Vice-Chairman of the Board	March 1, 2007
/s/ Charles H. O Reilly, Jr. Charles H. O'Reilly, Jr.	Director and Vice-Chairman of the Board	March 1, 2007
/s/ Rosalie O Reilly Wooten Rosalie O'Reilly Wooten	Director	March 1, 2007
/s/ Jay D. Burchfield Jay D. Burchfield	Director	March 1, 2007
/s/ Joe C. Greene Joe C. Greene	Director	March 1, 2007

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

/s/ Paul R. Lederer	Director	March 1, 2007
Paul R. Lederer		
/s/ John Murphy	Director	March 1, 2007
John Murphy		
/s/ Ronald Rashkow	Director	March 1, 2007
Ronald Rashkow		
/s/ Greg Henslee	Chief Executive Officer and Co-President	March 1, 2007
Greg Henslee	(principal executive officer)	
/s/ Ted Wise	Chief Operating Officer and Co-President	March 1, 2007
Ted Wise		
/s/ Thomas McFall	Senior Vice-President of Finance and	March 1, 2007
Thomas Mcfall	Chief Financial Officer (principal financial officer)	

EXHIBIT INDEX

Exhibit

<u>No.</u>	<u>Description</u>
2.1*	Plan of Reorganization Among the Registrant, Greene County Realty Co. (Greene County Realty) and Certain Shareholders.
2.2	Agreement and Plan of Merger, dated as of December 23, 1997, by and among O Reilly Automotive, Inc., Shamrock Acquisition, Inc. and Hi-Lo Automotive, Inc., filed as Exhibit (c)(1) to the Registrant s Tender Offer Statement on Schedule 14D-1 dated December 23, 1997, are incorporated herein by this reference.
3.1*	Restated Articles of Incorporation of the Registrant.
3.2	Amended and Restated Bylaws of the Registrant as Amended by Amendment No. 1, filed as Exhibit 3.2 to the Form 8-K dated November 12, 2003, is incorporated herein by reference.
3.3	Amendment to the Restated Articles of Incorporation of the Registrant, filed as Exhibit 3.3 to the Registrant s quarterly report on Form 10-Q for the quarter ended June 30,1999, are incorporated herein by this reference.
4.1*	Form of Stock Certificate for Common Stock.
4.2	Rights Agreement, dated as of May 7, 2002, between O'Reilly Automotive, Inc. and UMB Bank, N.A., as Rights Agent, including the form of Certificate of Designation, Preferences and Rights as Exhibit A, the form of Rights Certificates as Exhibit B and the Form of Summary of Rights as Exhibit C, filed as Exhibit 4.2 to the Registrant s Current Report on Form 8-K dated June 3, 2002, is incorporated herein by this reference.
10.1* (a)	Form of Employment Agreement between the Registrant and David E. O'Reilly, Lawrence P. O'Reilly, Charles H. O'Reilly, Jr. and Rosalie O'Reilly Wooten.
10.2*	Lease between the Registrant and O'Reilly Investment Company.
10.3*	Lease between the Registrant and O'Reilly Real Estate Company.
10.4 (a)	Form of Retirement Agreement between the Registrant and David E. O Reilly, Lawrence P. O Reilly, Charles H. O Reilly, Jr. and Rosalie O Reilly Wooten, filed as Exhibit 10.4 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 1997, is incorporated herein by this reference.
10.7 (a)	O'Reilly Automotive, Inc. Profit Sharing and Savings Plan, filed as Exhibit 4.1 to the Registrant s Registration Statement on Form S-8, File No. 33-73892, is incorporated herein by this reference.
10.8* (a)	O'Reilly Automotive, Inc. 1993 Stock Option Plan.
10.9* (a)	O'Reilly Automotive, Inc. Stock Purchase Plan.
10.10* (a)	O'Reilly Automotive, Inc. Director Stock Option Plan.
10.11*	Commercial and Industrial Real Estate Sale Contract between Westinghouse Electric Corporation and Registrant.

EXHIBIT INDEX (continued)

Exhibit

<u>No.</u>	<u>Description</u>
10.12 *	Form of Assignment, Assumption and Indemnification Agreement between Greene County Realty and Shamrock Properties, Inc.
10.13	Loan commitment and construction loan agreement between the Registrant and Deck Enterprises, filed as Exhibit 10.13 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 1993, are incorporated herein by this reference.
10.14	Lease between the Registrant and Deck Enterprises, filed as Exhibit 10.14 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 1993, is incorporated herein by this reference.
10.15(a)	Amended Employment Agreement between the Registrant and Charles H. O'Reilly, Jr., filed as Exhibit 10.17 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 1996, is incorporated herein by this reference.
10.16	O'Reilly Automotive, Inc. Performance Incentive Plan, filed as Exhibit 10.18 (a) to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 1996, is incorporated herein by this reference.
10.17 (a)	Second Amendment to the O'Reilly Automotive, Inc. 1993 Stock Option Plan, filed as Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 1997, is incorporated herein by this reference.
10.18	Credit Agreement between the Registrant and NationsBank, N.A., dated October 16, 1997, filed as Exhibit 10.17 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 1997, is incorporated herein by this reference.
10.19	Credit Agreement between the Registrant and NationsBank, N.A., dated January 27, 1998, filed as Exhibit 10.20 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, is incorporated herein by this reference.
10.20 (a)	Third Amendment to the O'Reilly Automotive, Inc. 1993 Stock Option Plan, filed as Exhibit 10.21 to the Registrant's Amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 1998, is incorporated herein by this reference.
10.21 (a)	First Amendment to the O'Reilly Automotive, Inc. Directors' Stock Option Plan, filed as Exhibit 10.22 to the Registrant's Amended Quarterly Report on Form 10-Q/A for the quarter ended March 31, 1998, is incorporated herein by this reference.
10.22 (a)	O'Reilly Automotive, Inc. Deferred Compensation Plan, filed as Exhibit 10.23 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, is incorporated herein by this reference.
10.23	Trust Agreement between the Registrant's Deferred Compensation Plan and Bankers Trust, dated February 2, 1998, filed as Exhibit 10.24 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended March 31, 1998, is incorporated herein by this reference.

EXHIBIT INDEX (continued)

Exhibit

<u>No.</u>	<u>Description</u>
10.24(a)	2001 Amendment to the O Reilly Automotive, Inc. 1993 Stock Option Plan, dated May 8, 2001, filed herewith.
10.25	Note Purchase Agreement, filed as Exhibit 10.25 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2001, is incorporated herein by this reference.
10.26(a)	First Amendment to Retirement Agreement, dated February 7, 2001, filed as Exhibit 10.26 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2001, is incorporated herein by this reference.
10.27(a)	Fourth Amendment to the O Reilly Automotive, Inc. 1993 Stock Option Plan, dated February 7, 2001, filed as Exhibit 10.27 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2001, is incorporated herein by this reference.
10.28	Credit Agreement between Registrant and Wells Fargo Bank, N.A., dated July 29, 2002 filed as Exhibit 10.28 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002, is incorporated herein by this reference.
10.31	O Reilly Automotive, Inc. Corporate Governance/Nominating Committee Charter, filed on Exhibit 10.31 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2003, is incorporated herein by this reference.
10.32	O Reilly Automotive, Inc. Audit Committee Charter, filed on Exhibit 10.32 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2003, is incorporated herein by this reference.
10.33	O Reilly Automotive, Inc. Compensation Committee Charter, filed on Exhibit 10.33 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2003, is incorporated herein by this reference.
10.34	O Reilly Automotive, Inc. Code of Business Conduct and Ethics, filed on Exhibit 10.34 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2003, is incorporated herein by this reference.
10.35	Credit Agreement between Registrant and Wells Fargo Bank, N.A., dated July 29, 2005 filed as Exhibit 10.35 to the Registrant's Quarterly Report on Form 10-Q for the quarter ended September 30, 2005, is incorporated herein by this reference.
10.36	O Reilly Automotive, Inc. Audit Committee Charter, amended February 9, 2006, filed on Exhibit 10.36 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2005, is incorporated herein by this reference.
10.37(a)	Amended and Restated O Reilly Automotive, Inc 2003 Incentive Plan, filed as Appendix B to the Registrant's Proxy Statement for 2005 Annual Meeting of Shareholders on Schedule 14A, is incorporated herein by this reference.
10.38(a)	Amended and Restated O Reilly Automotive, Inc 2003 Directors' Stock Plan, filed as Appendix C to the Registrant's Proxy Statement for 2005 Annual Meeting of Shareholders on Schedule 14A, is incorporated herein by this reference.

Page E-3

25

Exhibit	<u>Description</u>
<u>No.</u>	
13.1	Portions of the 2005 Annual Report to Shareholders, filed herewith.
18.0	Independent Registered Public Accounting Firm Letter Regarding Accounting Change, dated March 7, 2005, filed as Exhibit 18.0 to the Registrant's Annual Shareholders' Report on Form 10-K for the year ended December 31, 2004, is incorporated herein by this reference.
21.1	Subsidiaries of the Registrant, filed herewith.
23.1	Consent of Ernst & Young LLP, independent registered public accounting firm, filed herewith.
31.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.2	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, filed herewith.
*	Previously filed as Exhibit of same number to the Registration Statement of the Registrant on Form S-1, File No. 33-58948, and incorporated here by this reference.
(a)	Management contract or compensatory plan or arrangement required to be filed pursuant to Item 14(c) of Form 10-K.

Page E-4

26

O'Reilly Automotive, Inc. and Subsidiaries

Exhibit 13.1 - Portions of the 2006 Annual Report to Shareholders

Selected Consolidated Financial Data

Years ended December 31, (In thousands, except per share data)	2006	2005	2004	2003	2002	2001	2000	1999	1998	1997
INCOME STATEMENT DATA:										
Sales	\$ 2,283,222	\$ 2,045,318	\$ 1,721,241	\$ 1,511,816	\$ 1,312,490	\$ 1,092,112	\$ 890,421	\$ 754,122	\$ 616,302	\$ 316,399
Cost of goods sold, including warehouse and distribution expenses	1,276,511	1,152,815	978,076	873,481	759,090	624,294	507,720	428,832	358,439	181,789
Gross profit	1,006,711	892,503	743,165	638,335	553,400	467,818	382,701	325,290	257,863	134,610
Operating, selling, general and administrative expenses	724,396	639,979	552,707	473,060	415,099	353,987	292,672	248,370	200,962	97,526
Operating income	282,315	252,524	190,458	165,275	138,301	113,831	90,029	76,920	56,901	37,084
Other income (expense), net	(50)	(1,455)	(2,721)	(5,233)	(7,319)	(7,104)	(6,870)	(3,896)	(6,958)	472
Income before income taxes and cumulative effect of accounting change	282,265	251,069	187,737	160,042	130,982	106,727	83,159	73,024	49,943	37,556
Provision for income taxes	104,180	86,803	70,063	59,955	48,990	40,375	31,451	27,385	19,171	14,413
Income before cumulative effect of accounting change	178,085	164,266	117,674	100,087	81,992	66,352	51,708	45,639	30,772	23,143
Cumulative effect of accounting change, net of tax (a)	--	--	21,892	--	--	--	--	--	--	--
Net income	\$ 178,085	\$ 164,266	\$ 139,566	\$ 100,087	\$ 81,992	\$ 66,352	\$ 51,708	\$ 45,639	\$ 30,772	\$ 23,143

BASIC EARNINGS PER COMMON**SHARE:**

Edgar Filing: O REILLY AUTOMOTIVE INC - Form 10-K

Income before
cumulative effect
of

accounting change \$	1.57	\$ 1.47	\$ 1.07	\$ 0.93	\$ 0.77	\$ 0.64	\$ 0.51	\$0.47	\$ 0.36	\$ 0.27
Cumulative effect of accounting										

change (a)	--	--	0.20	--	--	--	--	--	--	--
Net income per share	\$ 1.57	\$ 1.47	\$ 1.27	\$ 0.93	\$ 0.77	\$ 0.64	\$ 0.51	\$0.47	\$ 0.36	\$ 0.27
Weighted-average common shares										

outstanding	113,253	111,613	110,020	107,816	106,228	104,242	102,336	97,348	84,952	84,172
-------------	---------	---------	---------	---------	---------	---------	---------	--------	--------	--------

**EARNINGS PER
COMMON
SHARE-**

**ASSUMING
DILUTION:**
Income before
cumulative effect
of

accounting change \$	1.55	\$ 1.45	\$ 1.05	\$ 0.92	\$ 0.76	\$ 0.63	\$ 0.50	\$0.46	\$ 0.36	\$ 0.27
Cumulative effect of accounting										

change (a)	--	--	0.20	--	--	--	--	--	--	--
Net income per share	\$ 1.55	\$ 1.45	\$ 1.25	\$ 0.92	\$ 0.76	\$ 0.63	\$ 0.50	\$0.46	\$ 0.36	\$ 0.27
Weighted-average common shares										

outstanding adjusted	115,119	113,385	111,423	109,060	107,384	105,572	103,456	99,430	86,408	85,108
-------------------------	---------	---------	---------	---------	---------	---------	---------	--------	--------	--------

**PRO FORMA
INCOME**

**STATEMENT
DATA: (b)**

Sales				\$ 1,511,816	\$ 1,312,490	\$ 1,092,112	\$ 890,421	\$754,122	\$ 616,302	\$ 316,399
Cost of goods sold, including warehouse										

and distribution expenses				872,658	754,844	618,217	501,567	425,229	350,581	180,170
Gross profit										