

O REILLY AUTOMOTIVE INC
Form 10-K
March 02, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2008

OR

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

For the transition period from to

O REILLY AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

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Missouri
(State or other jurisdiction of
incorporation or organization)

0-21318
Commission file number

44-0618012
(IRS Employer
Identification No.)

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:

Title of Each Class
Common Stock, \$0.01 par value

Name of Each Exchange on which Registered
The Nasdaq Global Select Market

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

Indicate by check mark 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

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 checkmark 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 checkmark 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

Smaller Reporting Company

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

At February 23, 2009, an aggregate of 134,952,674 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 \$4,282,048,346 based on the last sale price of the common stock reported by The Nasdaq Global Select Market.

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At June 30, 2008, an aggregate of 115,761,048 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 \$2,587,259,423 based on the last sale price of the common stock reported by The Nasdaq Global Select Market.

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Form 10-K Part
Proxy Statement for 2009 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 including the acquisition of CSK Auto Corporation (CSK), 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, 2008, 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, 2008, we operated 3,285 stores in 38 states. Our stores carry an extensive product line, including the products bulleted below:

- new and remanufactured automotive hard parts, such as alternators, starters, fuel pumps, water pumps, brake system components, batteries, 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, seat covers and truck accessories; 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.

O Reilly Automotive, Inc. was incorporated in 1957 as a corporation. The Company was founded by Charles F. O Reilly and his son, Charles H. Chub O Reilly, Sr. and initially operated from a single store in Springfield, Missouri.

On July 11, 2008, we completed the acquisition of CSK, one of the largest specialty retailers of auto parts and accessories in the western United States and one of the largest such retailers in the United States, based on store count. Each share of CSK common stock outstanding immediately prior to the merger was canceled and converted into the right to receive 0.4285 of a share of O Reilly common stock and \$1.00 in cash. To fund the transaction, we entered into a Credit Agreement (ABL Credit Agreement) for a \$1.2 billion asset-based revolving credit facility (ABL Credit Facility) arranged by Bank of America, N.A., which we used to refinance debt, fund the cash portion of the acquisition, pay for other transaction-related expenses and provide liquidity for the combined company going forward. The results of CSK s operations have been included in our consolidated financial statements since the acquisition date.

At the date of the acquisition, CSK had 1,342 stores in 22 states, operating under four brand names: Checker Auto Parts, Schuck s Auto Supply, Kragen Auto Parts and Murray s Discount Auto Parts. This added stores in twelve new states: Alaska, Arizona, California, Colorado, Hawaii, Idaho, Michigan, Nevada, New Mexico, Oregon, Utah and Washington, and a number of new markets in states where O Reilly had a presence prior to the acquisition. The integration of CSK is focused on the implementation of our dual market strategy, which requires the conversion of the store and distribution information systems, enhancements to the distribution infrastructure and inventory offerings, and the infusion of the O Reilly culture. Conversion of all of the CSK stores to O Reilly branded stores began in October of 2008 and will continue into 2011. In order to

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implement our proven dual market strategy throughout the CSK store network, we will add four distribution centers in the western United States. As of December 31, 2008, we had converted 51 CSK stores to the O Reilly brand, merged 35 CSK stores with existing O Reilly locations, closed six CSK stores and opened four new CSK stores.

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

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 and searching with our ticker symbol ORLY. 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 14 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, current economic conditions, our growth strategy, integration of CSK, our acquisition strategy, increased debt levels, our sensitivity to regional economic and weather conditions, our dependence upon key and other personnel, the volatility of the market price of our common stock, the effect of sales of shares of our common stock eligible for future sale, the integration of CSK, increased debt levels, and unanticipated fluctuations in our quarterly results.

Competitive Advantages

Proven Ability to Execute Dual Market Strategy. We have an established track record of effectively serving, at a high level, both DIY customers and professional installers. We believe our ability to execute a dual market strategy is a competitive advantage; execution of this strategy enables us to better compete in the ways bulleted below:

- target a larger base of consumers of automotive aftermarket parts;

- capitalize on our existing retail and distribution infrastructure;

- operate profitably in both large markets and less densely populated geographic areas that typically attract fewer competitors; and

- enhance service levels offered to DIY customers through the offering of a broad inventory and the extensive product knowledge required by professional installers.

We have been committed to a dual market strategy for over 30 years. In 2008, the existing O'Reilly stores operating our dual market strategy 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 of executing our dual market strategy and our over 400 full-time sales staff dedicated solely to calling upon and selling to the professional installer, we believe we will continue to increase our 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. From the date of acquisition through the end of the year, the acquired CSK stores derived approximately 90% of sales from DIY customers and approximately 10% from professional installer customers. We have a tremendous opportunity to build on the strong retail base at the CSK stores by growing the commercial business through the implementation of our dual market strategy and capitalizing on our other competitive advantages.

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 are bulleted below:

- superior in-store service through highly-motivated, technically-proficient store personnel (Professional Parts People) using an advanced point-of-sale system;

- an extensive selection and availability of products;

- attractive stores in convenient locations; and

- competitive pricing, supported by a good, better, best product assortment designed to meet all of our customers' quality and value preferences.

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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 value the expert assistance provided by our Professional Parts People.

Strategic Distribution Systems. We believe that the geographic concentration of our store network in 36 contiguous states and the strategic locations of our distribution centers enable us to optimize product availability and inventory levels throughout our store network. 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, excluding the recently acquired and yet to be converted CSK stores, with same-day or overnight access to over 116,000 stock keeping units (SKUs), many of which are hard to find items not typically stocked by other auto parts retailers. Distribution infrastructure enhancements are a key component of the CSK integration plan and will enable us to support the acquired store network with the same inventory availability provided to our existing stores. We believe this timely access to a broad range of products is a key competitive advantage in satisfying customer demand and generating repeat business.

We currently operate 18 distribution centers, including three acquired CSK distribution centers and our newly opened Lubbock, Texas, distribution center. We will close the acquired CSK distribution center in Minneapolis, which directly overlaps with a larger, existing O Reilly distribution center. We plan to add a total of four distribution centers in the CSK markets in addition to a previously planned distribution center in Greensboro, North Carolina. The first three of the four distribution centers to be added in the CSK market areas will be in the metropolitan areas of Los Angeles, California; Seattle, Washington; and Denver, Colorado. We are currently evaluating sites in Utah for the remaining distribution center. As these new distribution centers open, the acquired CSK stores in that area will begin receiving same-day or overnight access to over 116,000 SKUs.

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 sixteen consecutive years of record revenues and positive comparable store sales results since becoming a public company in April 1993. We have a strong senior management team comprised of 177 professionals who average over 17 years of industry experience. In addition, our 383 corporate managers average over 13 years of industry experience and our 285 district managers average over 12 years of industry experience.

Growth Strategy

Aggressively Open New Stores. We intend to continue to open new stores to achieve greater penetration in existing markets and to expand into new, contiguous markets. We plan to open approximately 150 stores in 2009 and a majority of these sites have been identified. In selecting sites for new stores, we strategically locate store sites in clusters within geographic areas to achieve management, advertising and distribution economies of scale.

We target both small and large markets for expansion of our store network. 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 geographic footprint, which would not otherwise support a national chain store selling primarily to the retail automotive aftermarket. 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, (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, or (iii) purchasing multi-store chains. Store sites are strategically located in clusters within geographic areas that complement our distribution network 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, 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 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 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 supplier.

Continually Enhance Store Design and Location. Our current prototype store design features enhancements such as increased 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.

Grow professional installer relationships in the Western United States. In order to implement our proven dual market strategy throughout the CSK store network and grow the professional installer market in those areas, we will add four distribution centers in the Western United States. These strategically located distribution centers will provide converted CSK stores with same-day or overnight delivery access to over 116,000 SKUs and will give these stores an important tool to provide industry-leading customer service to the professional installer, as well as the DIY customer. We recently signed purchase contracts to acquire facilities located in the metropolitan areas of Los Angeles, California; Seattle, Washington; and Denver, Colorado. These distribution centers are existing, new facilities and range in size from 360,000 to 408,000 square feet. In addition, we are currently evaluating sites for the final distribution center, which will be located in Utah. Our expanded distribution network will provide access to the breadth of SKUs needed to succeed in the professional installer side of the business and will be a very meaningful service enhancement for our retail customers as well.

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, premium name brand products such as AC Delco, Moog, 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®, BestTest®, Micro-Gard®, Power Torque®, Miles Ahead®, Super Start®, BrakeBest®, Ultima®, Master Pro® Murray and Omnispark® proprietary name brands. Our private label products are produced by nationally recognized manufacturers and meet or exceed original equipment manufacturer specifications and provide a great combination of quality and value a characteristic important to our DIY customers.

We purchase automotive products in substantial quantities from over 450 vendors, the five largest of which accounted for approximately 26% of our total purchases in 2008. Our largest vendor in 2008 accounted for approximately 9% of our total purchases and the next four largest vendors each accounted for four to five percent of such purchases. 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 2008, we entered into various programs and arrangements with certain vendors that provided for extended dating and payment terms for inventory purchases. 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. To the extent our acquisition cost increased due to base commodity price increases industry-wide, we have typically been able to pass along these increased costs through higher retail prices for the affected products. As a result, we do not believe our operations have been materially, adversely 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 of the year.

Store Network

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

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State	December 31, 2007		2008 Net New O'Reilly Stores		2008 CSK Acquired Stores	2008 CSK Net New, Merged or Closed Stores	December 31, 2008	
	Store Count	% of Total Store Count	Store Count	% of Total Store Count	Store Count	Store Count	Store Count	Cumulative % of Total Store Count
Texas	467	25.5%	22	14.7%	17		506	15.4%
California					480		480	14.6%
Missouri	169	9.2%	6	4.0%			175	5.3%
Washington					139		139	4.2%
Georgia	115	6.3%	16	10.7%			131	4.0%
Arizona					130	(1)	129	3.9%
Illinois	61	3.3%	3	2.0%	59		123	3.7%
Tennessee	117	6.4%	5	3.3%			122	3.7%
Oklahoma	103	5.6%	3	2.0%			106	3.2%
Alabama	100	5.5%	3	2.0%			103	3.1%
Minnesota	58	3.2%	4	2.7%	57	(19)	100	3.0%
Arkansas	90	4.9%	4	2.7%			94	3.0%
Colorado					89		89	2.7%
Louisiana	73	4.0%	6	4.0%			79	2.4%
Indiana	55	3.0%	12	8.0%	3		70	2.1%
Mississippi	63	3.4%	5	3.3%			68	2.1%
Iowa	65	3.6%					65	2.0%
Michigan					65		65	2.0%
Kansas	63	3.4%	1	0.7%			64	2.0%
Utah					55		55	2.0%
Kentucky	50	2.7%	3	2.0%			53	2.0%
North Carolina	38	2.1%	10	6.7%			48	1.5%
Nevada					45		45	1.4%
Wisconsin	11	0.6%	10	6.7%	26	(2)	45	1.4%
Ohio	14	0.8%	14	9.3%	14		42	1.3%
Oregon					43	(1)	42	1.3%
South Carolina	32	1.8%	8	5.3%			40	1.2%
New Mexico					35		35	1.1%
Idaho					31	(1)	30	0.9%
Nebraska	27	1.5%	1	0.7%			28	0.9%
Florida	20	1.1%	4	2.7%			24	0.7%
Montana	20	1.1%	1	0.7%	10	(8)	23	0.7%
Wyoming	5	0.3%	2	1.3%	11	(2)	16	0.5%
North Dakota	7	0.4%	2	1.3%	7	(4)	12	0.4%
Alaska					10	1	11	0.3%
Hawaii					11		11	0.3%
South Dakota	3	0.2%	2	1.3%	5		10	0.3%
Virginia	4	0.2%	3	2.0%			7	0.2%
Total	1,830		150		1,342	(37)	3,285	

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The table below sets forth the geographic distribution of our stores by brand, as of December 31, 2008:

State	O Reilly	Checker	Schuck s	Kragen	Murray s	Total
Alabama	103					103
Alaska			11			11
Arizona		129				129
Arkansas	94					94
California		1	2	477		480
Colorado		89				89
Florida	24					24
Georgia	131					131
Hawaii		11				11
Idaho		8	22			30
Illinois	64				59	123
Indiana	67				3	70
Iowa	65					65
Kansas	64					64
Kentucky	53					53
Louisiana	79					79
Michigan					65	65
Minnesota	85	15				100
Mississippi	68					68
Missouri	175					175
Montana	23					23
Nebraska	28					28
Nevada		27		18		45
New Mexico		35				35
North Carolina	48					48
North Dakota	12					12
Ohio	28				14	42
Oklahoma	106					106
Oregon			42			42
South Carolina	40					40
South Dakota	9	1				10
Tennessee	122					122
Texas	489	17				506
Utah		55				55
Virginia	7					7
Washington			139			139
Wisconsin	36	9				45
Wyoming	11	5				16
	2,031	402	216	495	141	3,285

Our stores, on average, carry approximately 19,100 SKUs and average approximately 6,900 total square feet in size. At December 31, 2008, we had a total of approximately 23.2 million square feet in our 3,285 stores. The addition of the acquired CSK stores resulted in a lower combined-company average store SKU count and a greater combined-company average store square footage amount. Once all CSK stores have been fully integrated, we expect the combined-company average store SKU count will be closer to our historical average of 21,000 SKUs. 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 150 Master Inventory Stores, which on average carry approximately 36,400 SKUs and average approximately 10,000 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 the contiguous area access to a greater selection of SKUs on a same-day basis.

Store growth during 2008 included additional new O Reilly stores as well as all stores acquired in the acquisition of CSK. The table below separates 2008 new store growth by brand:

	O Reilly	Checker	Schuck s	Kragen	Murray s	Total
December 31, 2007	1,830					1,830
New	151	2	1	1		155
Acquired	3					3
CSK Acquisition		489	217	495	141	1,342
Rebranded	51	(51)				
Merged		(35)				(35)
Closed	(4)	(3)	(2)	(1)		(10)
December 31, 2008	2,031	402	216	495	141	3,285

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, easy customer access and proximity to our installer customers.

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 hard-parts inventory assortment is customized to meet the specific needs of a particular market area. Front room 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 selectively 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 I-Series and X-Series computer systems in O Reilly branded 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 graphically 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. As CSK stores are converted to O Reilly stores, IBM I-Series and X-Series computer systems are placed in the converted store, linking the store to our distribution centers, electronic catalog and pricing information.

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 are bulleted below:

- population density and growth patterns;

- age and per capita income;

- vehicle traffic counts;

- number of registered vehicles;

- the number and type of existing automotive repair facilities; and

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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 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 18 distribution centers comprised of approximately 6.0 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 material handling equipment, which expedite the movement of our products from the shelves to the loading areas for shipment to each of our 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 provides industry-leading parts availability and store in-stock positions while lowering our inventory carrying costs and controlling inventory. Moreover, we believe that our ongoing, significant capital investments made to expand the network of distribution centers allows us to efficiently service new stores that are planned to open in contiguous market areas as well as servicing our existing store network. Our distribution center expansion strategy complements our new store opening strategy by supporting newly established clusters of stores located in the regions surrounding each distribution center. We expect to open a new distribution center in Greensboro, North Carolina in the summer of 2009, to service existing stores in that area and to expand in the Mid-Atlantic states.

In order to implement our proven dual market strategy throughout the CSK store network, we will add four distribution centers in the Western United States. These strategically located distribution centers will provide converted CSK stores same-day or overnight delivery access to over 116,000 SKUs and will give these stores an important tool to provide industry-leading customer service to both the professional and DIY customer. We recently signed purchase contracts to acquire facilities located in the metropolitan areas of Los Angeles, California; Seattle, Washington; and Denver, Colorado, for the first three of these distribution centers. These distribution centers are new facilities and range in size from 360,000 to 408,000 square feet. In addition, we are currently evaluating sites for the final distribution center that will be located in Utah. We will close one CSK distribution center in Minneapolis, Minnesota, that directly overlaps with a larger, existing O Reilly distribution center.

As part of our continuing efforts to enhance our distribution network in 2009 we plan to:

- continue to implement a voice picking system in additional distribution centers;

- develop further automated paperless picking processes;

- improve proof of delivery systems to further increase the accuracy of product movement to our stores;

- 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 integrated marketing program, which includes television, radio, direct mail, and newspaper advertising, in-store and online promotions, and sports and event sponsorships. Our marketing activities have resulted in a significant increase in our brand awareness across our entire geographic footprint. We utilize a combination of brand and product/price messaging to drive retail traffic and purchases, frequently in connection with key sales events. During 2008, we began co-branding our advertising in the markets of the acquired CSK stores to begin building awareness of the O Reilly brand in those markets. In addition, we have co-branded the advertising in all existing CSK advertising programs with national exposure.

To stimulate sales to race enthusiasts, who we believe on an individual basis spend more on automotive products than the general public, we sponsored multiple nationally televised races and over 1,500 grassroots, local, and regional motorsports events in 38 states during 2008. We partnered with NASCAR to become the Official Auto Parts Store of NASCAR in the fall of 2008 and sponsored our first NASCAR Sprint Cup race, the Checker O Reilly Auto Parts 500, at Phoenix International Raceway.

During the fall and winter, we strategically sponsor National Collegiate Athletic Association (NCAA) basketball and the National Football League (NFL). We have relationships with over 100 NCAA teams and tournaments resulting in the placement of the O Reilly logo on courts, goal stanchions, seat backs, kick plates, and scoring table signs throughout the season. O Reilly Auto Parts radio advertising can be heard in approximately 200 NFL games through our sponsorship of a dozen teams.

In 2008, we launched a dedicated problem/solution messaging strategy, which encourages vehicle owners to perform regular maintenance as a way to save money and protect their investment over the long term. We intensified grand opening promotions to create excitement, increase foot traffic and jumpstart sales for each new location.

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Marketing to the Professional Installer. We have over 400 full-time O Reilly sales representatives strategically located across our primary market areas. Each sales representative is dedicated solely to calling upon, selling to and servicing our professional installer customers. Targeted marketing materials such as flyers, quick reference guides and catalogs are produced and distributed on a regular basis to professional installers, paint and body shops and fleet customers. Our industry leading First Call program enables our sales representatives, district managers, and store managers to provide excellent customer service to each of our professional installer accounts through:

broad selection of merchandise at competitive prices;

dedicated Installer Service Specialists in each of our stores;

same-day deliveries from all of our stores;

overnight access to 116,000 SKUs through nightly store inventory replenishments;

a separate service counter in every store dedicated exclusively to service professional installers;

trade credit for qualified accounts;

First Call Online, a dedicated Internet based catalog and ordering system designed to connect professional installers directly to our inventory system;

training and seminars covering topics of interest, such as technical updates, safety and general business management;

access to a comprehensive inventory of products and equipment needed to operate and maintain their shop;

the Certified Auto Repair Center Program, a program that provides professional installers with the business tools they need to profitably grow and market their shops.

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.

Approximately 180 jobber stores currently purchase automotive products from Ozark and participate in the Parts City Auto Parts program, our proprietary jobber service program. As a participant in these programs, a jobber store, which meets certain financial and operational standards, is permitted to indicate its Parts City Auto Parts membership through the display of the respective logo that is owned by Ozark. We provide advertising, promotional assistance, marketing and sales support to Parts City Auto Parts stores purchasing automotive products from Ozark. In return for a commitment to purchase automotive products from Ozark, we offer assistance to Parts City Auto Parts jobber stores by making available computer software for business management and inventory control.

Management Structure

Each of our stores is staffed with a store manager and one or more assistant managers, in addition to the installer service specialists and parts specialists and support staff required to meet the specific needs of each store. Each of our 196 O Reilly district managers has general supervisory responsibility for an average of ten stores. Each of our 88 CSK district managers has responsibility for an average of 14 stores per district; we are in the process of increasing the number of district managers in CSK markets. This increase will reduce the average number of stores each CSK district manager supervises to our historical ten stores, which will ensure the stores receive the appropriate amount of operational support.

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 presented at such meetings is covered by the district managers at bi-monthly meetings with their store managers. All assistant managers and managers-in-training 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 headquarters in Springfield, Missouri, which includes 40 hours of classroom training. Upon returning to the stores, managers are given continuous field training throughout their management tenure.

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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 their store's sales and profitability. In addition, each of our district and store managers participates in the Company's stock option program. 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 17 years of experience, corporate managers average over 13 years of service and district managers have an average length of service of over 12 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 Professional Parts Person, 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 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 the parts counter at our stores. All new parts specialists 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 applications. We continuously refine the inventory levels and assortments carried in our stores, based in large part on the sales movement tracked by our 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 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 upon a combination of competitive shops and internal gross margin targets and are generally sold at discounts to the manufacturer's suggested price 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 our competitors.

We are repositioning the product offering and pricing in all CSK stores to an every-day low price strategy to ensure we are competitive in every market. This repositioning is in progress and is occurring prior to and along with store conversions. We feel competitive pricing is needed to grow our market share and maintain a customer's repeat business and we feel strongly that this strategy is more sustainable, requires less promotional spending and will produce better results than CSK's historical promotional-based high-low pricing strategy.

Competition

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

national retail and wholesale automotive parts chains (such as AutoZone, Inc., Advance Auto Parts, NAPA, CARQUEST and the Pep Boys-Manny, Moe and Jack, Inc.);

regional retail and wholesale automotive parts chains;

independently owned parts stores;

wholesalers or jobber stores (some of which are associated with national automotive parts distributors or associations such as NAPA, CARQUEST, Bumper to Bumper and Auto Value);

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, store layout and convenient and accessible store locations.

Team Members

As of December 31, 2008, we employed 40,735 total team members (28,248 full-time team members and 12,487 part-time team members), of whom 34,200 were employed at our stores, 4,784 were employed at our distribution centers and 1,751 were employed at our corporate and regional offices. A union represents 53 stores' team members in the Greater Bay Area in California, and has for many years' except for these team members, our team members are not represented by a labor union. Our tradition of 51 years has been to treat all of our team members with honesty and respect and to commit significant resources to instill in them our 'Live Green' Culture, which emphasizes the importance of every team member's contribution to the success of O'Reilly. This focus on professionalism and fairness has created an industry-leading team and we consider our relations with our team members to be excellent.

Executive Officers of the Registrant

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

Gregory L. Henslee, age 48, Chief Executive Officer and Co-President, has been an O'Reilly team member for 24 years. Mr. Henslee's 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 1999, and in his current positions of Chief Executive Officer and Co-President since 2005.

Ted F. Wise, age 58, Chief Operating Officer and Co-President, has been an O'Reilly team member for 38 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 with O'Reilly 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 1999, and in his current positions of Chief Operating Officer and Co-President since 2005.

Thomas G. McFall, age 38, Executive Vice President of Finance and Chief Financial Officer has been an O'Reilly team member since 2006. Mr. McFall's primary areas of responsibility are Finance and Accounting. Prior to joining O'Reilly, Mr. McFall held the position of Chief Financial Officer - Midwest Operation for CSK, following CSK's acquisition of Murray's Discount Auto Stores (Murray's). Mr. McFall served Murray's for eight 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.

Jeff M. Shaw, age 46, Senior Vice President of Sales and Operations, has been an O'Reilly team member for 19 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.

Michael D. Swearingin, age 48, Senior Vice President of Merchandise, has been an O'Reilly team member 15 years. Mr. Swearingin'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 Merchandise with responsibility for product mix and replenishment. He has been in his current position as Senior Vice President since 2004.

Gregory D. Johnson, age 43, Senior Vice President of Distribution Operations, has been an O'Reilly team member for 26 years. Mr. Johnson's primary area of responsibility is Distribution. He began his O'Reilly career as a part-time stocker in the Nashville DC in 1982 and advanced with O'Reilly as Retail Systems Manager, WMS Systems Development Manager, Director of Distribution and Vice President of Distribution. He has been in his current position as Senior Vice President since September 2007.

Service Marks and Trademarks

We have registered, acquired and or been assigned the following service marks and trademarks: BESTEST®, BETTER PARTS. BETTER PRICES.®, BRAKEBEST®, CERTIFIED AUTO REPAIR®, CUSTOMIZE YOUR RIDE®, FIRST CALL®, FROM OUR

STORE TO YOUR DOOR[®], HI-LO[®], MASTER PRO[®], MICRO-GARD[®], MILES AHEAD[®], MURRAY[®], OMNISPARK[®], O REILLY[®], O REILLY AUTO COLOR PROFESSIONAL PAINT PEOPLE[®], O REILLY AUTO PARTS[®], O REILLY AUTO PARTS PROFESSIONAL PARTS PEOPLE[®], O REILLY AUTOMOTIVE[®], PARTNERSHIP NETWORK[®], PARTS CITY[®], PARTS CITY AUTO COLOR PROFESSIONAL PAINT PEOPLE[®], PARTS CITY AUTO PARTS[®], PARTS PAYOFF[®], POWER TORQUE[®], SUPER START[®], SUPER START FARMLAND[®], TOOLBOX[®] and ULTIMA[®]. In addition, we acquired the following service marks and trademarks through the acquisition of CSK Auto, Inc.: CSK PROSHOP[®], FLAG[®], KRAGEN AUTO PARTS[®], MURRAY S AUTO PARTS[®], MURRAY S DISCOUNT AUTO STORE THE AUTO PARTS SUPERMARKET[®], PRIORITY PARTS[®], PROXONE[®], SCHUCK S[®], WE RE THE PLACE WITH ALL THE PARTS[®], MURRAY S VIP PROGRAM[®], PAY N \$AVE[®]. Some of the service marks and trademarks listed above may also have a design associated therewith. We believe that our business is not otherwise dependent upon any patent, trademark, service mark or copyright.

Regulations

We are subject to various federal, state and local laws and governmental regulations relating to our business, including those related to the handling, storage and disposal of hazardous substances, the recycling of batteries and used lubricants, and the ownership and operation of real property.

As part of our operations, we handle hazardous materials in the ordinary course of business and our customers may bring hazardous materials onto our property in connection with, for example, our oil recycling program. We currently provide a recycling program for batteries and the collection of used lubricants at certain of our stores as a service to our customers pursuant to agreements with third-party vendors. The batteries and used lubricants are collected by our associates, deposited into vendor-supplied containers and pallets and then disposed of by the third-party vendors. In general, our agreements with such vendors contain provisions that are designed to limit our potential liability under applicable environmental regulations for any damage or contamination that may be caused by the batteries and lubricants to off-site properties (including as a result of waste disposal) and to our properties, when caused by the vendor.

Compliance with any such laws and regulations has not had a material adverse effect on our operations to date. We cannot 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 may also be risks of which we are currently unaware, or that we currently regard as immaterial based upon 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, 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.

Current economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers and others with which we do business to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Worldwide economic conditions have recently deteriorated significantly in many countries and regions, including the United States, and may remain depressed for the foreseeable future. Although demand for many of our products is non-discretionary in nature and tend to be purchased by consumers out of necessity, rather than on an impulse basis, our sales are impacted by constraints on discretionary spending by our customers. Discretionary spending is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, currency exchange rates, taxation, fuel prices, unemployment trends and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. Our customers' purchases, including purchases of our products, could decline during periods when disposable income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions. If any of these events occur, or if unfavorable economic conditions continue to challenge the consumer environment, our business, results of operations, financial condition and cash flows could be adversely affected.

In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers of finished goods, logistics and other service providers and financial institutions which are counterparties to our credit facilities and interest rate swap transactions. In addition, the ability of these third parties to overcome these difficulties may increase. If third parties on which we rely for finished goods are unable to overcome difficulties resulting from the deterioration in worldwide economic conditions and provide us with the materials we need, or if counterparties to our credit facilities or interest rate swap transactions do not perform their obligations, our business, results of operations, financial condition and cash flows could be adversely affected.

The integration of the operations of CSK involves risks, and the failure to successfully integrate the operations or in the expected time frame may adversely affect the future results of the combined company.

The failure of the Company to meet the challenges involved in integrating the operations of CSK successfully or to otherwise realize any of the anticipated benefits of the acquisition could seriously harm our results of operations. Our ability to realize the benefits of the acquisition will depend, in part, on the timely integration of organizations, operations, procedures, policies and technologies, as well as the successful adoption of the O Reilly culture and the retention of key personnel. The integration of CSK will be a complex, time-consuming and expensive process that, even with proper planning and implementation, could significantly disrupt the Company's business. The challenges involved in this integration include the following:

implementing O Reilly distribution, point of sale and inventory management systems;

combining respective product offerings;

preserving customer, supplier and other important relationships of both O Reilly and CSK and resolving potential conflicts that may arise;

minimizing the diversion of management attention from ongoing business concerns;

contingencies that may arise of which we were not aware or of which we underestimated the significance;

addressing differences in the business cultures of O Reilly and CSK to maintain employee morale and retain key employees; and

coordinating and combining geographically diverse operations, relationships and facilities, which may be subject to additional constraints imposed by distance and local laws and regulations.

We may not successfully integrate the operations of CSK in a timely manner, or not at all, and we may not realize the anticipated benefits or synergies of the merger to the extent, or in the time frame, anticipated. The anticipated benefits and synergies are based on projections and assumptions, not actual experience, and assume a successful integration. In addition to the integration risks discussed above, our ability to realize these benefits and synergies could be adversely affected by practical or legal constraints on our ability to combine operations. If we fail to manage the integration of these businesses effectively, our growth strategy and future profitability could be negatively affected, and we may fail to achieve the intended benefits of the merger.

Our increased debt levels could adversely affect our cash flow and prevent us from fulfilling our obligations.

In conjunction with the acquisition of CSK, we entered into a new credit facility, which significantly increased our outstanding indebtedness and debt service requirements. Our substantial debt could have important consequences, such as:

requiring us to dedicate a substantial portion of our cash flow from operations and other capital resources to principal and interest, thereby reducing our ability to fund working capital, capital expenditures and other cash requirements;

increasing our vulnerability to adverse economic and industry conditions;

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limiting our flexibility in planning for, or reacting to, changes and opportunities in our industry, which may place us at a competitive disadvantage;

limiting our ability to incur additional debt on acceptable terms, if at all; and

exposing us to fluctuations in interest rates.

In addition, the terms of the financing obligations include restrictions, such as affirmative and negative covenants, conditions to borrowing, subsidiary guarantees and asset and stock pledges. A failure to comply with these restrictions could result in a default under the financing obligations or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could have a material adverse effect on our business, financial condition or results of operations.

Risks associated with future 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 and profitability 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;