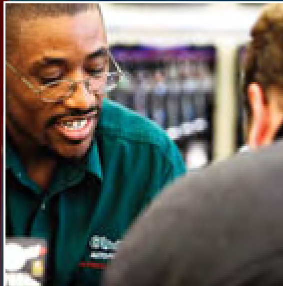
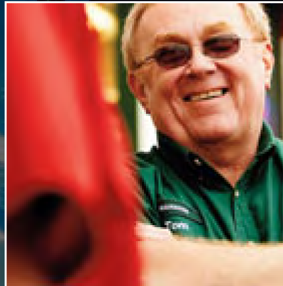
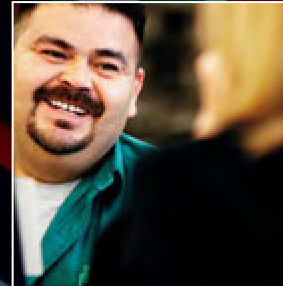






Our Road to Success

BEGINS AND ENDS WITH EXCELLENT CUSTOMER SERVICE

O'REILLY AUTOMOTIVE 2006 ANNUAL REPORT

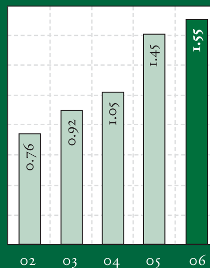
Financial Highlights

In thousands, except earnings per share data and operating data

years ended december 31	2006	2005	2004	2003	2002
Sales	$2,283,222	$2,045,318	$1,721,241	$1,511,816	$1,312,490
Operating Income	282,315	252,524	190,458	165,275	138,301
Net Income[(a)]	178,085	164,266	117,674	100,087	81,992
Working Capital	566,892	424,974	479,662	441,617	483,623
Total Assets	1,977,496	1,718,896	1,432,357	1,157,033	1,009,419
Total Debt	110,479	100,774	100,914	121,902	191,152
Shareholders' Equity	1,364,096	1,145,769	947,817	784,285	650,524
Net Income Per Common Share (assuming dilution)[(a)]	1.55	1.45	1.05	0.92	0.76
Weighted-Average Common Shares (assuming dilution)	155,119	113,385	111,423	109,060	107,384
Stores At Year-End	1,640	1,470	1,249	1,109	981
Same-Store Sales Gain	3.3%	7.5%	6.8%	7.8%	3.7%

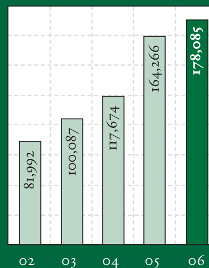
2006 was another strong year for Team O'Reilly. We continued to drive increases in sales and profitability through our relentless attention to providing the best customer service in the business.

EARNINGS PER SHARE[(a)]
(assuming dilution)



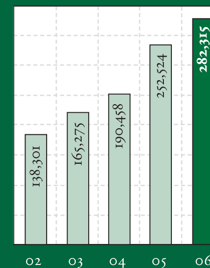
Earnings Per Share increased 6.9% to $1.55 per share. We continued our focus on profitable growth by scrutinizing every expense while not sacrificing customer service levels.

NET INCOME[(a)]
(in thousands)



2006 was another year of profitable growth for Team O'Reilly as we reached new levels of Net Income for the 14th consecutive year since becoming a public company.

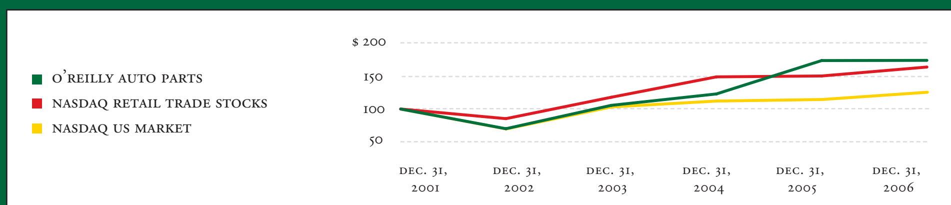
OPERATING INCOME[(a)]
(in thousands)



We posted an Operating Margin of 12.4% in 2006 as a result of our excellent customer service and strict adherence to expense control

(a) 2004 figures are based on income before cumulative effect of accounting change.

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN



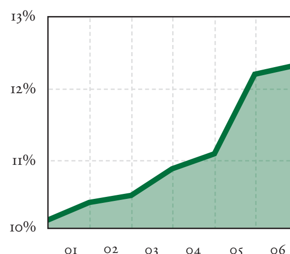
Comparison of Cumulative Total Return on $100 invested in O'Reilly Automotive, Inc. on December 31, 2001, versus the Nasdaq United States Stock Market Total Return Index and The Nasdaq Retail Trade Stocks Total Return Index, assuming reinvestment of all dividends.

Letter to Shareholders

Our road to success ... begins and ends with excellent customer service.

Whether in Noel, Missouri, population 1,480, or metropolitan Atlanta, population 5 million; whether in Bismarck, North Dakota, with an average winter low temperature of -1 degree, or in Brownsville, Texas, with an average winter high temperature of 70 degrees, our road to success begins and ends with excellent customer service. In every one of our 1,640 stores, our ability to provide excellent customer service sets us apart from the other options available to our customers. At O'Reilly, superior customer service means a friendly Professional Parts Person, whose singular goal is to help solve a customer's problem with technical advice and superior in-stock and parts availability at fair prices. Whether it is a do-it-yourselfer who is trying to get their vehicle back on the road, or a professional installer trying to run an efficient, profitable business, our Professional Parts People are there to help our customers achieve their goals. By consistently providing excellent customer service, we gain the customer's trust, build a win-win relationship and earn their repeat business. At O'Reilly, we sum up our culture in the motto "Live Green," and we focus on perpetuating and growing our Live Green culture every day.

OPERATING PROFIT AS A PERCENTAGE OF SALES



Our operating margin of 12.4% in 2006 is the highest level ever for O'Reilly and is the direct result of Team O'Reilly's focus on profitable sales growth and expense control.

All team members know that understanding customers personally and professionally is a very important aspect in building business relationships. They don't see their customers as just another sale; they value their friendship and work hard to exceed their expectations in order to retain their business.

2006 was a challenging year for both Team O'Reilly and our customers. High energy costs reduced miles driven during the summer months for the first time in recent history and put pressure on our customers' pocket books. Despite the temporary reduction in miles driven, one of our key business drivers, our team dug in and worked hard to increase sales by 11.6% and achieve a same-store sales increase of 3.3%. In this tough sales environment, our 17,494 store team members were extremely focused on solid, profitable sales growth achieved through building new customer relationships and enhancing existing ones. Our focus on profitable sales growth and expense control (a Team O'Reilly Live Green core value) enabled us to increase operating margin to 12.4%, the highest level ever for our Company.

In 2006, we continued our proven, profitable growth model by adding 170 new stores. The two main components of our successful growth model are people and support. The success of an O'Reilly store, new or existing, is shaped by the quality of our store team. To ensure our store is staffed with Professional Parts People, we hire people who fit our culture, focus on education through our e-learning system and perpetuate our culture with hands-on mentoring made possible by our low ratio of operations

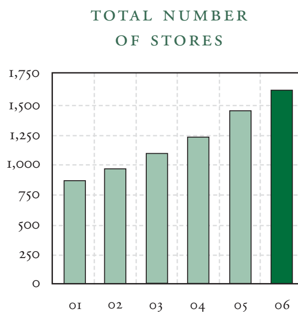
management to stores. To better support our Professional Parts People, the new store openings were concentrated around our newest distribution centers in Atlanta, Georgia, and Indianapolis, Indiana. This increased market penetration provides improved economies of scale as it relates to brand recognition, advertising, distribution and operations.

In addition to the new stores opened in 2006, we completed the integration of our acquisition of the Midwest Auto Parts chain, which was purchased in 2005. With our merchandise mix in place, systems fully converted and our team members "Living Green," we are ready to increase our rate of expansion in the Northern Plains. To support this growth, we will relocate the St. Paul, Minnesota, distribution center in mid-2007 to a new, larger (240,000 square feet) and much more efficient distribution center in Brooklyn Park, Minnesota, a suburb of Minneapolis. As has been our history, acquisitions will continue to be a key component in our growth strategy. We will continue to be opportunistic industry consolidators when the geographic location, culture and value meet our acquisition requirements.

Excellent customer service doesn't begin and end at the stores. Providing the high level of parts availability our customers have come to expect requires an extensive logistics and distribution network. Our 3,188 dedicated distribution center team members are totally committed to providing excellent customer service to their customers - our stores. The distribution center team provides the highest level of store in-stock rates and parts availability in the industry by delivering to every store five nights a week and providing four to eight daily deliveries to our stores in metro markets that have a distribution center. To support our contiguous growth, we expanded our distribution footprint in 2006 by adding our 14th distribution center in Indianapolis. This distribution center allows us to service all of the markets in Indiana as well as Cincinnati, Ohio; Louisville, Kentucky; and Dayton, Ohio.

Our distribution centers stock over 116,000 part numbers. Once a part has been ordered, our advanced inventory control system and handling technology allow the part to be picked, packed and delivered to the store and to our customer within 24 hours.

TOTAL NUMBER OF STORES



In 2006, we plan to open 190 to 195 new stores, located primarily in markets served by our newest DCs in Minneapolis, Indianapolis and Atlanta.

Our co-founder, C.F. O'Reilly once said, "People do business with people they like." This is a philosophy that has been adopted throughout our Company and the reason our customers continue to reward us with their business.

From the day we opened the doors at our first store, expense control has been ingrained in our Live Green culture. All team members are continually reminded to reduce expenses without negatively impacting our goal of providing excellent customer service. With comparable store sales below historical levels and rising energy costs, we experienced tremendous pressure on our operating, selling, general and administrative costs (OSG&A), but by Living Green, our team was able to reduce per store OSG&A costs by 1% per store in 2006. We were able to accomplish this by: tightly controlling payroll without sacrificing our high-level of customer service, reducing our energy usage through energy management enhancement initiatives at the distribution centers and stores, improving safety performance (another tenet of Living Green), and scrutinizing every expense item. While expense control is a continual focus, our team members' expense discipline held the line on OSG&A in a challenging year.

The road to achieving our "Four-N-Ten Everyone Wins" goal of reaching sales of $4 billion by 2010 begins and ends with excellent customer service. Our ability to continually exceed customer expectations in our 1,640 existing stores, and the 190 to 195 new stores that will open in 2007, will be the key to our success. Staffing our stores with knowledgeable, friendly Professional Parts People armed with the tools and support to help solve our customers' problems and meet their needs will continue our tradition of building customer trust and relationships. These win-win relationships will be the vehicle we use to drive sales, because in the end … people buy from people.

David O'Reilly	Greg Henslee	Ted Wise	Tom McFall
Chairman of the Board	*Chief Executive Officer and Co-President*	*Chief Operating Officer and Co-President*	*Senior Vice President of Finance and Chief Financial Officer*

Our Road to Success

BEGINS AND ENDS WITH EXCELLENT CUSTOMER SERVICE

Customer service is one of the cultural pillars that has been passed down since O'Reilly Automotive began. It is what we strive to achieve each day and is what we believe sets us apart from all the rest. We carry the same parts as our competition, and we are in the same market areas. The one thing that makes us better than our competition is our team members and the customer service they provide.

Annual Sales of $2.3 Billion in 2006, Heading to $4 Billion in 2010.

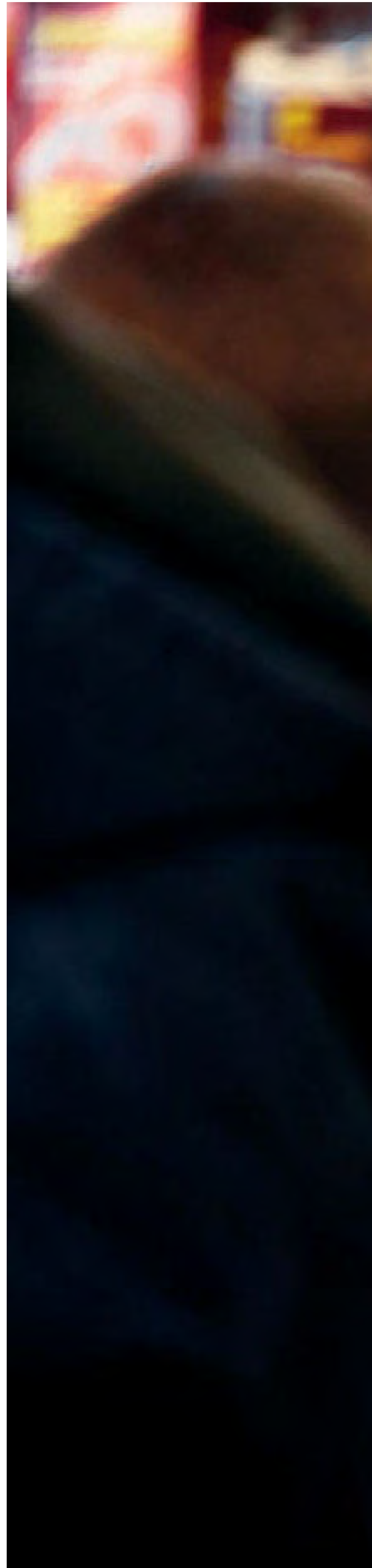
Team O'Reilly knows from experience that setting goals is a powerful way to reach new levels of achievement. With each new goal met, another is set. After reaching our goal of becoming a $2 billion company at the end of 2005, Team O'Reilly hardly paused long enough to celebrate before setting our sights on another goal … $4 billion in sales by 2010! To reinforce that every member of Team O'Reilly is responsible for reaching our Four-N-Ten goal, we use the slogan "One Team, One Goal!"

The O'Reilly expansion goal for 2006 was also met with 170 new stores and a new state-of-the-art distribution center in Indianapolis, Indiana, which brings us to a grand total of 1,640 stores and 14 distribution centers.

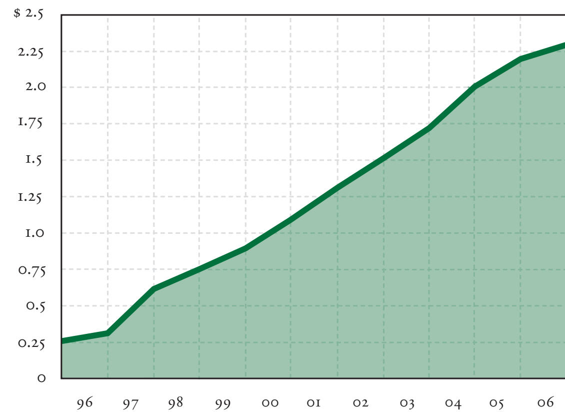
Our performance and consistency doesn't just happen because we've got better parts, better prices and better locations. It happens because we have more than 21,000 team members living the O'Reilly Culture and offering our customers the the very best service in the automotive aftermarket. Team O'Reilly is poised for profitable growth, and all team members are committed to our new goal. "Four-N-Ten, Everyone Wins" is our way of saying that team members, customers and shareholders will all benefit when Team O'Reilly hits our goal of $4 billion in sales in 2010.

"Yes, we sell auto parts, but we're really in the customer service business. The *TOP NOTCH CUSTOMER SERVICE* we provide to our customers is really our most valued competitive advantage."

As our Company grows, so does our dedication to the team concept. From our stores to our distribution centers to our corporate and regional offices, Team O'Reilly works together to make O'Reilly Auto Parts the dominant supplier of auto parts in all our market areas.



PRODUCT SALES
(in billions)



Product Sales increased 11.6% to $2.3 billion due to our continued expansion into new market and same-store sales growth of 3.3%.

The Right People and the Right Parts at the Right Price.

At O'Reilly, we have access to high-quality, name-brand parts at competitive prices. We also have well-designed advertising, marketing and sales programs. We have all of these tools in place, but they are not exclusive to our Company. We know that many of our competitors have quality parts, good pricing and well-designed programs, but there is one ingredient to our success that is unique to Team O'Reilly. It's our people who practice the Live Green culture every day.

Our people are second to none. We are enthusiastic, hardworking professionals who are dedicated to teamwork, safety and excellent customer service. We practice expense control while setting an example of respect, honesty and a win-win-attitude in everything we do.

We realize our customers have many options when it comes to choosing where they buy auto parts. That's why we are committed to providing a higher and more consistent level of customer service than our competition. Providing great service and having that special win-win relationship with our customers is what makes O'Reilly Auto Parts their "first choice" when it comes to fulfilling their auto parts needs.

As we enter our 50th year, our team is more focused than ever on growing the business and increasing our market share by building business relationships, one customer at a time.

We Are Professional Parts People.

Team O'Reilly is well known as one of the best success stories in the automotive aftermarket. What makes Team O'Reilly so successful is how we go to market. O'Reilly started out as a wholesaler, supplying the installer side of the market. Through the years, more and more "do-it-yourself" customers came to our stores to purchase quality name-brand parts and get expert advice. You might say it was a natural evolution as O'Reilly became the only major chain in the country to equally serve both the wholesale and retail sides of our industry.

In fact, our "Dual Market" strategy is what has propelled our Company to the top, and is what truly sets us apart from our competition. We continue to enjoy a near 50/50 business split. While serving both sides of the market is not an easy task, it allows our Company to offer the best combination of inventory availability, price, quality and service. Our commitment to the professional installers' rigorous demands has translated well to the needs of our DIY customers. Our broad selection of inventory, highly competitive pricing backed by our "Low Price Guarantee," and the extensive product knowledge of our Professional Parts People are key attributes to satisfying the needs of both sides of the business.

We began servicing the installer customer in 1957, and we fully understand their needs and know how important our service is to the success of their business. At a standard labor rate of $60 an hour, waiting on parts costs our installer customers $1 a minute, so the faster we can deliver, the stronger our relationships become. We offer extensive support programs, professional training classes and a dedicated sales team of 264 professionals who solely devote their time to building relationships with our installer customers.

Do-it-yourself customers and professional installers alike respect the sound reputation that stands behind the O'Reilly name. Since the beginning of O'Reilly, our business philosophy has stayed the same. We value every one of our customers, and as we near our 50th anniversary in business, we promise to continue our commitment to making customer service our No. 1 priority!

AUTOMOTIVE AFTERMARKET INDUSTRY OVERVIEW

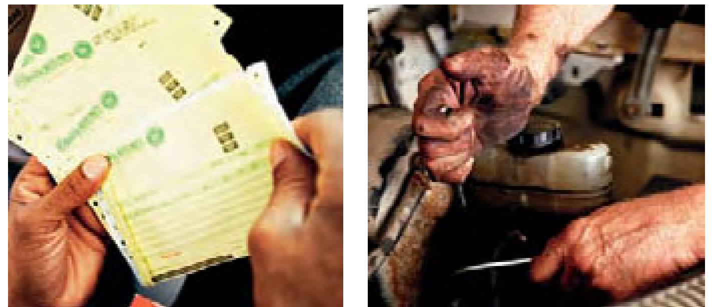
DIY Growth Is 3% to 5%

$38 billion

Professional Installer Growth Is 3% to 5%

$80 billion

We have gained the trust and loyalty of both retail and professional installer customers with our distinctive O'Reilly brand of outstanding friendly, knowledgeable service and elevated customer service into a clear competitive edge in the marketplace.



We will continue to build momentum in the coming years with our proven "Dual Market" strategy ... O'Reilly will continue to be a trusted name in the eyes of both commercial and retail customers.

"When it comes to customer service, little things matter a lot. Things like acknowledging a customer as they enter the store, smiling at them as you help find the products they need, and thanking them for their business as you hand them their receipt."

Service with a smile goes a long way in letting our customers know we value the opportunity to do business with them. Our team members have been empowered to do "whatever it takes" to go the extra mile to meet the needs of our customers. They know that the business relationships they help build today, will result in the growth of our Company for years to come.

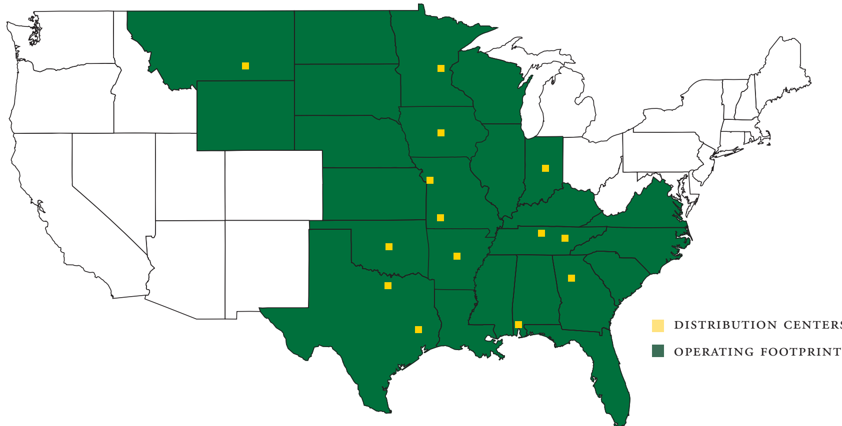
More Than Just Parts Distribution – We Deliver Customer Service!

Another competitive edge we take great pride in is our 14 strategically placed distribution centers. Virtually every O'Reilly store is within 250 miles of over 116,000 stock keeping units (SKUs) which are available by same-day or overnight delivery. In 2006, our route trucks drove a record number of 19,427,554 miles to make sure our customers got the right part, at the right price, at the right time.

Customer service doesn't stop at our parts counters. Our distribution center team members know that their immediate customers are the O'Reilly stores. They are just as committed to their customers as our stores are committed to serving their installer and DIY customers. These dedicated DC team members are behind the scenes picking, packing, loading and delivering parts with speed and accuracy to service our stores across 25 states. Their commitment to quality and customer service is what gives our stores the ability to maintain the best in-stock levels and offer the best parts availability in the industry.

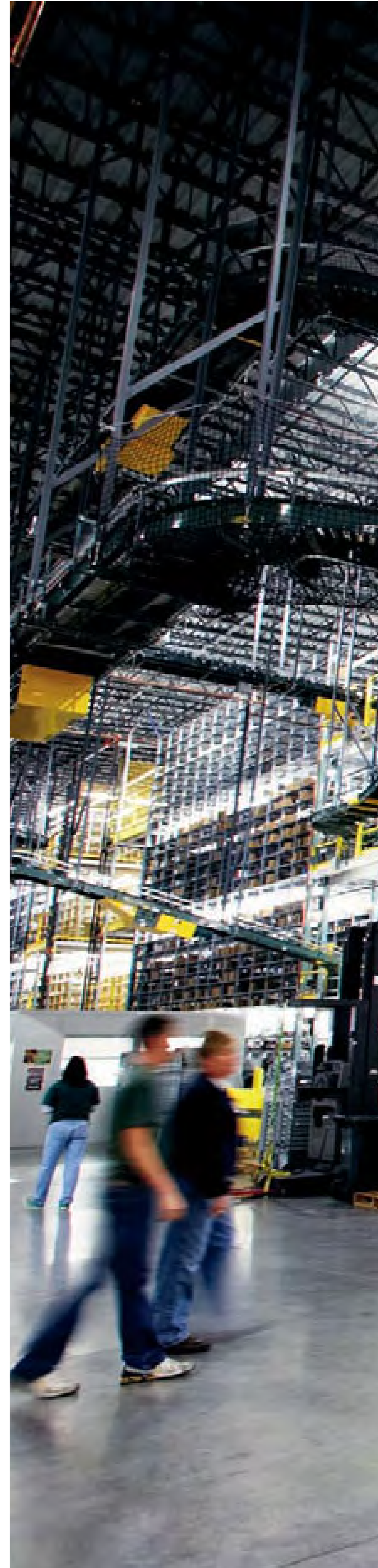
In June 2006, we successfully opened our 14th distribution center in Indianapolis, Indiana. Every new DC we add to our network offers us the opportunity to test new distribution concepts and technologies. By applying the lessons learned from our new DC openings, we are able to adapt these best practices to our existing DCs and improve the efficiency of the entire O'Reilly network.

2006 O'REILLY AUTO PARTS STORES AND DISTRIBUTION CENTERS



State	Stores	State	Stores	State	Stores
ALABAMA	95 stores	LOUISIANA	65 stores	SOUTH CAROLINA	24 stores
ARKANSAS	87 stores	MINNESOTA	43 stores	SOUTH DAKOTA	3 stores
FLORIDA	14 stores	MISSISSIPPI	59 stores	TENNESSEE	112 stores
GEORGIA	94 stores	MISSOURI	154 stores	TEXAS	434 stores
ILLINOIS	57 stores	MONTANA	18 stores	VIRGINIA	3 stores
INDIANA	35 stores	NEBRASKA	26 stores	WISCONSIN	11 stores
IOWA	65 stores	NORTH CAROLINA	30 stores	WYOMING	4 stores
KANSAS	61 stores	NORTH DAKOTA	3 stores		
KENTUCKY	42 stores	OKLAHOMA	101 stores	TOTAL NUMBER OF STORES	1,640

"As O'Reilly continues to grow and we work toward our Four-N-Ten goal, it has become paramount that we always remember to provide excellent customer service to our external customers as well as to our internal customers."



With stores covering a 25-state footprint, distribution must be carefully managed to make sure each of our 1,640 stores are restocked nightly. Our 14 distribution centers contain over 4.4 million square feet of distribution space and house over 116,000 unique SKUs. Our customers have become accustomed to overnight or same-day delivery, and with our broad inventory coverage and advanced supply chain systems in place, they will not be disappointed.

What makes O'Reilly Auto Parts such a great company, and why has O'Reilly Auto Parts continued to outperform all other auto parts suppliers in just about every category imaginable? The answer is really quite simple ... It's called the O'Reilly Culture. Our culture is the driving force behind our growth and success and will continue to be our greatest asset in the future.

Our People, Our Culture.

Team O'Reilly is a special team ... one that is dedicated to hard work and providing our customers with the very best in quality parts and outstanding service. The members of our team come in all different shapes, sizes, ages, ethnic and religious backgrounds, and political diversity, but the one common thread that holds us together is our culture. Our history is rich in hard work, performance and success, and our culture has gotten us to where we are today.

It all started in 1957, when our founders, C.F. and Chub O'Reilly, along with 11 other individuals, opened our first store and laid the ground work for our culture. This culture is based on a simple philosophy of giving a hard day's work for a day's pay, being dedicated to a common cause, maintaining high standards based on honesty and integrity and all the while working together as a TEAM to provide the BEST CUSTOMER SERVICE IN TOWN.

Today, all members of Team O'Reilly continue to share the common goal of making our Company successful. In our stores, our distribution centers and our corporate and regional offices, each member of Team O'Reilly knows that they play a major role in perpetuating our culture and instilling it in our new team members. Market by market, customer by customer, our team members are committed to the goal of becoming the dominant supplier of auto parts in all our market areas.

On your first day as an official O'Reilly team member, you are introduced to the 11 values of the O'Reilly Culture: respect, honesty, teamwork, expense control, hard work, safety, professionalism, enthusiasm, excellent customer service, dedication and a win-win attitude. Live Green, Box 4, and O'Attitude are all phrases that represent our culture, but this phrase says it best: We are enthusiastic, hardworking professionals who are dedicated to teamwork, safety and excellent customer service. We practice expense control while setting an example of respect, honesty and a win-win attitude in everything we do!

"Customers don't care what you know until they know that you care."

CHARLIE O'REILLY

Our business is pleasing customers, and we are committed to doing so in the following ways: we will train our team members to be the most knowledgeable Professional Parts People in the industry; we will stand behind anything that we sell; we will make customer satisfaction our #1 priority; and we will be loyal to our customers in order to keep them coming back.

2006 Financial Results

SELECTED CONSOLIDATED FINANCIAL DATA

(In thousands, except per share data)

YEARS ENDED DECEMBER 31,	2006	2005	2004
INCOME STATEMENT DATA:			
Sales	$2,283,222	$2,045,318	$1,721,241
Cost of goods sold, including warehouse and distribution expenses	1,276,511	1,152,815	978,076
Gross profit	1,006,711	892,503	743,165
Operating, selling, general and administrative expenses	724,396	639,979	552,707
Operating income	282,315	252,524	190,458
Other income (expense), net	(50)	(1,455)	(2,721)
Income before income taxes and cumulative effect of accounting change	282,265	251,069	187,737
Provision for income taxes	104,180	86,803	70,063
Income before cumulative effect of accounting change	178,085	164,266	117,674
Cumulative effect of accounting change, net of tax *(a)*	-	-	21,892
Net income	$ 178,085	$ 164,266	$ 139,566
BASIC EARNINGS PER COMMON SHARE:			
Income before cumulative effect of accounting change	$ 1.57	$ 1.47	$ 1.07
Cumulative effect of accounting change *(a)*	-	-	0.20
Net income per share	$ 1.57	$ 1.47	$ 1.27
Weighted-average common shares outstanding	113,253	111,613	110,020
EARNINGS PER COMMON SHARE-ASSUMING DILUTION:			
Income before cumulative effect of accounting change	$ 1.55	$ 1.45	$ 1.05
Cumulative effect of accounting change *(a)*	-	-	0.20
Net income per share	$ 1.55	$ 1.45	$ 1.25
Weighted-average common shares outstanding - adjusted	115,119	113,385	111,423
PRO FORMA INCOME STATEMENT DATA *(b)*:			
Sales	N/A	N/A	N/A
Cost of goods sold, including warehouse and distribution expenses	N/A	N/A	N/A
Gross profit	N/A	N/A	N/A
Operating, selling, general and administrative expenses	N/A	N/A	N/A
Operating income	N/A	N/A	N/A
Other income (expense), net	N/A	N/A	N/A
Income before income taxes	N/A	N/A	N/A
Provision for income taxes	N/A	N/A	N/A
Net income	N/A	N/A	N/A
Net income per share	N/A	N/A	N/A
Net income per share – assuming dilution	N/A	N/A	N/A

(a) See Management's Discussion and Analysis of Financial Condition and Results of Operations, 2005 Compared to 2004.

(b) The pro forma income statement reflects the retroactive application of the cumulative effect of the accounting change to historical periods.

selected consolidated financial data *(continued)*

	2003	2002	2001	2000	1999	1998	1997
	$1,511,816	$1,312,490	$1,092,112	$ 890,421	$ 754,122	$ 616,302	$ 316,399
	873,481	759,090	624,294	507,720	428,832	358,439	181,789
	638,335	553,400	467,818	382,701	325,290	257,863	134,610
	473,060	415,099	353,987	292,672	248,370	200,962	97,526
	165,275	138,301	113,831	90,029	76,920	56,901	37,084
	(5,233)	(7,319)	(7,104)	(6,870)	(3,896)	(6,958)	472
	160,042	130,982	106,727	83,159	73,024	49,943	37,556
	59,955	48,990	40,375	31,451	27,385	19,171	14,413
	100,087	81,992	66,352	51,708	45,639	30,772	23,143
	-	-	-	-	-	-	-
	$ 100,087	$ 81,992	$ 66,352	$ 51,708	$ 45,639	$ 30,772	$ 23,143
	$ 0.93	$ 0.77	$ 0.64	$ 0.51	$ 0.47	$ 0.36	$ 0.27
	-	-	-	-	-	-	-
	$ 0.93	$ 0.77	$ 0.64	$ 0.51	$ 0.47	$ 0.36	$ 0.27
	107,816	106,228	104,242	102,336	97,348	84,952	84,172
	$ 0.92	$ 0.76	$ 0.63	$ 0.50	$ 0.46	$ 0.36	$ 0.27
	-	-	-	-	-	-	-
	$ 0.92	$ 0.76	$ 0.63	$ 0.50	$ 0.46	$ 0.36	$ 0.27
	109,060	107,384	105,572	103,456	99,430	86,408	85,108
	$1,511,816	$1,312,490	$1,092,112	$ 890,421	$ 754,122	$ 616,302	$ 316,399
	872,658	754,844	618,217	501,567	425,229	350,581	180,170
	639,158	557,646	473,895	388,854	328,893	265,721	136,229
	473,060	415,099	353,987	292,672	248,370	200,962	97,526
	166,098	142,547	119,908	96,182	80,523	64,759	38,703
	(5,233)	(7,319)	(7,104)	(6,870)	(3,896)	(6,958)	472
	160,865	135,228	112,804	89,312	76,627	57,801	39,175
	60,266	50,595	42,672	33,776	28,747	22,141	15,025
	$ 100,599	$ 84,633	$ 70,132	$ 55,536	$ 47,880	$ 35,660	$ 24,150
	$ 0.93	$ 0.80	$ 0.67	$ 0.54	$ 0.49	$ 0.42	$ 0.29
	$ 0.92	$ 0.79	$ 0.66	$ 0.54	$ 0.48	$ 0.41	$ 0.28

SELECTED CONSOLIDATED FINANCIAL DATA *(continued)*

(In thousands, except selected operating data)

YEARS ENDED DECEMBER 31,	2006	2005	2004
SELECTED OPERATING DATA:			
Number of stores at year-end *(a)*	1,640	1,470	1,249
Total store square footage at year-end (in 000's) *(a) (b)*	11,004	9,801	8,318
Weighted-average sales per store (in 000's) *(a) (b)*	$ 1,439	$ 1,478	$ 1,443
Weighted-average sales per square foot *(b) (d)*	$ 215	$ 220	$ 217
Percentage increase in same store sales *(c)*	3.3%	7.5%	6.8%
BALANCE SHEET DATA:			
Working capital	$ 566,892	$ 424,974	$ 479,662
Total assets	1,977,496	1,718,896	1,432,357
Current portion of long-term debt and short-term debt	309	75,313	592
Long-term debt, less current portion	110,170	25,461	100,322
Shareholders' equity	1,364,096	1,145,769	947,817

(a) Store count for 2002 does not include 27 stores acquired from Dick Smith Enterprises and Davie Automotive, Inc. in December 2002.

(b) Total square footage includes normal selling, office, stockroom and receiving space. Weighted-average sales per store and per square foot are weighted to consider the approximate dates of store openings or expansions.

(c) Same-store sales are calculated based on the change in sales of stores open at least one year. Prior to 2000, same-store sales data was calculated based on the change in sales of only those stores open during both full periods being compared. Percentage increase in same-store sales is calculated based on store sales results, which exclude sales of specialty machinery, sales by outside salesmen and sales to team members.

(d) 1998 does not include stores acquired from Hi/LO. Consolidated weighted-average sales per square foot were $207.

selected consolidated financial data *(continued)*

	2003	2002	2001	2000	1999	1998	1997
	1,109	981	875	672	571	491	259
	7,348	6,408	5,882	4,491	3,777	3,172	1,417
	$ 1,413	$ 1,372	$ 1,426	$ 1,412	$ 1,422	$ 1,368	$ 1,300
	$ 215	$ 211	$ 219	$ 218	$ 223	$ 238	$ 244
	7.8%	3.7%	8.8%	5.0%	9.6%	6.8%	6.8%
	$ 441,617	$ 483,623	$ 429,527	$ 296,272	$ 249,351	$ 208,363	$ 93,763
	1,157,033	1,009,419	856,859	715,995	610,442	493,288	247,617
	925	682	16,843	49,121	19,358	13,691	130
	120,977	190,470	165,618	90,463	90,704	170,166	22,641
	784,285	650,524	556,291	463,731	403,044	218,394	182,039

management's discussion and analysis of financial condition and results of operations

The following discussion of our financial condition, results of operations and liquidity and capital resources should be read in conjunction with our consolidated financial statements, related notes and other financial information included elsewhere in this annual report.

We are 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. Our stores carry an extensive product line consisting of new and remanufactured automotive hard parts, maintenance items and accessories and a complete line of auto body paint and related materials, automotive tools and professional service equipment.

We calculate same-store sales based on the change in sales for stores open at least one year. We calculate the percentage increase in same-store sales based on store sales results, which exclude sales of specialty machinery, sales by outside salesmen and sales to team members.

Cost of goods sold consists primarily of product costs and warehouse and distribution expenses. Cost of goods sold as a percentage of sales may be affected by variations in our product mix, price changes in response to competitive factors and fluctuations in merchandise costs and vendor programs.

Operating, selling, general and administrative expenses consist primarily of salaries and benefits for store and corporate team members, occupancy costs, advertising expenses, depreciation, general and administrative expenses, information technology expenses, professional expenses and other related expenses.

critical accounting policies and estimates

The preparation of our financial statements in accordance with accounting policies generally accepted in the United States ("GAAP") requires the application of certain estimates and judgements by management. Management bases its assumptions, estimates, and adjustments on historical experience, current trends and other factors believed to be relevant at the time the consolidated financial statements are prepared. Management believes that the following policies are critical due the inherent uncertainty of these matters and the complex and subjective judgments required to establish these estimates. Management continues to review these critical accounting policies and estimates to ensure that the consolidated financial statements are presented fairly in accordance with GAAP. However, actual results could differ from our assumptions and estimates and such differences could be material.

- *Vendor concessions* – We receive concessions from our vendors through a variety of programs and arrangements, including co-operative advertising, allowances for warranties, merchandise allowances and volume purchase rebates. Co-operative advertising allowances that are incremental to our advertising program, specific to a product or event and identifiable for accounting purposes, are reported as a reduction of advertising expense in the period in which the advertising occurred. All other vendor concessions are recognized as a reduction to the cost of inventory. Amounts receivable from vendors also include amounts due to the Company for changeover merchandise and product returns. Amounts receivable from vendors are regularly reviewed by management and reserves for estimated uncollectible amounts are provided for in our consolidated financial statements. We do not believe there is a reasonable likelihood that uncollectible amounts will exceed management's expectations. However, actual results could differ from our assumptions and estimates, and we may be exposed to losses or gains that could be material.
- *Self-Insurance reserves* – We use a combination of insurance and self-insurance mechanisms to provide for potential liabilities from workers' compensation, general liability, vehicle liability, property loss and employee health care benefits. With the exception of employee health care benefit liabilities, which are limited by the design of these plans, we obtain third-party insurance coverage to limit our exposure for any individual claim. When estimating our self-insurance liabilities, we consider a number of factors, including historical claims experience and trend-lines, projected medical and legal inflation, and growth patterns and exposure forecasts. Our calculation of these liabilities requires management to apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not yet reported as of the balance sheet date. Actual claim activity or development may vary from our assumptions and estimates, which may result in material losses or gains.
- *Accounts receivable* – Management estimates the allowance for doubtful accounts based on historical loss ratios and other relevant factors. Actual results have consistently been within management's expectations and we do not believe that there is a reasonable likelihood that there will be a material change in future assumptions or estimates we use to calculate our allowance for doubtful accounts. However, if actual results differ from our estimates, we may be exposed to losses or gains that could be material.
- *Taxes* – We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. We regularly review our potential tax liabilities for tax years subject to audit. Changes in our tax liability may occur in the future as our assessments change based on the progress of tax examinations in various jurisdictions and/or changes in tax regulations. In management's opinion, adequate provisions for income taxes have been made for all years presented. However, the estimates of our potential tax liabilities contain uncertainties because management must use judgment to estimate the exposures associated with our various tax positions. Actual results could differ from our estimates and such differences could be material.
- *Share-based compensation* – Prior to January 1, 2006, the Company accounted for its share-based compensation plans under the provisions of Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), as permitted under Statement of Financial Accounting Standards No. 148, Accounting for *Stock-Based Compensation - Transition and Disclosure - an amendment of FASB Statement No. 123*. Effective January 1, 2006, the Company adopted SFAS No. 123R, "Share Based Payment," under the modified prospective method. Accordingly, prior period amounts have not been restated. Under this application, the Company records share-based compensation expense for all awards granted on or after the date of adoption and for the portion of previously granted awards that remain unvested at the date of adoption. Currently, the Company's share-based compensation relates to stock option awards, employee share purchase plan discounts, restricted stock awards and shares contributed directly to other employee benefit plans. Under SFAS No. 123R, the Company uses a Black-Scholes option-pricing model to determine the fair value of its stock options. The Black-Scholes model

management's discussion and analysis of financial condition and results of operations *(continued)*

includes various assumptions, including the expected life of stock options, the expected volatility and the expected risk-free interest rate. These assumptions reflect the Company's best estimates, but they involve inherent uncertainties based on market conditions generally outside the control of the Company. If the Company uses different assumptions for future grants, share-based compensation cost could be materially impacted in future periods. Also, under SFAS No. 123R, the Company is required to record share-based compensation expense net of estimated forfeitures. The Company's forfeiture rate assumption used in determining its share-based compensation expense is estimated based on historical data. The actual forfeiture rate could differ from those estimates.

results of operations

The following table sets forth, certain income statement data as a percentage of sales for the years indicated:

years ended december 31,	2006	2005	2004
Sales	100.0%	100.0%	100.0%
Cost of goods sold, including warehouse and distribution expenses	55.9	56.4	56.8
Gross profit	44.1	43.6	43.2
Operating, selling, general and administrative expenses	31.7	31.3	32.1
Operating income	12.4	12.3	11.1
Other expense, net	-	(0.1)	(0.2)
Income before income taxes and cumulative effect of accounting change	12.4	12.2	10.9
Provision for income taxes	4.6	4.2	4.1
Income before cumulative effect of accounting change	7.8	8.0	6.8
Cumulative effect of accounting change, net of tax	-	-	1.3
Net income	7.8%	8.0%	8.1%

See Management's Discussion and Analysis of Financial Condition and Results of Operations, 2005 Compared to 2004, for detailed information on cumulative effect of accounting change.

2006 compared to 2005

Sales increased $237.9 million, or 11.6%, from $2.05 billion in 2005 to $2.28 billion in 2006, primarily due to 170 net additional stores opened during 2006, a full year of sales for stores opened throughout 2005 and a 3.3% increase in same-store sales for stores open at least one year. We believe that the increased sales achieved by our existing stores are the result of our offering of a broader selection of products in most stores, an increased promotional and advertising effort through a variety of media and localized promotional events, continued improvement in the merchandising and store layouts of most stores and compensation programs for all store team members that provide incentives for performance. Also, our continued focus on serving professional installers contributed to increased sales. The same-store sales increase in 2006 of 3.3% was below the prior year increase of 7.5% and our historical results. The decrease from the prior year is the result of extremely strong same-store sales in 2005 (higher than historical rates) and external macroeconomic factors in 2006. The external macroeconomic factors which we believe negatively impacted our sales were constraints on our customer's discretionary income as a result of increased interest rates and higher energy costs combined with a reduction in the miles driven due to higher gas prices during the key summer selling season.

Gross profit increased $114.2 million, or 12.8%, from $892.5 million (43.6% of sales) in 2005 to $1.01 billion (44.1% of sales) in 2006, due to the increase in sales. The increase in gross profit as a percent of sales is the result of improvements in product mix and product acquisition cost.

OSG&A increased $84.4 million, or 13.2%, from $640.0 million (31.3% of sales) in 2005 to $724.4 million (31.7% of sales) in 2006. The increase in these expenses was primarily attributable to increased salaries and benefits, rent and other costs associated with the addition of employees and facilities to support the increased level of our operations. The increase in OSG&A as a percentage of sales was the result of increased advertising and energy costs.

Other expense, net, decreased by $1.4 million from $1.5 million in 2005 to $0.1 million in 2006. The decrease was primarily due to decreased interest expense on long-term debt resulting from a reduction in the interest rate on long-term debt.

Provision for income taxes increased from $86.8 million in 2005 (34.6% effective tax rate) to $104.2 million in 2006 (36.9% effective tax rate). The increase in the dollar amount was primarily due to the increase of income before income taxes. The increase in the effective tax rate in 2006 is primarily attributable to a non-cash adjustment of $6.1 million in the third quarter of 2005 resulting from the favorable resolution of prior year tax uncertainties. This tax benefit was nonrecurring and reflected the reversal of previously recorded income tax reserves related to a prior acquisition.

As a result of the impacts discussed above, net income increased $13.8 million from $164.3 million in 2005 (8.0% of sales) to $178.1 million in 2006 (7.8% of sales).

management's discussion and analysis of financial condition and results of operations *(continued)*

2005 compared to 2004

Sales increased $324.1 million, or 18.8%, from $1.72 billion in 2004 to $2.05 billion in 2005, primarily due to 221 net additional stores opened during 2005, a full year of sales for stores opened throughout 2004 and a 7.5% increase in same-store sales for stores open at least one year. We believe that the increased sales achieved by the existing stores are the result of our offering of a broader selection of products in most stores, an increased promotional and advertising effort through a variety of media and localized promotional events, continued improvement in the merchandising and store layouts of most stores, and compensation programs for all store team members that provide incentives for performance. Also, our continued focus on serving professional installers contributed to increased sales.

Gross profit increased $149.3 million, or 20.1%, from $743.2 million (43.2% of sales) in 2004 to $892.5 million (43.6% of sales) in 2005, due to the increase in sales and the increase in gross profit as a percent of sales as the result of improvements in our distribution cost and improved product margin related to product acquisition cost.

OSG&A increased $87.3 million, or 15.8%, from $552.7 million (32.1% of sales) in 2004 to $640.0 million (31.3% of sales) in 2005. The increase in these expenses was primarily attributable to increased salaries and benefits, rent and other costs associated with the addition of employees and facilities to support the increased level of our operations. The decrease in OSG&A as a percentage of sales was the result of ongoing expense management efforts and benefits from increased economies of scale resulting from our sales growth.

Other expense, net, decreased by $1.3 million from $2.7 million in 2004 to $1.5 million in 2005. The decrease was primarily due to increased interest income as a result of higher average interest rates earned on comparable average cash and cash equivalent balances.

Provision for income taxes increased from $70.1 million in 2004 (37.3% effective tax rate) to $86.8 million in 2005 (34.6% effective tax rate). The increase in the dollar amount was primarily due to the increase of income before income taxes. The decrease in the effective tax rate in 2005 was primarily attributable to the non-cash adjustment of $6.1 million in the third quarter resulting from the favorable resolution of prior year tax uncertainties.

The cumulative change in accounting method, effective January 1, 2004, changed the method of applying our LIFO accounting policy for certain inventory costs. Under the new method, we include in the value of inventory certain procurement, warehousing and distribution center costs. The previous method was to recognize those costs as incurred, reported as a component of costs of goods sold. We believe the new method is preferable, since it better matches revenues and expenses and is the prevalent method used by other entities within the automotive aftermarket industry.

As a result of the impacts discussed above, income before the cumulative effect of the accounting change increased $46.6 million from $117.7 million in 2004 (6.8% of sales) to $164.3 million in 2005 (8.0% of sales). Net income in 2004, after the cumulative effect of the accounting change, was $139.6 million (8.1% of sales).

liquidity and capital resources

Net cash provided by operating activities was $185.9 million in 2006, $206.7 million in 2005 and $226.5 million in 2004. The decrease in net cash provided by operating activities in 2006 compared to 2005 was primarily due to increases in inventory related to new store growth and a decrease in the percentage of inventory funded by accounts payable, partially offset by the effect of increased net income in 2006. The decrease in net cash provided by operating activities was also due to the reclassification of the tax benefit derived from the exercise of stock options. In accordance with our current year adoption of SFAS No. 123R, the excess tax benefit from the exercise of stock options of $8.5 million is reflected as cash provided by financing activities in our consolidated statement of cash flows for the year ended December 31, 2006. For the year ended December 31, 2005, the excess tax benefit totaled $7.1 million and was included with net cash provided by operating activities in our 2005 consolidated statement of cash flows.

The decrease in cash provided by operating activities in 2005 compared to 2004 was primarily due to a smaller increase in accounts payable of $43.2 million in 2005 compared to the significant increase in 2004 of $94.6 million. The increase in accounts payable in 2005 and 2004 was primarily due to management's continued efforts with vendors to extend the terms of payments. The effect on operating cash flows of the 2005 decrease in accounts payable growth was partially offset by the effect of the increase in net income in 2005.

Net cash used in investing activities was $225.2 million in 2006, $262.4 million in 2005 and $172.0 million in 2004. The changes in cash used in investing activities were the result of changes in capital expenditures and the $63 million acquisition in 2005 of Midwest Auto Parts Distributors, Inc. ("Midwest"), which included 72 stores and distribution centers in St. Paul, Minnesota and Billings, Montana. Capital expenditures were $228.9 million in 2006, $205.2 million in 2005 and $173.5 million in 2004. These expenditures were primarily related to the opening of new stores and distribution centers, as well as the relocation or remodeling of existing stores. We opened 170, 149 (excluding the 72 stores acquired with Midwest) and 140 net stores in 2006, 2005 and 2004, respectively. We remodeled or relocated 31, 37 and 30 stores in 2006, 2005 and 2004, respectively. We acquired a

management's discussion and analysis of financial condition and results of operations *(continued)*

new facility near Minneapolis, Minnesota in 2006 for the relocation of the St. Paul, Minnesota distribution center in 2007. We acquired a new distribution center near Indianapolis, Indiana in 2005 that was subsequently equipped and opened in 2006. In 2004, we acquired and opened one new distribution center near Atlanta, Georgia.

Our continuing store expansion program requires significant capital expenditures and working capital principally for inventory requirements. Our 2007 growth plans call for approximately 190 to 195 new stores and the relocation of one distribution center with total capital expenditures of $225 million to $235 million. The costs associated with the opening of a new store (including the cost of land acquisition, improvements, fixtures, net inventory investment and computer equipment) are estimated to average approximately $1.1 million to $1.3 million; however, such costs may be significantly reduced where we lease, rather than purchase, the store site. We plan to finance our expansion program through cash expected to be provided from operating activities and available borrowings under our existing credit facility.

On May 15, 2006, we entered into a private placement agreement that allows for the issuance of an aggregate of $300 million in unsecured senior notes, issuable in series. On May 15, 2006, the Company completed the private placement of $75 million of the first series of Senior Notes (the "Series 2006-A Senior Notes") under the Private Placement Agreement. The $75 million of Series 2006-A Senior Notes are due May 15, 2016 and bear interest at 5.39% per year. Proceeds from the Series 2006-A Senior Notes private placement transaction were used to repay certain existing debt of the Company, including $75 million of 7.72% Series 2001-A Senior Notes due May 15, 2006.

On July 29, 2005, we entered into an unsecured, five-year syndicated credit facility ("Credit Facility") in the amount of $100 million led by Wells Fargo Bank as the Administrative Agent, replacing a three-year $150 million syndicated credit facility. The Credit Facility is guaranteed by all of our subsidiaries and may be increased to a total of $200 million, subject to the availability of such additional credit from either existing banks within the Credit Facility or other banks. The Credit Facility bears interest at LIBOR plus a spread ranging from 0.375% to 0.75% (5.75% at December 31, 2006) and expires in July 2010. At December 31, 2006, $9.7 million of borrowings were outstanding under the Credit Facility. At December 31, 2005, the Company had no outstanding balance under the Credit Facility. The available borrowings under the Credit Facility are reduced by stand-by letters of credit issued by us primarily to satisfy the requirements of workers compensation, general liability and other insurance policies. Our aggregate availability for additional borrowings under the Credit Facility was $57.4 million and $70.7 million at December 31, 2006 and 2005, respectively.

OFF BALANCE SHEET ARRANGEMENTS

We have utilized various financial instruments from time to time as sources of cash when such instruments provided a cost effective alternative to our existing sources of cash. We do not believe, however, that we are dependent on the availability of these instruments to fund our working capital requirements or our growth plans.

On December 29, 2000, we completed a sale-leaseback transaction with an unrelated party. Under the terms of the transaction, we sold 90 properties, including land, buildings and improvements, which generated $52.3 million of additional cash. The lease, which is being accounted for as an operating lease, provides for an initial lease term of 21 years and may be extended for one initial ten-year period and two additional successive periods of five years each. The resulting gain of $4.5 million has been deferred and is being amortized over the initial lease term. Net rent expense during the initial term will be approximately $5.5 million annually.

In August 2001, we completed a sale-leaseback with O'Reilly-Wooten 2000 LLC (an entity owned by certain shareholders of the Company). The transaction involved the sale and leaseback of nine O'Reilly Auto Parts stores and resulted in approximately $5.6 million of additional cash to us. The transaction did not result in a material gain or loss. The lease, which has been accounted for as an operating lease, calls for an initial term of 15 years with three five-year renewal options.

On June 26, 2003, we completed an amended and restated master agreement to our $50 million Synthetic Operating Lease Facility, relating to our properties leased from SunTrust Equity Funding, LLC (the "Synthetic Lease"), with a group of financial institutions. The terms of the Synthetic Lease provide for an initial lease period of five years, a residual value guarantee of approximately $42.2 million at December 31, 2006, and purchase options on the properties. The Synthetic Lease also contains a provision for an event of default whereby the lessor, among other things, may require us to purchase any or all of the properties. One additional renewal period of five years may be requested from the lessor, although the lessor is not obligated to grant such renewal. The Synthetic Lease has been accounted for as an operating lease under the provisions of Financial Accounting Standards Board ("FASB") SFAS No. 13 and related interpretations, including FASB Interpretation No. 46.

We issue stand-by letters of credit provided by a $50 million sublimit under the Credit Facility that reduce our available borrowings. These letters of credit are issued primarily to satisfy the requirements of workers compensation, general liability and other insurance policies. Substantially all of the outstanding letters of credit have a one-year term from the date of issuance and have been issued to replace surety bonds that were previously issued. Letters of credit totaling $32.9 million and $29.3 million were outstanding at December 31, 2006 and 2005, respectively.

management's discussion and analysis of financial condition and results of operations *(continued)*

contractual obligations

We have other liabilities reflected in our balance sheet, including deferred income taxes and self-insurance accruals. The payment obligations associated with these liabilities are not reflected in the financial commitments table due to the absence of scheduled maturities. Therefore, the timing of these payments cannot be determined, except for amounts estimated to be payable in 2007 that are included in current liabilities. In addition, we have commitments with various vendors for the purchase of inventory as of December 31, 2006. The financial commitments table excludes these commitments because they are cancelable by their terms.

Our contractual obligations, including commitments for future payments under non-cancelable lease arrangements, short and long-term debt arrangements, interest payments related to long-term debt and purchase obligations for construction contract commitments, are summarized below and are fully disclosed in Notes 6 and 7 to the consolidated financial statements.

payments due by period

(In thousands)	total	before 1 year	1-3 years	4-5 years	over 5 years
contractual obligations:					
Long-term debt	$110,479	$ 309	$ 25,470	$ 9,700	$ 75,000
Interest payments related to long-term debt	41,408	6,044	9,088	8,085	18,191
Operating leases	379,710	44,548	77,303	59,541	198,318
Purchase obligations	69,516	69,516	-	-	-
Total contractual cash obligations	$601,113	$120,417	$111,861	$77,326	$291,509

We believe that our existing cash and cash equivalents, cash expected to be provided by operating activities, available bank credit facilities and trade credit will be sufficient to fund both our short-term and long-term capital needs for the foreseeable future.

inflation and seasonality

We attempt to mitigate 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 that our operations have been materially affected by inflation. Our business is somewhat 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) of each year than in the first and fourth quarters.

quarterly results

The following table sets forth certain quarterly unaudited operating data for fiscal 2006 and 2005. The unaudited quarterly information includes all adjustments which management considers necessary for a fair presentation of the information shown.

The unaudited operating data presented below should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report, and the other financial information included therein.

(In thousands, except per share data)	fiscal 2006			
	first quarter	second quarter	third quarter	fourth quarter
Sales	$536,547	$591,199	$597,144	$558,332
Gross profit	233,428	260,928	263,326	249,029
Operating income	64,966	78,236	75,084	64,029
Net income	40,564	49,313	47,856	40,352
Basic net income per common share	0.36	0.44	0.42	0.35
Net income per common share-assuming dilution	0.35	0.43	0.42	0.35

management's discussion and analysis of financial condition and results of operations *(continued)*

(In thousands, except per share data)	fiscal 2005			
	first quarter	second quarter	third quarter*(a)*	fourth quarter*(b)*
Sales	$466,239	$521,209	$542,906	$514,964
Gross profit	196,169	228,970	235,916	231,448
Operating income	53,581	68,127	67,585	63,231
Net income	33,213	42,923	48,623	39,507
Basic net income per common share	0.30	0.39	0.43	0.35
Net income per common share-assuming dilution	0.30	0.38	0.42	0.35

(a) During the third quarter of 2005, the Company recorded a non-cash tax adjustment of $6.1 million as the result of the favorable resolution of prior tax uncertainties. See Note 12 to our consolidated financial statements.

(b) During the fourth quarter of 2005, the Company recorded a non-cash charge related to the acceleration of employee stock options of $2.2 million ($1.4 million, net of tax). See Note 1 to our consolidated financial statements.

new accounting standards

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, a revision of SFAS No. 123, *Accounting for Stock Based Compensation*, that supersedes APB No. 25, *Accounting for Stock Issued to Employees*. In April 2005, the SEC adopted a rule permitting implementation of SFAS No. 123R at the beginning of the first fiscal year commencing after June 15, 2005. Among other items, SFAS No. 123R eliminated the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize in the financial statements the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards. SFAS No. 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under APB No. 25. The Company was required to adopt SFAS No. 123R beginning in its quarter ended March 31, 2006. Under the provisions of SFAS No. 123R, the Company had the choice of adopting the fair-value-based method of expensing of stock options using (a) the "modified prospective method", whereby the Company recognizes the expense only for periods beginning after December 31, 2005, or (b) the "modified retrospective method", whereby the Company recognizes the expense for all years and interim periods since the effective date of SFAS No. 123. The Company adopted SFAS No. 123R using the modified prospective method. See Note 9, "Share-Based Employee Compensation Plans", for information regarding expensing of stock options in 2006 and for pro forma information regarding the Company's accounting for stock options for 2005 and 2004.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"), that prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. This interpretation is effective for us beginning January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. We are in the process of determining the effect, if any, the adoption of FIN No. 48 will have on our consolidated financial statements. Based on our current assessment, and subject to any changes that may result from the completion of our assessment and additional technical guidance issued by the FASB, the adoption of FIN 48 is not expected to have a material effect on our financial position, results of operations or cash flows.

forward-looking statements

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," "project," "will" 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 sections of the annual report on Form 10-K for the year ended December 31, 2006, for additional factors that could materially affect our financial performance.

management's report on internal control over financial reporting

The management of O'Reilly Automotive, Inc. and Subsidiaries (the Company), under the supervision and with the participation of the Company's principal executive officer and principal financial officer, is responsible for establishing and maintaining adequate internal control over financial reporting. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States. Internal control over financial reporting includes all policies and procedures that:

- pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management recognizes that all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Under the supervision and with the participation of the Company's principal executive officer and principal financial officer, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control – Integrated Framework*. Based on this assessment, management believes that as of December 31, 2006, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, Independent Registered Public Accounting Firm, has audited the Company's consolidated financial statements has issued an attestation report on management's assessment of the Company's internal control over financial reporting, as stated in their report which is included herein.

Greg Henslee
Chief Executive Officer &
Co-President

Thomas McFall
Senior Vice President of Finance &
Chief Financial Officer

report of independent registered public accounting firm

the board of directors and shareholders of o'reilly automotive, inc. and subsidiaries

We have audited management's assessment, included in the accompanying Management's Report on Internal Control Over Financial Reporting, that O'Reilly Automotive, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). O'Reilly Automotive, Inc. and Subsidiaries' management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that O'Reilly Automotive, Inc. and Subsidiaries maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, O'Reilly Automotive, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of O'Reilly Automotive, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 and our report dated February 26, 2007 expressed an unqualified opinion thereon.

Kansas City, Missouri
February 26, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

THE BOARD OF DIRECTORS AND SHAREHOLDERS OF O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

We have audited the accompanying consolidated balance sheets of O'Reilly Automotive, Inc. and Subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of O'Reilly Automotive, Inc. and Subsidiaries at December 31, 2006 and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, in 2004 the Company changed its method of accounting for inventory.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of O'Reilly Automotive, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

Kansas City, Missouri
February 26, 2007

CONSOLIDATED BALANCE SHEETS

(In thousands, except per share data)

DECEMBER 31,	2006	2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 29,903	$ 31,384
Accounts receivable, less allowance for doubtful Accounts of $2,861 in 2006 and $2,778 in 2005	81,048	73,849
Amounts receivable from vendors, net	47,790	57,224
Inventory	812,938	725,339
Other current assets	28,997	22,845
Total current assets	$1,000,676	$ 910,641
Property and equipment, at cost:		
Land	127,068	109,327
Buildings	478,598	368,996
Leasehold improvements	156,145	127,685
Furniture, fixtures and equipment	362,803	310,570
Vehicles	90,240	76,321
	1,214,854	992,899
Accumulated depreciation and amortization	331,759	274,533
Net property and equipment	883,095	718,366
Notes receivable, less current portion	30,288	29,062
Other assets, net	63,437	60,827
Total assets	$1,977,496	$1,718,896
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 318,404	$ 292,667
Self insurance reserves	31,084	34,797
Accrued payroll	21,171	19,356
Accrued benefits and withholdings	12,948	14,997
Deferred income taxes	5,779	2,451
Other current liabilities	44,089	46,086
Current portion of long-term debt	309	75,313
Total current liabilities	433,784	485,667
Long-term debt, less current portion	110,170	25,461
Deferred income taxes	38,171	42,516
Other liabilities	31,275	19,483
Shareholders' equity:		
Preferred stock, $0.01 par value:		
Authorized shares – 5,000,000		
Issued and outstanding shares – none	-	-
Common stock, $0.01 par value:		
Authorized shares – 245,000,000		
Issued and outstanding shares – 113,929,327 in 2006 and 112,389,002 in 2005	1,139	1,124
Additional paid-in capital	400,552	360,325
Retained earnings	962,405	784,320
Total shareholders' equity	1,364,096	1,145,769
Total liabilities and shareholders' equity	$1,977,496	$1,718,896

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF INCOME

(In thousands, except per share data)

YEARS ENDED DECEMBER 31,	2006	2005	2004
Sales	$2,283,222	$2,045,318	$1,721,241
Cost of goods sold, including warehouse and distribution expenses	1,276,511	1,152,815	978,076
Gross profit	1,006,711	892,503	743,165
Operating, selling, general and administrative expenses	724,396	639,979	552,707
Operating income	282,315	252,524	190,458
Other income (expense):			
Interest expense	(4,322)	(5,062)	(4,700)
Interest income	1,573	1,582	901
Other, net	2,699	2,025	1,078
Total other income (expense)	(50)	(1,455)	(2,721)
Income before income taxes and cumulative effect of accounting change	282,265	251,069	187,737
Provision for income taxes	104,180	86,803	70,063
Income before cumulative effect of accounting change	178,085	164,266	117,674
Cumulative effect of accounting change, net of tax	-	-	21,892
Net Income	$ 178,085	$ 164,266	$ 139,566
Basic income per common share:			
Income before cumulative effect of accounting change	$ 1.57	$ 1.47	$ 1.07
Cumulative effect of accounting change	-	-	0.20
Net income per common share	$ 1.57	$ 1.47	$ 1.27
Weighted-average common shares outstanding	113,253	111,613	110,020
Income per common share—assuming dilution:			
Income before cumulative effect of accounting change	$ 1.55	$ 1.45	$ 1.05
Cumulative effect of accounting change	-	-	0.20
Net income per common share-assuming dilution	$ 1.55	$ 1.45	$ 1.25
Adjusted weighted-average common shares outstanding	115,119	113,385	111,423

See accompanying Notes to Consolidated Financial Statements.

consolidated statements of shareholders' equity

(In thousands)	common stock shares	common stock par value	additional paid-in capital	retained earnings	total
balance at december 31, 2003	54,665	$ 547	$ 302,691	$ 481,047	$ 784,285
Issuance of common stock under employee benefit plans	221	2	8,358	-	8,360
Issuance of common stock under stock option plans	491	5	11,075	-	11,080
Tax benefit of stock options exercised	-	-	4,526	-	4,526
Net income	-	-	-	139,566	139,566
balance at december 31, 2004	55,377	$ 554	$ 326,650	$ 620,613	$ 947,817
2-for-1 stock split	55,861	559	-	(559)	-
Issuance of common stock under employee benefit plans	268	2	9,477	-	9,479
Issuance of common stock under stock option plans	883	9	14,906	-	14,915
Tax benefit of stock options exercised	-	-	7,137	-	7,137
Share based compensation	-	-	2,155	-	2,155
Net income	-	-	-	164,266	164,266
balance at december 31, 2005	112,389	$ 1,124	$ 360,325	$ 784,320	$1,145,769
Issuance of common stock under employee benefit plans	387	4	12,169	-	12,173
Issuance of common stock under stock option plans	1,153	11	15,959	-	15,970
Tax benefit of stock options exercised	-	-	8,538	-	8,538
Share based compensation	-	-	3,561	-	3,561
Net income	-	-	-	178,085	178,085
balance at december 31, 2006	113,929	$ 1,139	$ 400,552	$ 962,405	$1,364,096

See accompanying Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

YEARS ENDED DECEMBER 31,	2006	2005	2004
OPERATING ACTIVITIES			
Net income	$178,085	$164,266	$139,566
Adjustments to reconcile net income to net cash provided by operating activities:			
Cumulative effect of accounting change	-	-	(21,892)
Depreciation and amortization	64,938	57,228	54,325
Deferred income taxes	(1,017)	(671)	7,640
Share based compensation programs	11,029	7,840	5,067
Tax benefit of stock options exercised	-	7,137	4,526
Other	1,812	1,978	2,988
Changes in operating assets and liabilities:			
Accounts receivable	(9,426)	(8,974)	(11,636)
Inventory	(91,427)	(68,794)	(66,375)
Accounts payable	25,737	43,158	94,594
Other	6,197	3,517	17,733
Net cash provided by operating activities	185,928	206,685	226,536
INVESTING ACTIVITIES			
Purchases of property and equipment	(228,871)	(205,159)	(173,486)
Proceeds from sale of property and equipment	875	1,935	1,653
Payments received on notes receivable	5,174	4,558	2,634
Advances made on notes receivable	-	(624)	-
Acquisition, net of cash acquired	-	(63,145)	-
Investment in other assets	(2,379)	(1)	(2,787)
Net cash used in investing activities	(225,201)	(262,436)	(171,986)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	88,950	-	-
Principal payments on long-term debt	(80,189)	(602)	(20,989)
Tax benefit of stock options exercised	8,538	-	-
Net proceeds from issuance of common stock	20,493	18,709	14,373
Net cash provided by (used in) financing activities	37,792	18,107	(6,616)
Net (decrease) increase in cash and cash equivalents	(1,481)	(37,644)	47,934
Cash and cash equivalents at beginning of year	31,384	69,028	21,094
Cash and cash equivalents at end of year	$ 29,903	$ 31,384	$ 69,028
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	$ 98,650	$ 98,440	$ 55,140
Interest paid, net of capitalized interest	4,536	5,062	4,960

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 — SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Business

O'Reilly Automotive, Inc. (the "Company") is a specialty retailer and supplier of automotive aftermarket parts, tools, supplies and accessories to both the do-it-yourself ("DIY") customer and the professional installer throughout 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.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Revenue Recognition

Over-the-counter retail sales are recorded when the customer takes possession of the merchandise. Sales to professional installers, also referred to as "commercial sales," are recorded upon delivery of the merchandise to the customer, generally at the customer's place of business. Wholesale sales to other retailers, also referred to as "jobber sales," are recorded upon shipment of the merchandise. All sales are recorded net of estimated allowances, discounts and taxes.

Use of Estimates

The preparation of the consolidated financial statements, in conformity with accounting principles generally accepted in the United States ("GAAP"), requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could differ from those estimates.

Cash Equivalents

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

Accounts Receivable

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The Company considers the following factors when determining if collection is reasonably assured: customer credit-worthiness, past transaction history with the customer, current economic industry trends and changes in customer payment terms.

Inventory

Inventory, which consists of automotive hard parts, maintenance items, accessories and tools, is stated at the lower of cost or market. Inventory also includes related procurement, warehousing and distribution center costs. Cost has been determined using the last-in, first-out ("LIFO") method. The replacement cost of inventory, which approximates that determined using the first-in, first-out ("FIFO") method of costing inventory, was $833,626,000 and $738,877,000 as of December 31, 2006 and 2005, respectively.

Amounts Receivable from Vendors

The Company receives concessions from its vendors through a variety of programs and arrangements, including co-operative advertising, devaluation programs, allowances for warranties and volume purchase rebates. Co-operative advertising allowances that are incremental to our advertising program, specific to a product or event and identifiable for accounting purposes, are reported as a reduction of advertising expense in the period in which the advertising occurred. All other vendor concessions are recognized as a reduction to the cost of inventory. Amounts receivable from vendors also includes amounts due to the Company for changeover merchandise and product returns. Reserves for uncollectible amounts receivable from vendors are provided for in the Company's consolidated financial statements and consistently have been within management's expectations.

Property and Equipment

Property and equipment are carried at cost. Depreciation is provided on a straight-line method over the estimated useful lives of the assets. Service lives for property and equipment generally range from 3 to 39 years. Leasehold improvements are amortized over the lesser of the lease term or the estimated economic life of the assets. The lease term includes renewal options determined by management at lease inception for which failure to renew options would result in a substantial economic penalty to the Company. Maintenance and repairs are charged to expense as incurred. Upon retirement or sale, the cost and accumulated depreciation are eliminated and the gain or loss, if any, is included in the determination of net income as a component of other income (expense). The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable.

The Company capitalizes interest costs as a component of construction in progress, based on the weighted-average rates paid for long-term borrowings. Total interest costs capitalized for the years ended December 31, 2006, 2005 and 2004 were $2,639,000, $2,885,000 and $2,579,000, respectively.

notes to consolidated financial statements *(continued)*

Leases

The Company's policy is to amortize leasehold improvements over the lesser of the lease term or the estimated economic life of those assets. Generally, for stores the lease term is the base lease term and for distribution centers the lease term includes the base lease term plus certain renewal option periods for which renewal is reasonably assured and failure to exercise the renewal option would result in a significant economic penalty. The calculation for straight-line rent expense is based on the same lease term. Prior to 2003, leasehold improvements were amortized over a period of time which included both the base lease term and the first renewal option period of the lease and rent expense was recorded as paid.

As a result, the Company's 2004 statement of income includes an adjustment to correct its lease accounting of $10.4 million ($3.5 million related to 2004), $6.5 million, net of tax. Prior years' financial statements were not restated due to the immateriality of the amount to the results of operations and statement of financial position for 2004 or any prior individual year. As the correction relates solely to accounting treatment, it did not affect the Company's historical or future cash flows.

The effect from these corrections, which is reflected in the financial statements, is an increase in depreciation expense in 2004 of $6.0 million ($2.6 million related to 2004), an increase in rent expense in 2004 of $4.4 million ($0.9 million related to 2004), and a decrease in income tax expense in 2004 of $3.9 million.

Notes Receivable

The Company had notes receivable from vendors and other third parties amounting to $36,955,000 and $34,998,000 at December 31, 2006 and 2005, respectively. The notes receivable, which bear interest at rates ranging from 0% to 10%, are due in varying amounts through August 2017.

Goodwill

The "Other assets, net" caption in the Consolidated Balance Sheets at December 31, 2006 and 2005 includes goodwill recorded as the result of previous acquisitions. Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets, requires the Company to assess goodwill for impairment rather than systematically amortize goodwill against earnings. The goodwill impairment test compares the fair value of a reporting unit to its carrying amount, including goodwill. The Company operates as one reporting unit and its fair value exceeds its carrying value, including goodwill. Therefore, the Company has determined that no impairment of goodwill existed at December 31, 2006 and 2005.

Self-Insurance Reserves

The Company uses a combination of insurance and self-insurance mechanisms to provide for the potential liabilities for workers' compensation, general liability, vehicle liability, property loss, and employee health care benefits. With the exception of employee health care benefit liabilities, which are limited by the design of these plans, the Company obtains third-party insurance coverage to limit its exposure. The Company estimates our self-insurance liabilities by considering a number of factors, including historical claims experience and trend-lines, projected medical and legal inflation, and growth patterns and exposure forecasts.

Income Taxes

The Company accounts for income taxes using the liability method in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. The liability method provides that deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using tax rates based on currently enacted rules and enacted rates that will be in effect when the differences are expected to reverse.

Advertising Costs

The Company expenses advertising costs as incurred. Advertising expense charged to operations amounted to $34,929,000, $28,715,000 and $22,999,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

Pre-opening Costs

Costs associated with the opening of new stores, which consist primarily of payroll and occupancy costs, are charged to operations as incurred.

Share-Based Compensation Plans

The Company currently sponsors share-based employee benefit plans and stock option plans. Please see Note 9 for further information concerning these plans. In the first quarter of 2006, the Company adopted Statement of Financial Accounting Standards No. 123R, *Share Based Payment* ("SFAS No. 123R"), which is a revision of SFAS No. 123, *Accounting for Stock-Based Compensation* ("SFAS No. 123") and supersedes the Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), using the modified prospective transition method and began recognizing compensation expense for its share-based payments based on the fair value of the awards. Under this transition method, compensation cost recognized in 2006 includes the compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123R. Results for prior periods have

notes to consolidated financial statements *(continued)*

not been restated. Share-based payments include stock option awards issued under the Company's employee stock option plan, director stock option plan, stock issued through the Company's employee stock purchase plan and stock awarded to employees through other benefit programs. Prior to January 1, 2006, the Company accounted for share based payments using the intrinsic value based recognition method in accordance with APB No. 25. Under APB No. 25, no compensation expense for stock option awards was recognized since the exercise price of the Company's stock options equaled the market price of the underlying stock on the date of grant.

As a result of adopting SFAS No. 123R on January 1, 2006, the Company's income before income taxes and net income for the year ended December 31, 2006, are approximately $2.8 million and $1.7 million lower, respectively, than if it had continued to account for share-based compensation under APB No. 25. Basic and diluted earnings per share for the year ended December 31, 2006 are $0.02 lower than if the Company had continued to account for share-based compensation under APB No. 25.

In the fourth quarter of 2005, the Board of Directors approved the accelerated vesting of all unvested stock options previously awarded to employees and executive officers. Option awards granted subsequent to the Board's action are not included in the acceleration and will vest equally over the service period established in the award, typically four years. The primary purpose of the accelerated vesting was to enable the Company to avoid recognizing future compensation expense associated with these options upon the planned adoption of SFAS No. 123R in 2006. As a result of the vesting acceleration, options to purchase approximately 4.2 million shares of O'Reilly Common Stock became exercisable immediately. O'Reilly's Board of Directors took this action with the belief that it is in the best interest of shareholders as it will reduce the Company's reported non-cash compensation expense in future periods.

In order to limit unintended personal benefits to employees and officers, the Board of Directors imposed restrictions on any shares received through the exercise of accelerated options held by those individuals. These restrictions prevent the sale of any stock obtained through exercise of an accelerated option prior to the earlier of the original vesting date or the individual's termination of employment. The Company recorded pre-tax share-based compensation expense of $2.2 million in 2005 based on the intrinsic value of in-the-money options subject to acceleration and the Company's estimate of awards that would have expired unexercisable absent the acceleration.

For purposes of pro forma disclosures required under SFAS No. 123 for the years ended December 2005 and 2004, the estimated fair value of the stock options was assumed to be amortized to expense over the stock options' vesting periods. For unvested stock option awards that were included in the acceleration in the fourth quarter of 2005, any unamortized estimated fair value is assumed to be fully recognized as compensation expense in the year ended December 2005 for purposes of pro forma disclosure. The pro forma effects of recognizing estimated compensation expense under the fair value method on net income and earnings per common share were as follows:

(In thousands, except per share data)	2005	2004
Net income, as reported	$164,266	$139,566
Add stock-based compensation expense, net of tax, as reported	5,699	3,465
Deduct stock-based compensation expense, net of tax, under fair value method	(26,522)	(10,933)
Pro forma net income	$143,443	$132,098
Pro forma basic net income per share	$ 1.29	$ 1.20
Pro forma net income per share–assuming dilution	$ 1.27	$ 1.19
Net income per share, as reported		
Basic	$ 1.47	$ 1.27
Assuming dilution	$ 1.45	$ 1.25

Prior to the adoption of SFAS No. 123R in 2006, the Company presented all tax benefits of deductions resulting from the exercise of stock options as operating cash flows in the accompanying Consolidated Statement of Cash Flows. SFAS No. 123R requires excess tax benefits, the cash flow resulting from the tax deductions in excess of the compensation cost recognized for those options, to be classified as financing cash flows. The excess tax benefit for the year ended December 31, 2006 was $8.5 million.

Earnings per Share

Basic earnings per share is based on the weighted-average outstanding common shares. Diluted earnings per share is based on the weighted-average outstanding shares adjusted for the effect of common stock equivalents. Common stock equivalents that could potentially dilute basic earnings per share in the future that were not included in the fully diluted computation because they would have been antidilutive were 448,000, 226,750 and 544,000 for the years ended December 31, 2006, 2005 and 2004, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

Concentration of Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk consist primarily of cash, cash equivalents, accounts receivable and notes receivable.

The Company grants credit to certain customers who meet the Company's pre-established credit requirements. Concentrations of credit risk with respect to these receivables are limited because the Company's customer base consists of a large number of smaller customers, thus spreading the credit risk. The Company controls credit risk through credit approvals, credit limits and monitoring procedures. Generally, the Company does not require security when credit is granted to customers. Credit losses are provided for in the Company's consolidated financial statements and consistently have been within management's expectations.

The carrying value of the Company's financial instruments, including cash and cash equivalents, accounts receivable, accounts payable and long-term debt, as reported in the accompanying consolidated balance sheets, approximates fair value.

Reclassifications

The accompanying consolidated financial statements for prior years contain certain reclassifications to conform with the presentation used in 2006.

New Accounting Pronouncements

In December 2004, the Financial Accounting Standards Board issued SFAS No. 123R, a revision of SFAS No. 123 that supersedes APB No. 25.
In April 2005, the SEC adopted a rule permitting implementation of SFAS No. 123R at the beginning of the first fiscal year commencing after June 15, 2005. Among other items, SFAS No. 123R eliminated the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize in the financial statements the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards. SFAS No. 123R also requires that the benefits associated with the tax deductions in excess of recognized compensation cost be reported as a financing cash flow, rather than as an operating cash flow as required under APB No. 25. The Company was required to adopt SFAS No. 123R beginning in its quarter ended March 31, 2006. Under the provisions of SFAS No. 123R, the Company had the choice of adopting the fair-value-based method of expensing of stock options using (a) the "modified prospective method", whereby the Company recognizes the expense only for periods beginning after December 31, 2005, or (b) the "modified retrospective method", whereby the Company recognizes the expense for all years and interim periods since the effective date of SFAS No. 123. The Company adopted SFAS No. 123R using the modified prospective method. See Note 9, "Share-Based Employee Compensation Plans", for information regarding expensing of stock options in 2006 and for pro forma information regarding the Company's accounting for stock options for years 2005 and 2004.

In July 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN No. 48"), that prescribes a recognition threshold and measurement process for recording in the financial statements uncertain tax positions taken or expected to be taken in a tax return. Additionally, FIN No. 48 provides guidance on the derecognition, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. This interpretation is effective for the Company beginning January 1, 2007. The cumulative effect of initially adopting FIN 48 will be recorded as an adjustment to opening retained earnings in the year of adoption and will be presented separately. Only tax positions that meet the more likely than not recognition threshold at the effective date may be recognized upon adoption of FIN 48. The Company is in the process of determining the effect, if any, the adoption of FIN No. 48 will have on the Company's consolidated financial statements. Based on the Company's current assessment, and subject to any changes that may result from the completion of the Company's assessment and additional technical guidance issued by the FASB, the adoption of FIN 48 is not expected to have a material effect on our financial position, results of operations or cash flows.

NOTE 2 — ACCOUNTING CHANGES

The Company's inventory consists of automotive hard parts, maintenance items, accessories and tools. During the fourth quarter of 2004, the Company changed its method of applying its LIFO accounting policy for inventory costs. Under the new method, the Company has included in inventory certain procurement, warehousing and distribution center costs. The Company's previous method was to recognize those costs as incurred, reported as a component of costs of goods sold. The Company believes the change in application of the LIFO accounting method is preferable as it better matches revenues and expenses and is the prevalent method used by other entities within the Company's industry. The cumulative effect of this change in application of accounting method was $21,892,000 as of January 1, 2004, net of the related deferred tax effect of $13,303,000. The change increased 2004 net income by $2,722,000 or $0.02 per share.

notes to consolidated financial statements *(continued)*

note 3 – acquisition

On May 31, 2005, the Company purchased all of the outstanding stock of W.E. Lahr Company and its subsidiary, Midwest Auto Parts Distributors, Inc. and combined affiliates ("Midwest") for approximately $63 million cash, net of cash acquired, including acquisition costs. Midwest was a specialty retailer, which supplied automotive aftermarket parts in Minnesota, Montana, North Dakota, South Dakota, Wisconsin and Wyoming. The acquisition was accounted for using the purchase method of accounting, and accordingly, the results of operations of Midwest are included in the consolidated statements of income from the date of acquisition. The purchase price was allocated to assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition with the excess allocated to goodwill. The acquisition of Midwest was not material for pro forma presentation requirements.

note 4 – stock split

On May 20, 2005, the Company's Board of Directors declared a two-for-one stock split that was effected in the form of a 100% stock dividend payable to all shareholders of record as of May 31, 2005. The stock dividend was paid on June 15, 2005. Accordingly, this stock split has been recognized by reclassifying $559,000, the par value of the additional shares resulting from the split, from retained earnings to common stock.

All share and per share information included in the accompanying consolidated financial statements has been restated to reflect the retroactive effect of the stock split for all periods presented.

note 5 – related parties

The Company leases certain land and buildings related to forty-eight of its O'Reilly Auto Parts stores under six-year operating lease agreements with O'Reilly Investment Company and O'Reilly Real Estate Company, partnerships in which certain shareholders and directors of the Company are partners. Generally, these lease agreements provide for renewal options for an additional six years at the option of the Company and the lease agreements are periodically modified to further extend the lease term for specific stores under the agreement. Additionally, the Company leases certain land and buildings related to twenty-one of its O'Reilly Auto Parts stores under 15-year operating lease agreements with O'Reilly-Wooten 2000 LLC, which is owned by certain shareholders and directors of the Company. Generally, these lease agreements provide for renewal options for two additional five-year terms at the option of the Company (see Note 7). Rent payments under these operating leases totaled $3,413,000, $3,380,000 and $3,374,000 in 2006, 2005 and 2004, respectively.

note 6 – long-term debt

On July 29, 2005, the Company entered into an unsecured, five-year syndicated credit facility (Credit Facility) in the amount of $100 million led by Wells Fargo Bank as the Administrative Agent, replacing a three-year $150 million syndicated credit facility. The Credit Facility is guaranteed by all of the Company's subsidiaries and may be increased to a total of $200 million, subject to the availability of such additional credit from either existing banks within the Credit Facility or other banks. The Credit Facility bears interest at LIBOR plus a spread ranging from 0.375% to 0.75% (5.75% at December 31, 2006) and expires in July 2010. At December 31, 2006, $9.7 million of borrowings were outstanding under the Credit Facility. At December 31, 2005, the Company had no outstanding balance under the Credit Facility.

The Company issues stand-by letters of credit provided by a $50 million sublimit under the Credit Facility that reduce available borrowings. These letters of credit are issued primarily to satisfy the requirements of workers compensation, general liability and other insurance policies. Substantially all of the outstanding letters of credit have a one-year term from the date of issuance and have been issued to replace surety bonds that were previously issued. Letters of credit totaling $32.9 million and $29.3 million were outstanding at December 31, 2006 and 2005, respectively. Accordingly, the Company's aggregate availability for additional borrowings under the Credit Facility was $57.4 million and $70.7 million at December 31, 2006 and 2005, respectively. The Company is subject to a commitment fee ranging from 0.075% to 0.175% (.075% at December 31, 2006) for unused borrowings under the Credit Facility.

On May 15, 2006, the Company entered into a private placement agreement that allows for the issuance of an aggregate of $300 million in unsecured senior notes, issuable in series. On May 15, 2006, the Company completed the private placement of $75 million of the first series of Senior Notes (the "Series 2006-A Senior Notes") under the Private Placement Agreement. The $75 million of Series 2006-A Senior Notes are due May 15, 2016 and bear interest at 5.39% per year. Proceeds from the Series 2006-A Senior Notes private placement transaction were used to repay certain existing debt of the Company, including $75 million of 7.72% Series 2001-A Senior Notes due May 15, 2006.

On May 16, 2001, the Company completed a $100 million private placement of two series of unsecured senior notes (Senior Notes). The Series 2001-A Senior Notes were issued for $75 million and were repaid on May 15, 2006 from the proceeds from the issuance of the Series 2006-A Senior Notes discussed above. The Series 2001-B Senior Notes were issued for $25 million, are due May 16, 2008 and bear interest at 7.92% per year.

The Company leases certain computer equipment under a capital lease agreement. The lease agreement has a term of 36 months, expiring in 2009. At December 31, 2006, the monthly installment under this agreement was approximately $28,000. The present value of the future minimum lease payments under capital leases totaled approximately $779,000 and $285,000 at December 31, 2006 and 2005 respectively, which have been classified

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

as long-term debt in the accompanying consolidated financial statements. During 2006, the Company acquired $943,000 of assets under the capital lease agreement discussed above. During 2005, the Company did not acquire any assets under a capital lease.

Principal maturities of long-term debt are as follows:

(amounts in thousands)	PRINCIPAL MATURITIES OF LONG-TERM DEBT
2007	$ 309
2008	25,320
2009	150
2010	9,700
2011	-
Thereafter	75,000
	$110,479

NOTE 7 – COMMITMENTS

Lease Commitments

On June 26, 2003, the Company completed an amended and restated master agreement to its $50 million Synthetic Operating Lease Facility (the Facility or the Synthetic Lease) with a group of financial institutions. The terms of the Facility provide for an initial lease period of five years, a residual value guarantee of approximately $42.2 million at December 31, 2006, and purchase options on the properties. The Facility also contains a provision for an event of default whereby the lessor, among other things, may require us to purchase any or all of the properties. One additional renewal period of five years may be requested from the lessor, although the lessor is not obligated to grant such renewal. The amended and restated Facility has been accounted for as an operating lease under SFAS No. 13 and related interpretations, including FASB Interpretation No. 46. Future minimum rental commitments under the Facility have been included in the table of future minimum annual rental commitments below.

The Company also leases certain office space, retail stores, property and equipment under long-term, non-cancelable operating leases. Most of these leases include renewal options and some include options to purchase and provisions for percentage rent based on sales. At December 31, 2006, future minimum rental payments under all of the Company's operating leases for each of the next five years and in the aggregate are as follows:

(amounts in thousands)	RELATED PARTIES	NON-RELATED PARTIES	TOTAL
2007	$ 3,489	$ 41,059	$ 44,548
2008	3,414	37,421	40,835
2009	2,618	33,850	36,468
2010	1,815	29,723	31,538
2011	1,550	26,453	28,003
Thereafter	6,892	191,426	198,318
	$19,778	$359,932	$379,710

Rental expense amounted to $49,245,000, $43,047,000 and $39,145,000 for the years ended December 31, 2006, 2005, and 2004, respectively. 2004 rental expense includes an adjustment to correct lease accounting in the amount of $4,367,000 ($900,000 related to 2004). See Note 1 – Leases for further details.

Other Commitments

The Company had construction commitments, which totaled approximately $69.5 million, at December 31, 2006.

NOTE 8 – LEGAL PROCEEDINGS

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

NOTE 9 – SHARE-BASED EMPLOYEE COMPENSATION PLANS

Stock Options

The Company's employee stock based incentive plan provides for the granting of stock options to certain key employees of the Company for the purchase of common stock of the Company. A total of 24,000,000 shares have been authorized for issuance under this plan. Options are granted at an exercise price that is equal to the market value of the Company's common stock on the date of the grant. Options granted under the plan expire after ten years

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

and typically vest 25% a year, over four years. The Company records compensation expense for the grant date fair value of option awards evenly over the vesting period under the straight-line method. A summary of the shares subject to currently issued and outstanding stock options under this plan is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	6,883,042	$ 17.67		
Granted	1,084,000	31.97		
Exercised	(1,128,259)	13.85		
Forfeited	(388,038)	26.39		
Outstanding at December 31, 2006	6,450,745	$ 20.38	6.87	$76,041,000
Vested or expected to vest at December 31, 2006	6,217,132	$ 19.95	6.78	$75,819,000
Exercisable at December 31, 2006	5,445,858	$ 18.23	6.41	$75,324,000

The Company maintains a stock based incentive plan for non-employee directors of the Company pursuant to which the Company may grant stock options. Up to 1,000,000 shares of common stock have been authorized for issuance under this plan. Options are granted at an exercise price that is equal to the market value of the Company's common stock on the date of the grant. Options granted under the plan expire after seven years and vest fully after six months. The Company records compensation expense for the grant date fair value of option awards evenly over the vesting period under the straight-line method. A summary of the shares subject to currently issued and outstanding stock options under this plan is as follows:

	Shares	Weighted-Average Exercise Price	Weighted-Average Remaining Contractual Terms (in years)	Aggregate Intrinsic Value
Outstanding at December 31, 2005	190,000	$ 15.32		
Granted	25,000	34.92		
Exercised	(25,000)	13.73		
Forfeited	-	-		
Outstanding at December 31, 2006	190,000	$ 18.09	3.44	$ 2,725,400
Vested or expected to vest at December 31, 2006	190,000	$ 18.09	3.44	$ 2,725,400
Exercisable at December 31, 2006	190,000	$ 18.09	3.44	$ 2,725,400

At December 31, 2006, approximately 11,732,000 and 400,000 shares were reserved for future issuance under the employee stock option plan and director stock option plan, respectively. For the year ended December 31, 2006, the Company recognized stock option compensation expense related to these plans of $2,762,000 and a corresponding income tax benefit of $1,019,000.

The fair value of each stock option grant is estimated on the date of the grant using the Black-Scholes option pricing model. The Black-Scholes model requires the use of assumptions, including expected volatility, expected life, the risk free rate and the expected dividend yield. Expected volatility is based upon the historical volatility of the Company's stock. Expected life represents the period of time that options granted are expected to be outstanding. The Company uses historical data and experience to estimate the expected life of options granted. The risk free interest rate for periods within the contractual life of the options are based on the United States Treasury rates in effect for the expected life of the options. The following weighted-average assumptions were used for grants issued for the years ended December 31, 2006, 2005 and 2004:

	2006	2005	2004
Risk free interest rate	4.01%	4.25%	3.01%
Expected life	4.7 years	4.0 years	4.0 years
Expected volatility	35.1%	35.8%	40.4%
Expected dividend yield	0%	0%	0%

The weighted-average grant-date fair value of options granted during the years ended December 31, 2006, 2005 and 2004 were $11.71, $8.82 and $14.47, respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 were $22,985,000, $19,100,000 and $9,753,000, respectively. The Company recorded cash received from the exercise of stock options of $15,970,000, $14,915,000 and

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

$11,080,000, in the years ended December 31, 2006, 2005 and 2004, respectively. The remaining unrecognized compensation cost related to unvested awards at December 31, 2006, was $7,702,000 and the weighted-average period of time over which this cost will be recognized is 3.3 years.

Employee Stock Purchase Plan

The Company's employee stock purchase plan permits all eligible employees to purchase shares of the Company's common stock at 85% of the fair market value. Participants may authorize the Company to withhold up to 5% of their annual salary to participate in the plan. The stock purchase plan authorizes up to 2,600,000 shares to be granted. During the year ended December 31, 2006, the Company issued 165,306 shares under the purchase plan at a weighted average price of $27.36 per share. During the year ended December 31, 2005, the Company issued 161,903 shares under the purchase plan at a weighted average price of $27.57 per share. During the year ended December 31, 2004, the Company issued 187,754 shares under the purchase plan at a weighted average price of $20.85 per share. SFAS No. 123R requires compensation expense to be recognized based on the discount between the grant date fair value and the employee purchase price for shares sold to employees. During the year ended December 31, 2006, the Company recorded $799,000 of compensation cost related to employee share purchases and a corresponding income tax benefit of $295,000. At December 31, 2006, approximately 400,000 shares were reserved for future issuance.

Other Employee Benefit Plans

The Company sponsors a contributory profit sharing and savings plan that covers substantially all employees who are at least 21 years of age and have at least six months of service. The Company has agreed to make matching contributions equal to 50% of the first 2% of each employee's wages that are contributed and 25% of the next 4% of each employee's wages that are contributed. The Company also makes additional discretionary profit sharing contributions to the plan on an annual basis as determined by the Board of Directors. The Company's matching and profit sharing contributions under this plan are funded in the form of shares of the Company's common stock. A total of 4,200,000 shares of common stock have been authorized for issuance under this plan. During the year ended December 31, 2006, the Company recorded $6,429,000 of compensation cost for contributions to this plan and a corresponding income tax benefit of $2,372,000. During the year ended December 31, 2005, the Company recorded $6,606,000 of compensation cost for contributions to this plan and a corresponding income tax benefit of $2,444,000. During the year ended December 31, 2004, the Company recorded $5,278,000 of compensation cost for contributions to this plan and a corresponding income tax benefit of $1,969,000. The compensation cost recorded in 2006 includes matching contributions made in 2006 and profit sharing contributions accrued in 2006 to be funded with issuance of shares of common stock in 2007. The Company issued 204,000 shares in 2006 to fund profit sharing and matching contributions at an average grant date fair value of $34.34. The Company issued 210,461 shares in 2005 to fund profit sharing and matching contributions at an average grant date fair value of $25.79. The Company issued 238,828 shares in 2004 to fund profit sharing and matching contributions at an average grant date fair value of $19.36. A portion of these shares related to profit sharing contributions accrued in prior periods. At December 31, 2006, approximately 1,061,000 shares were reserved for future issuance under this plan.

The Company has in effect a performance incentive plan for the Company's senior management under which the Company awards shares of restricted stock that vest equally over a three-year period and are held in escrow until such vesting has occurred. Shares are forfeited when an employee ceases employment. A total of 800,000 shares of common stock have been authorized for issuance under this plan. Shares awarded under this plan are valued based on the market price of the Company's common stock on the date of grant and compensation cost is recorded over the vesting period. The Company recorded $416,000 of compensation cost for this plan for the year ended December 31, 2006 and recognized a corresponding income tax benefit of $154,000. The Company recorded $289,000 of compensation cost for this plan for the year ended December 31, 2005 and recognized a corresponding income tax benefit of $107,000. The Company recorded $248,000 of compensation cost for this plan for the year ended December 31, 2004 and recognized a corresponding income tax benefit of $93,000. The total fair value of shares vested (at vest date) for the years ended December 31, 2006, 2005 and 2004 were $503,000, $524,000 and $335,000, respectively. The remaining unrecognized compensation cost related to unvested awards at December 31, 2006 was $536,000. The Company awarded 18,698 shares under this plan in 2006 with an average grant date fair value of $33.12. The Company awarded 14,986 shares under this plan in 2005 with an average grant date fair value of $25.41. The Company awarded 15,834 shares under this plan in 2004 with an average grant date fair value of $19.05. Compensation cost for shares awarded in 2006 will be recognized over the three-year vesting period. Changes in the Company's restricted stock for the year ended December 31, 2006 were as follows:

	SHARES	WEIGHTED-AVERAGE GRANT DATE FAIR VALUE
Non-vested at December 31, 2005	15,052	$22.68
Granted during the period	18,698	33.12
Vested during the period	(15,685)	26.49
Forfeited during the period	(1,774)	27.94
Non-vested at December 31, 2006	16,291	$30.80

At December 31, 2006, approximately 659,000 shares were reserved for future issuance under this plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

NOTE 10 — SHAREHOLDER RIGHTS PLAN

On May 7, 2002, the Board of Directors adopted a shareholder rights plan whereby one right was distributed for each share of common stock, par value $.01 per share, of the Company held by stockholders of record (the "Rights") as of the close of business on May 31, 2002. The Rights initially entitle stockholders to buy a unit representing one one-hundredth of a share of a new series of preferred stock of the Company for $160 and expire on May 30, 2012. The Rights generally will be exercisable only if a person or group acquires beneficial ownership of 15% or more of the Company's common stock or commences a tender or exchange offer upon consummation of which such person or group would beneficially own 15% or more of the Company's common stock. If a person or group acquires beneficial ownership of 15% or more of the Company's common stock, each Right (other than Rights held by the acquiror) will, unless the Rights are redeemed by the Company, become exercisable upon payment of the exercise price of $160 for an amount of common stock of the Company having a market value of twice the exercise price of the Right. A copy of the Rights Agreement was filed on June 3, 2002, with the Securities and Exchange Commission, as Exhibit 4.2 to the Company's report on Form 8-K.

NOTE 11 — INCOME PER COMMON SHARE

The following table sets forth the computation of basic and diluted income per common share:

(In thousands, except per share data)

YEARS ENDED DECEMBER 31,	2006	2005	2004
Numerator (basic and diluted):			
Net income	$178,085	$164,266	$139,566
Denominator:			
Denominator for basic income per common share-weighted-average shares	113,253	111,613	110,020
Effect of stock options (Note 9)	1,866	1,772	1,403
Denominator for diluted income per common share-adjusted weighted-average shares and assumed conversion	115,119	113,385	111,423
Basic net income per common share	$ 1.57	$ 1.47	$ 1.27
Net income per common share-assuming dilution	$ 1.55	$ 1.45	$ 1.25

NOTE 12 — INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets and liabilities are as follows at December 31:

(In thousands)	2006	2005
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	$ 958	$ 1,050
Other accruals	19,251	17,601
Noncurrent:		
Other accruals	2,967	2,404
Total deferred tax assets	23,176	21,055
Deferred tax liabilities:		
Current:		
Inventories	25,988	21,102
Noncurrent:		
Property and equipment	37,517	42,255
Other	3,621	2,665
Total deferred tax liabilities	67,126	66,022
Net deferred tax liabilities	$(43,950)	$(44,967)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS *(continued)*

The provision for income taxes consists of the following:

(In thousands)	CURRENT	DEFERRED	TOTAL
2006:			
Federal	$ 96,824	$ (938)	$ 95,886
State	8,373	(79)	8,294
	$105,197	$ (1,017)	$104,180
2005:			
Federal	$ 79,720	$ (616)	$ 79,104
State	7,754	(55)	7,699
	$ 87,474	$ (671)	$ 86,803
2004:			
Federal	$ 56,385	$ 6,942	$ 63,327
State	6,038	698	6,736
	$ 62,423	$ 7,640	$ 70,063

A reconciliation of the provision for income taxes to the amounts computed at the federal statutory rate is as follows:

(In thousands)	2006	2005	2004
Federal income taxes at statutory rate	$ 98,793	$87,874	$ 65,708
State income taxes, net of federal tax benefit	5,387	4,986	4,355
Other items, net	-	(6,057)	-
	$104,180	$86,803	$ 70,063

The Company's provision for income taxes for 2005 included a non-cash tax adjustment of $6.1 million in the third quarter of 2005 resulting from the favorable resolution of prior tax uncertainties. The tax benefit realized in 2005 was nonrecurring and reflected the reversal of previously recorded income tax reserves related to a prior acquisition. In determining the provision for income taxes, the Company uses an estimated annual effective tax rate based on expected annual income by jurisdiction and statutory tax rates. The impact of significant discrete items, including the tax benefit realized in the third quarter of 2005, is separately recognized in the quarter in which they occur.

The tax benefit associated with the exercise of non-qualified stock options has been reflected as additional paid-in capital in the accompanying consolidated financial statements.

DIRECTORS AND EXECUTIVE COMMITTEE

David O'Reilly
Chairman of the Board of Directors

Charlie O'Reilly
Vice Chairman of the Board of Directors

Larry O'Reilly
Vice Chairman of the Board of Directors

Rosalie O'Reilly-Wooten
Director

Jay Burchfield
Director
Compensation Committee Chairman
Corporate Governance and Nominating Committee

Joe Greene
Director
Corporate Governance and Nominating Committee Chairman

Paul Lederer
Director
Audit Committee
Compensation Committee

John Murphy
Director
Audit Committee Chairman
Corporate Governance and Nomination Committee

Ronald Rashkow
Director
Audit Committee
Compensation Committee

Greg Henslee
Chief Executive Officer and Co-President

Ted Wise
Chief Operating Officer and Co-President

Tom McFall
Senior Vice President of Finance and Chief Financial Officer

David McCready
Senior Vice President of Distribution

Jeff Shaw
Senior Vice President of Store Operations and Sales

Mike Swearengin
Senior Vice President of Merchandise

Tricia Headley
Vice President and Corporate Secretary

Tony Bartholomew
Vice President of Sales

Jim Batten
Treasurer

Greg Beck
Vice President of Purchasing

Brad Beckham
Vice President of Eastern Region

Ron Byerly
Vice President of Marketing and Advertising

Ken Cope
Vice President of Central Region

Charlie Downs
Vice President of Real Estate

Phyllis Evans
Vice President of Store Administration

Alan Fears
Vice President of Store Expansion and Acquisitions

Brett Heintz
Vice President of Retail Systems

Jaime Hinojosa
Vice President of Southern Region

Steve Jasinski
Vice President of Information Systems

Greg Johnson
Vice President of Distribution

Randy Johnson
Vice President of Store Inventories

Michelle Kimrey
Vice President of Finance

Kenny Martin
Vice President of Northern Region

Wayne Price
Vice President of Risk Management

Barry Sabor
Vice President of Loss Prevention

Tom Seboldt
Vice President of Merchandise

Phillip Thompson
Vice President of Human Resources

Mike Williams
Vice President of Advanced Technology

OPERATIONS MANAGEMENT

SENIOR MANAGEMENT

Doug Adams
Director of Atlanta East Region

Tom Allen
Director of Store Computer Operations

Jeanene Asher
Director of Telecommunications

Mike Ballard
Director of Internet Development and Networking

Emmitt Barina
Director of Safety and Environmental Regulations

Steve Beil
Director of Atlanta West Region

Bert Bentley
Director of Houston Region

David Bock
Director of Bumper to Bumper Marketing

Rob Bodenhamer
Director of Technology Development

Larry Boevers
Regional DC Director

Doug Bragg
Director of Oklahoma Region

Mike Chapman
Director of Dallas Region

Keith Childers
Director of Little Rock Region

Tom Connor
Regional DC Director

Joe Edwards
Director of Store Installations

Jay Enloe
Director of Workers' Compensation and Risk Administration

Jason Frizzell
Director of Knoxville Region

David Glore
Director of Ozark Sales

Julie Gray
Director of Corporate Services

Robert Greene
Director of Real Estate Legal Services

Ron Greenway
Director of Tax

Jeff Groves
Director of Legal and Claims Services

Joe Hankins
Director of Store Design

Billy Harris
Director of Iowa and Nebraska Region

Doy Hensley
Director of Store Support Services

Doug Hopkins
Director of Distribution Systems

Jack House
Director of Customer Services

Chad Keel
Director of St. Louis Region

Brad Knight
Director of Pricing

John Krebs
Director of Gulf States Region

Terry Lee
Director of Minneapolis/ St. Paul Region

Dave Leonhart
Regional DC Director

John Martinez
Director of Rio Grande Valley Region

Jim Maynard
Director of Employment and Team Member Relations

Rodger McClary
Director of Kansas City Region

Curt Miles
Director of Indianapolis Region

Brad Oplotnik
Director of Systems Management

Kevin Overmon
Director of Nashville Region

Greg Pelkey
Director of Store Development

OPERATIONS MANAGEMENT *(continued)*

Steve Peterie
Director of Construction/Design

Ed Randall
Director of Property Management

Shari Reaves
Director of Compensation and Benefits

Steve Rice
Director of Credit and Collections

Art Rodriguez
Director of Southern Division Sales

Chuck Rogers
Director of Sales Administration

Rick Samsel
Director of Inventory Control

Denny Smith
Director of Springfield Region

Dick Smith
Director of Construction

Mark Smith
Director of Dallas Region

Charlie Stallcup
Director of Training

David Strom Sr
Director of Houston Region

Ron Todd
Director of Northern Division Sales

David Turney
Director of Internal Audit

Tamra Waitman
Director of Accounting

Jeff Watts
Director of Eastern Division Sales

Saundra Wilkinson
Director of Store Administration

Wes Wise
Director of Marketing

CORPORATE MANAGEMENT

David Adams
Regional Field Sales Manager

Dale Agee
Computer Help Support Manager

Ray Aguirre
Regional Field Sales Manager

Curt Allen
Real Estate Site Acquisition Manager

Dan Altis
Distribution Center Manager

Mark Alwardt
Division Loss Prevention Manager

Keith Asby
Sales Manager of Special Markets

Gary Baker
Technical Assistance Manager

Carl Barina
Regional Field Sales Manager

Doug Bennett
Installer Pricing/Bid Manager

Merle Bever
Product Manager

Ron Biegay
Southern Division Human Resources Manager

Larry Blundell
Regional Field Sales Manager

Tom Bollinger
Regional Field Sales Manager

Marcus Boyer
Distribution Center Manager

Clint Brewer
Regional Field Sales Manager

Kent Brewer
DC Transportation Manager

Brian Callis
Regional Field Sales Manager

Yvonne Cannon
Payroll Manager

Stephen Carlson
Jobber Systems Sales Manager

Bruce Creason
DC Safety Manager

Garry Curbow
Replenishment Manager

Sean Dando
Regional Field Sales Manager

Jack Darovich
Regional Field Sales Manager

Cecil Davis
DC Inbound Operations Manager

Mark Decker
Distribution Center Manager

Nancy Evans
DC Administrative Services Manager

Paula Eyman
Special Projects Manager

Paul Fagan
Distribution Center Manager

Becky Fincher
Advertising Manager

Jeremy Fletcher
Financial Reporting and Budgeting Manager

Kevin Ford
DC Projects and Procedures Manager

Doug Fox
Distribution Center Manager

Randy Freund
Regional Field Sales Manager

David Furr
Service Equipment Sales Manager

Lori Fuzzell
Customer Service Manager

Jaydee Garrison
Regional Field Sales Manager

Bob Gillespie
Store Safety Manager

Art Glidewell
Distribution Center Manager

Garry Glossip
Payroll Operations Manager

Larry Gray
Distribution Center Manager

Kevin Greven
Motorsports Manager

Bridget Harmon
PC Support Manager

Jim Harnisfager
Product Manager

Mike Hauk
Division Training Manager

David Hawker
Regional Field Sales Manager

Troy Hellerud
Central Support Manager

Rubin Herrera
Regional Field Sales Manager

Diana Hicks
Internal Communications Manager

Mike Hill
Installer Systems Manager

Jim Hoover
Regional Field Sales Manager

David Hunsucker
Catalog Department Manager

Doug Hutchison
Inventory Project Manager

Johnny Ivy
Regional Field Sales Manager

Karen James
Marketing Production Manager

John Jay
Regional Field Sales Manager

Les Keeth
Accounts Payable Manager

Jennifer Kent
Store Design Manager

Duane Keys
Application Development Manager

Marcus Kilmer
Installer Marketing Manager

Steve Lines
Sales Training Manager

Jim Litchford
Jobber Regional Field Sales Manager

James Lovelace
Regional Field Sales Manager

Deirdre Luscombe
Eastern Division Human Resources Manager

Jeff Main
Jobber Systems Sales Manager

Harry Marcley
Distribution Center Manager

Ed Martinez
Distribution Center Manager

John Massie
Regional Field Sales Manager

Shawn McCormick
Division Loss Prevention Manager

Becky McCurry
Accounts Payable Expense Manager

Carla McElveen
New Store Inventory Manager

Jeff McKinney
Customer Satisfaction Manager

Mindy Morgan
Team Member Relations Manager

Asa Nelson
Distribution Center Manager

Chapman Norman
Inventory Maintenance Manager

Tom Nunley
Regional Field Sales Manager

James Owens
Regional Field Sales Manager

Bryan Packer
Jobber Computer Sales and Services Manager

Wendi Page
Real Estate Property Manager

Tony Phelps
Distribution Center Manager

Steve Phillips
Division Loss Prevention Manager

Paul Pike
Regional Field Sales Manager

Randy Pilcher
Distribution Center Manager

OPERATIONS MANAGEMENT *(continued)*

Chris Pridgen
Human Resources Employment Manager

Brian Prock
Division Training Manager

Tim Rathbun
Store Inventory Manager

Lyn Robertson
Accounts Receivable Manager

Corey Robinson
Inventory Accounting Manager

James Samson
Distribution Center Manager

Tim Scholl
DC Field Projects Manager

Joyce Schultz
Houston Office Manager

Ronald Scivicque
Regional Field Sales Manager

William Seiber
Distribution Center Manager

Darren Shaw
Product Manager II

Garry Shelby
Regional Field Sales Manager

Leigh Sides
Alarm Services Manager

Craig Smith
Real Estate Contract Manager

Dave Smith
Product Manager II

Phil Smith
Division Loss Prevention Manager

Tim Smith
Credit Manager

Tom Smith
Training Manager

Paul Southard
IS Governance Manager

Dave Steinle
Application Development Manager

Mary Stratton
Human Resources Programs/Tech Support Manager

Camille Strickland
Real Estate Contract Manager

Robert Suter
Product Manager II

Dallas Thompson
Real Estate Site Acquisition Manager

Arnulfo Vega
Regional Field Sales Manager

Darin Venosdel
Application Development Manager

Rob Verch
Product Manager II

Patton Walden
Midstate Division Training Manager

Lane Wallace
Pricing Manager

Susan Weaver
Human Resources Records/Benefits Manager

Sherry Webb
Accounts Payable Merchandise Manager

Les Weber
Regional Field Sales Manager

Scotty Weidman
Product Manager II

Brian Welch
Logistics Manager

Matt Weldon
PBE Field Sales Manager

Jan Whitney
Travel Manager

Larry Wiles
Audio/Video Communications Manager

Karla Williams
Application Development Manager

Jimmy Wilmoth
Division Training Manager

Joe Winteberg
Product Manager II

Heather Woody
Assistant Controller

Mike Young
Retail Facilities Manager

Christina Zahn
HRIS and Compensation Manager

DISTRICT CORPORATE MANAGEMENT

Abel Abila
Eddie Allen
Conrad Alvidrez
Henry Armington
Brince Beasley
Aaron Biggs
Kirk Bilski
Richard Blackwell
Robert Boutwell
Mic Bowers
Eric Bowman
Randy Brewer
Lester Brown
Patrick Brown
Mark Cannon
Donnie Carden
Fred Carrington
Jimmy Carter
Carl Chaffin
David Chavis
Dirk Chester
Aaron Clay
Mark Cleary
Justin Coker
Jim Dickens
Robert Doss
Bruce Dowell
Dan Dowell
Ward Duffy
Robert Dumas
Tommy Dunn
Mike Eckelkamp
Judy Ellington
Paul Engaldo
Ron England
Tony Fagan
Chris Farrow
Bill Fellows
Jacky Floyd
Donald Ford
Rodney Ford
Kirk Frazier
Mark Frazier
Butch Galloway
Tim Gardner
Brad Garrison
Samuel Garza
Dennis Gonzales
John Gouette
Daniel Grandquest
Dan Griffin
Tony Haag
Jeffery Haire
Chris Harrelson
James Harris
Jon Haught
Paul Hayden
Rick Hedges
Mike Heiter
Gerry Hendrix
Shannon Henry
Ed Hernandez
Perry Hess
Matt Hill
Mike Hollis
Allen Hughes
Clint Hunter
Johnny Jarvis
Jeff Jennings
Wayne Johnson
Natalie Johnson
Chuck Kaiser
Justin Kale
Butch Kelton
Todd Kemper
Troy King
Rick Koehn
Greg Lair
Scott Leonhart
Chris Lewis
Greg Locker
Oliverio Lopez
Steve Luellen
Billy Lynn
Mark Mach
Tommy Mason
Clint McFadden
Marc McGehee
Chris Meade
Jack Miller
Chuck Mitchell
Andy Moore
Don Morgan
Trey Morgan
Randy Morris
Ciro Moya Jr
Max Murray
Lance O'Donnell
Ramon Odems
Ken Omland
Ron Papay
Jude Patterson
Gilbert Perez
Pernell Peters
Randy Peterson
David Pilat
Brent Pizzolato
David Plaster
Mike Platt
Rob Pocklington
Troy Polston
Robert Poynor
James Ramsey
John Ramsey
Clint Reaux
Will Reger
Christopher Reynolds
Tommy Rhoads
Alan Riddle
Larry Roof
Randall Rowland
Daniel Rozowski
Juan Salinas
Matt Schlueter
Paul Schmidt
Jim Scott
Dusty Sermersheim
Steven Severe
Kevin Shockey
Frank Silvas
Eric Sims
Bobby Smith
Bob Snodgrass
Wayne Spratlin
Thomas Stack
Beverli Sumrall
Marvin Swaim
Alan Sweeton
Bert Tamez
Randy Tanner
Ricky Tanner
Shawn Taylor
Rick Tearney
Justin Tracy
Jim Turvey
Mark Van Hoecke
Andy Velez
Fred Wadle
Bo Waldrop
Terry Walker
Mark Warden
Brett Warstler
Rob Weiskirch
Chris Westfall
Terry White
John Winburn
Allen Wise
Dexter Woods
Cody Zimmerman

SHAREHOLDER INFORMATION

CORPORATE ADDRESS

233 South Patterson
Springfield, Missouri 65802
417/862-3333
Web site – www.oreillyauto.com

REGISTRAR AND TRANSFER AGENT

UMB Bank
928 Grand Boulevard
Kansas City, Missouri 64141-0064
Inquiries regarding stock transfers, lost certificates or address changes should be directed to UMB Bank at the above address.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
One Kansas City Place
Kansas City, Missouri 64105-2143

LEGAL COUNSEL

Gallop Johnson & Neuman, L.C.
101 South Hanley Road, Suite 1600
St. Louis, Missouri 63105

Greensfelder, Hemker & Gale, P.C.
10 South Broadway, Suite 2000
St. Louis, Missouri 63102

ANNUAL MEETING

The annual meeting of shareholders of O'Reilly Automotive, Inc. will be held at 10:00 a.m. local time on May 8, 2007, at the Clarion Hotel, Ballrooms 1 and 2, 3333 South Glenstone Ave in Springfield, Missouri. Shareholders of record as of February 28, 2007, will be entitled to vote at this meeting.

FORM 10-K REPORT

The Form 10-K Report of O'Reilly Automotive, Inc. filed with the Securities and Exchange Commission and our quarterly press releases are available without charge to shareholders upon written request. These requests and other investor contacts should be directed to Thomas McFall, Senior Vice President of Finance and Chief Financial Officer, at the corporate address.

TRADING SYMBOL

The Company's common stock is traded on The Nasdaq Stock Market (National Market) under the symbol ORLY.

NUMBER OF SHAREHOLDERS

As of February 28, 2007, O'Reilly Automotive, Inc. had approximately 44,866 shareholders based on the number of holders of record and an estimate of the number of individual participants represented by security position listings.

ANALYST COVERAGE

The following analysts provide research coverage of O'Reilly Automotive, Inc.:
AG Edwards & Sons – Brian Postol
BB&T Capital Markets – Anthony Cristello
BMO Capital Markets – Richard Weinhart
Citigroup – Bill Sims
Credit Suisse – Gary Balter
Deutsche Bank Securities Inc. – Michael Baker
Friedman, Billings, Ramsey & Co. – Jeff Sonnek
Goldman Sachs Research – Matthew Fassler
JPMorgan Securities – Nanch Hoch
Kevin Dann & Partners – Cid Wilson
Lehman Brothers Equities Research – Alan Rifkin
Merriman Curhan Ford & Co. – Robert Straus
Morgan Stanley – Armando Lopez
Raymond James & Associates – Dan Wewar
RBC Capital Markets – Scot Ciccarelli
Robert W. Baird & Co – David Cumberland
Sidoti & Company – Scott Stember
Stifel Nicolaus & Co., Inc. – David Schick
William Blair & Company – Sharon Zackfia

MARKET PRICES AND DIVIDEND INFORMATION

The prices in the table below represent the high and low sales price for O'Reilly Automotive, Inc. common stock as reported by the Nasdaq Stock Market (see Note 4 to the Company's consolidated financial statements for information concerning the Company's stock split in 2005).

The common stock began trading on April 22, 1993. No cash dividends have been declared since 1992, and the Company does not anticipate paying any cash dividends in the foreseeable future.

	2006		2005	
	HIGH	LOW	HIGH	LOW
First Quarter	$38.30	$30.87	$26.22	$21.98
Second Quarter	36.99	29.30	30.50	23.21
Third Quarter	34.24	27.49	32.53	26.54
Fourth Quarter	35.10	30.92	32.52	25.75
For the Year	38.30	27.49	32.53	21.98

Board of Directors

DAVID O'REILLY
Chairman of the Board

CHARLIE O'REILLY
Vice Chairman of the Board

LARRY O'REILLY
Vice Chairman of the Board

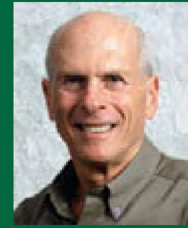
ROSALIE O'REILLY-WOOTEN
Director

JAY BURCHFIELD
Director Since 1997
Compensation Committee - Chairman
Corporate Governance/Nominating Committee

JOE GREENE
Director Since 1993
Corporate Governance/ Nominating Committee - Chairman

PAUL LEDERER
Director 1993-July 1997; February 2001
Audit Committee
Compensation Committee

JOHN MURPHY
Director Since 2003
Audit Committee - Chairman
Corporate Governance/Nominating Committee



RONALD RASHKOW
Director Since 2003
Audit Committee
Compensation Committee

MISSION STATEMENT

"O'Reilly Automotive will be the dominant supplier of auto parts in our market areas by offering our retail customers, professional installers and jobbers the best combination of inventory, price, quality and service; providing our team members with competitive wages and benefits, and working conditions which promote high achievement and ensure fair and equitable treatment; and, providing our stockholders with an excellent return on their investment."

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