Making Connections for 50 Years

The O'Reilly Fundamental Difference

O'Reilly AUTO PARTS

2007 Annual Report

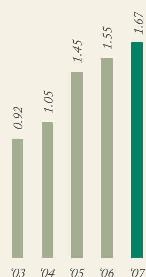
Financial Highlights

In thousands, except earnings per share data and operating data (a)

years ended december 31	**2007**	2006	2005	2004	2003
Sales	**$2,522,319**	$2,283,222	$2,045,318	$1,721,241	$1,511,816
Operating Income	**305,151**	282,315	252,524	190,458	165,275
Net Income[(a)]	**193,988**	178,085	164,266	117,674	100,087
Working Capital	**573,328**	566,892	424,974	479,662	441,617
Total Assets	**2,279,737**	1,977,496	1,718,896	1,432,357	1,157,033
Total Debt	**100,469**	110,479	100,774	100,914	121,902
Shareholders' Equity	**1,592,477**	1,364,096	1,145,769	947,817	784,285
Net Income Per Common Share (assuming dilution)	**1.67**	1.55	1.45	1.05	0.92
Weighted-Average Common Shares (assuming dilution)	**116,080**	115,119	113,385	111,423	109,060
Stores At Year-End	**1,830**	1,640	1,470	1,249	1,109
Same-Store Sales Gain	**3.7%**	3.3%	7.5%	6.8%	7.8%

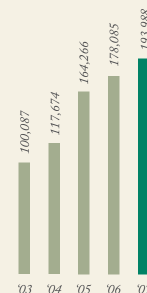
O'Reilly generated another solid year of sales and earnings in 2007. Our commitment to providing the right part at the right price while maintaining industry-leading customer service levels continues to be the fuel for our growth. 2007 marked the 15th consecutive year of record revenue and earnings and positive comparable store sales increases since we became a public company in 1993.

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



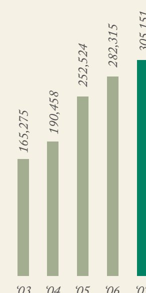
Our focus remains on profitable growth which resulted in a 7.7% increase in Earning Per Share to $1.67 in 2007.

NET INCOME[(a)]
(in thousands)



We continue to grow market share while maintaining our commitment to providing unparalleled customer service which resulted in an increase in Net Income of 8.9% to $194 million in 2007.

OPERATING INCOME[(a)]
(in thousands)

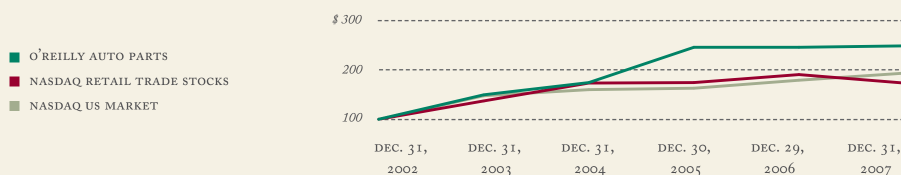


Operating income increased 8.1% to $305 million in 2007 as a result of our continued improvements in vendor relationships and distribution system efficiencies.

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

COMPARISON OF FIVE-YEAR CUMULATIVE RETURN

- O'REILLY AUTO PARTS
- NASDAQ RETAIL TRADE STOCKS
- NASDAQ US MARKET



Letter to Shareholders

In 1957, Charles F. "C.F." O'Reilly and his son, Charles H. "Chub" O'Reilly, along with 11 team members, opened the first O'Reilly Auto Parts store in Springfield, Missouri, and established the blueprint that has powered the growth of our company through 50 years and 1,830 new stores. The key elements of that blueprint haven't really changed over the past 50 years since the opening of that first store. Team O'Reilly continues to be unwavering in its commitment by providing the best possible service to our customers and by working hard each and every day. At the center of our success are our people. Our financial success in 2007 reflect the thousands of daily interactions between our professional parts people and our customers. Our commitment to service means that we strive on a daily basis to make a connection with our customers by providing the professional expertise that they expect and the parts availability that they need.

At the core of our customer service culture is the partnership that we form with our customers. Our experience over the past 50 years has provided ample evidence that the auto parts business is a relationship business. We work diligently to build these relationships with our professional installer customers who count on us to consistently provide them with industry-leading parts availability and technical expertise. We understand that our success is contingent on their success, so we focus on the key factors that make their businesses profitable. We maintain the best in-stock parts availability in the automotive aftermarket business, so that our professional installers can get the parts they need quickly and can maximize the efficiency and profitability of their shops. We recruit and train the best parts people because our customers expect a very high level of expertise … the wrong part delivered to one of our professional installers means a repair job gets delayed and their customer is disappointed. So we focus on training through our e-learning system and hands-on mentoring of our store operations management.

Our focus on training and mentoring the best parts people in the business allows us to establish and maintain a strong

Wisdom comes with age – a glance at our 50-year journey.

1957

Chub O'Reilly and his father, C.F. O'Reilly, made the decision to open O'Reilly Automotive, Inc. They began with a single store and 11 team members at 403 Sherman in Springfield, Mo.

1958

After our first full year in business, sales totaled $700,000.

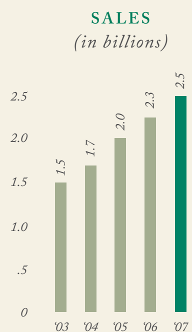
OZARK AUTOMOTIVE DISTRIBUTORS, INC.

1961

Ozark Automotive Distributors was formed to specialize in wholesale distribution to independent auto parts stores.

1964

O'Reilly Automotive added its first branch store at Glenstone and Bennett in Springfield, Mo.



Our dual market strategy and 50 years of experience in providing industry-leading customer service resulted in a 10.5% increase in sales to $2.52 billion in 2007.

connection with our do-it-yourself customers. Do-it-yourself customers require more from their shopping experience than a cashier at a register. They seek out our professional parts people and rely on their professional expertise. If you spend any time in one of our stores, you quickly realize that the majority of our DIY sales are the culmination of a conversation at the counter where an O'Reilly team member works with the customer to get the right part to solve their problem. We know that our success in these individual encounters is the key to capturing our customer's repeat business and word-of-mouth business, which leads to increased share in our markets. We constantly focus on meeting the highest service standards to ensure customer satisfaction.

2007 was a year of challenges for O'Reilly Auto Parts and our customers. After a strong start to the year, the demand in our markets softened as our customers encountered significant financial pressures due to higher energy costs and the generally difficult economic conditions. In this challenging environment, Team O'Reilly remained dedicated to providing the best service and value to our customers and achieved comparable store sales growth of 3.7%, which led our industry. In 2007, our team extended O'Reilly Auto Part's track record of significant profitable growth through continued focus on exceptional customer service and expense control. We also added 190 new stores while delivering an operating margin of 12.1% and 7.7% earnings per share growth. We are pleased to have achieved total sales growth of 10.5% while increasing inventory only 8.5%. We were able to grow sales at a rate greater than inventory due to continued leverage of our core competency in inventory management. Our focus on deploying the right inventory assortment in our stores has allowed us to reduce average inventory per store even as sales volume has grown.

We view the recent challenges in the macroeconomic environment to be temporary and continue to be very optimistic about the long-term prospects for growth and profitability in our industry. Even during the difficult economic conditions faced by consumers in 2007, the total number of miles driven in the United States remained stable. The total number of miles driven is one of the key factors that drives demand in the

1974

With nine stores operating in southwest Missouri, we broke ground on a new 48,000 square-foot distribution center.

1978

Our "Dual Market Strategy" was born to maximize sales in the professional installer and DIY businesses.

1979

O'Reilly began enhanced advertising campaigns with the addition of our animated little red van, which helped make O'Reilly a household brand.

1980

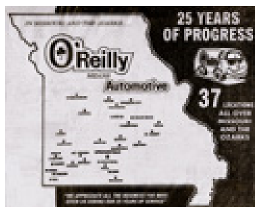
O'Reilly held first Managers' Conference at Kentwood Arms Hotel, Springfield, Mo.

automotive aftermarket business. We are confident that the American consumer will adjust to economic pressures and that miles driven will be a positive contributor to demand over the long term. Over the past several years, the average age of the vehicle population in the United States, for both cars and light trucks, has seen significant increases. We expect that these increasing vehicle age trends will continue due to the higher quality level of the drive trains and key interior and exterior components in newer vehicles. These higher-mileage vehicles go through more routine maintenance and repair cycles and represent a significant driver of demand for our products.

We are uniquely positioned to capitalize on the growth of the automotive aftermarket industry because of our time-tested, dual-market strategy that is unmatched by any of our competitors. This core competency enables us to take advantage of growth in demand in both the DIY and the DIFM sides of our business and contributes to our consistent financial performance, particularly during these difficult economic conditions. Our ability to execute our dual-market strategy is the result of over 50 years of experience and a sustained commitment to building relationships, by providing our customers with the best parts availability in the business through an expansive network of 14 distribution centers supported by over 100 master inventory stores. Our competitive advantage in distribution is amplified by our sophisticated inventory management systems that customize the product assortment stocked at each store based upon market demand and vehicle registration data. Our ability to equip our highly-trained professional parts people with timely access to the parts our customers need translates into consistent customer satisfaction and loyalty.

Building upon our proven dual-market strategy, we are planning to continue our aggressive growth in 2008 and have established a goal of opening 205 new stores. Store growth in 2008 will follow our strategy of concentrating new store openings in contiguous geographic markets, enabling us to quickly leverage our distribution, operating and advertising investment. In 2008, we will open our 15th distribution center in Lubbock, Texas, providing capacity for further growth

Our 14 distribution centers are staffed by over 3,300 dedicated team members who fill over 400,000 orders each day. When a customer requests a hard-to-find part, it is immediately picked and delivered to the store within 24 hours.



1983

O'Reilly Automotive reaches its 25 anniversary with 37 stores in Missouri and the Ozarks.

1993

O'Reilly went public and began offering stock on the NASDAQ market under the symbol ORLY at $17.50 per share.

1993

O'Reilly opened our second distribution center in Kansas City, Mo.

1996

O'Reilly opened our 200th store in St. Joseph, Mo.

Our co-founder, C.F. O'Reilly once said, "People do business with people they like". Highly trained Parts Specialists offer industry leading customer service to each and every one of our customers.

in one of our stronghold markets. Acquisitions have historically been a key component of our growth, and we continue to view our company as a consolidator in the automotive aftermarket industry. We will not waver from our commitment to profitable growth in our expansion strategy and will continue to exercise discipline in our selection of acquisition targets that fit our culture and return value to our shareholders. As each member of Team O'Reilly helps drive us on to achieving our sales goals, our customers and shareholders will reap the rewards of our continued success.

From the 11 team members who joined our founders to open the first O'Reilly Auto Parts store in 1957 to the 23,576 team members who staff our 1,830 stores, 14 distribution centers and corporate offices today, the culture at Team O'Reilly has truly been the foundation that has always set our company apart and allowed us to become the dominant auto parts supplier in the markets we serve. We understand that "culture" or "core values" is a popular and even overused conversation point for many companies. Our culture goes beyond a catchy corporate slogan … it is reflected in the daily activities of each of our team members. We understand the importance of our culture and the impact it has had on our 50 years as a company, and our top priority is perpetuating our culture values which have been such a meaningful contributor to our success.

On behalf of Team O'Reilly, we want to express appreciation to our valued customers and shareholders. We are extremely excited about the outlook for O'Reilly Auto Parts and pledge to be the dominant auto parts supplier in our markets.

David O'Reilly
Chairman of the Board

Greg Henslee
Chief Executive Officer and Co-President

Ted Wise
Chief Operating Officer and Co-President

Tom McFall
Chief Financial Officer and Executive Vice President

1998

O'Reilly merged with Hi/LO Auto Supply, adding 182 stores in Texas and Louisiana, as well as a distribution center in Houston, Texas. This merger increased our total store count to 491 stores.

2001

O'Reilly acquired Mid-State Automotive Distributors, ending 2001 with 875 stores, 12,676 team members and over $1 billion in sales.

2005

O'Reilly reached $2 billion in sales and purchased Midwest Automotive Distributors, Inc., adding 71 stores in Minnesota, Montana, North Dakota, South Dakota, Wisconsin and Wyoming, and DCs in St. Paul, Minn. and Billings, Mont.

2007

Team O'Reilly celebrated 50 years in the auto parts industry with 1,830 stores, 23,576 team members and over $2.5 billion in sales.

At O'Reilly,

our focus continues to be on making customer connections by building on the basic fundamentals. We do this by hiring the right people, training them to provide the highest levels of customer service and creating a culture in which our team members can thrive. We have always stayed true to the fundamentals that have set us apart and made us successful, and we continue to look for ways to grow as individuals, as a team and as a company.

Making connections with our team members, our customers and our communities will always be a key to our growth and success.

Making Connections with

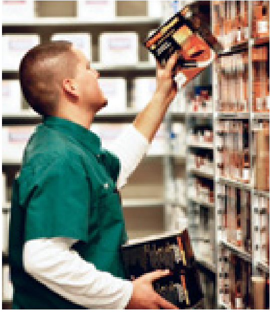
our customers

"Since our humble beginning in 1957, we've been in the business of making lasting impressions on our customers."

From the first printed announcement of the opening of O'Reilly Auto Parts to many of the business relationships we enjoy today, friendship and loyalty have always been at the core of our partnerships with our customers. We have been offering our customers the proven hand of friendship, courtesy and consideration, backed by extensive stocks of quality merchandise, and prompt, efficient service since the day our doors opened 50 years ago.

In today's competitive market, it takes more than good prices and quality products to gain and retain customers. We must make their shopping experience memorable by providing service far above the realm of what our customers expect. After all, customer loyalty is not something we get, but something that comes as a result of what we give.

We receive countless letters from our customers recounting the great service provided by our team members. They think they've received special treatment, but to Team O'Reilly, it's a way of life.



"Bleeding Green" is a term often used by O'Reilly team members to describe our dedication. Since O'Reilly Automotive began in 1957 as a family-owned business, the philosophy has always been to treat team members like family. Our founders understood the importance of investing business trust in our team members and sharing the fruits of the venture as well as the burden. Today, nearly 24,000 dedicated team members work to keep this tradition alive.

Making Connections with

dedicated team members

We have a soft spot in our hearts for our professional installer customers as they were our first customers, and we've enjoyed serving them since our very beginning. It wasn't until the recession of the late 1970s that a new breed of automotive customer began to emerge and became known as the do-it-yourselfer. Our ability to successfully serve our traditional installer customers and the do-it-yourselfers led to our dual market strategy and set us apart from our competition. Our store inventories are designed to provide brands that professional installers prefer as well as quality private brands that are competitively priced. We also provide daily deliveries to all stores from our distribution centers and supplement customer needs at many of our stores with multiple deliveries throughout the day. We have extensive marketing programs for our installer customers and a dedicated sales force that delivers a wide array of support and services to our installer customers. We never lose sight of the fact that the better we serve our installer customers, the stronger our relationships become.

"We have the systems and the fleet to connect our extensive distribution network to our parts people so we can be responsive to the needs of our installer customers."

Making Connections with

installer customers

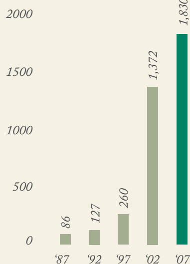
Making Connections with

advanced technology

Our voice-directed picking systems, e-learning technology, graphical point-of-sale systems, web-based sales and global inventory management systems are just a few of the advanced technologies that help us grow sales, control expenses and maximize profits. These technological advances increase efficiencies in our distribution processes, enhance our team members technical knowledge and make a greater assortment of parts available to our customers at competitive prices … every day!

Making Connections with
new markets

In keeping with the "family" connection that is always present for Team O'Reilly, we are eager to be actively involved in our business communities. We make connections with customers as soon as we enter a new market. We let communities know that we are in town, not only to be their first choice for auto parts, but also to show our active support for the community by beginning each grand opening ribbon-cutting ceremony with a donation to a local charity.



TOTAL NUMBER OF STORES

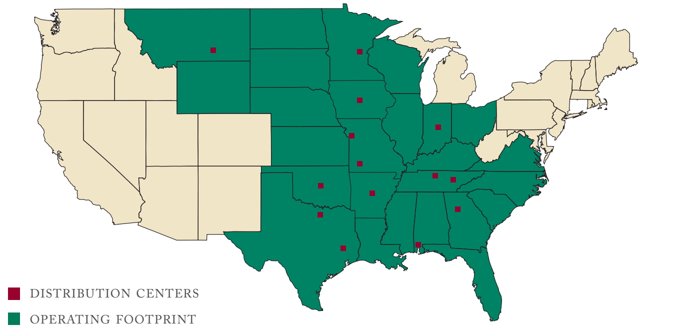
We successfully opened 190 stores in 2007, bringing our total number of stores to 1,830, and we have plans to open 205 new stores in 2008.

O'Reilly distribution centers make an average of 4,000 connections to our stores each day, this high service level is a strong competitive advantage. Virtually every O'Reilly store has access to over 116,000 stock keeping units (SKUs) by same-day or overnight delivery service.

We have real-time connectivity to our stores, which allows every store to see not only their servicing DC inventory, but also the entire O'Reilly inventory network. The O'Reilly distribution process connects to our stores in metro markets several times a day. Hub stores act as mini distribution centers and deliver to spoke stores in their area, allowing them to provide an enhanced inventory selection.

Our highly automated systems allow for more efficient handling, which means increased service to our stores at reduced costs. We will continue to take advantage of new technologies that will boost our productivity, accuracy and, ultimately, our bottom line, and are committed to strengthening this competitive advantage in 2008 and beyond.

2007 O'REILLY AUTO PARTS STORES AND DISTRIBUTION CENTERS



State	Stores		State	Stores		State	Stores	
ALABAMA	100	*stores*	MINNESOTA	58	*stores*	SOUTH DAKOTA	3	*stores*
ARKANSAS	90	*stores*	MISSISSIPPI	63	*stores*	TENNESSEE	117	*stores*
FLORIDA	20	*stores*	MISSOURI	169	*stores*	TEXAS	467	*stores*
GEORGIA	115	*stores*	MONTANA	20	*stores*	VIRGINIA	4	*stores*
ILLINOIS	61	*stores*	NEBRASKA	27	*stores*	WISCONSIN	11	*stores*
INDIANA	55	*stores*	NORTH CAROLINA	38	*stores*	WYOMING	5	*stores*
IOWA	65	*stores*	NORTH DAKOTA	7	*stores*			
KANSAS	63	*stores*	OHIO	14	*stores*	TOTAL NUMBER OF STORES	*1,830*	
KENTUCKY	50	*stores*	OKLAHOMA	103	*stores*			
LOUISIANA	73	*stores*	SOUTH CAROLINA	32	*stores*			

Making Connections with

distribution efficiency

Making Connections with

the O'Reilly culture

"We depend on our team members to make our company a success and, in the process, our team members succeed."

Team O'Reilly is connected through our culture – the grass roots of our early beginnings. Our culture is the glue that holds us all together. We stick together by offering great customer service, watching our expenses, working hard to share the load and having fun. We care for each other, respect each other and help each other to be the best that we can become.

When you hear a team member talk about "LIVING GREEN," they are talking about living all aspects of our culture values. It's the tool we use to help us accomplish our personal and professional goals and to help lead and influence our fellow team members.

As we continue to strive toward our goal of being the dominant supplier of auto parts in all of our market areas, our key advantage will be the culture that was established by our founders 50 years ago. This culture has been fostered ever since our inception and is at the heart of everything we do as we "LIVE GREEN!"

"We're focused, connected and committed to keeping our minds on the MAIN THING . . . People, Service and Performance! We are ENTHUSIASTIC, HARD-WORKING PROFESSIONALS who are DEDICATED to TEAMWORK, SAFETY and EXCELLENT CUSTOMER SERVICE. We will practice EXPENSE CONTROL, while setting an example of RESPECT, HONESTY and a WIN-WIN ATTITUDE in everything we do!"

Selected Consolidated Financial Data

(In thousands, except per share data)

Years ended December 31,	2007	2006	2005
INCOME STATEMENT DATA:			
Sales	$ 2,522,319	$ 2,283,222	$ 2,045,318
Cost of goods sold, including warehouse and distribution expenses	1,401,859	1,276,511	1,152,815
Gross profit	1,120,460	1,006,711	892,503
Operating, selling, general and administrative expenses	815,309	724,396	639,979
Operating income	305,151	282,315	252,524
Other income (expense), net	2,337	(50)	(1,455)
Income before income taxes and cumulative effect of accounting change	307,488	282,265	251,069
Provision for income taxes	113,500	104,180	86,803
Income before cumulative effect of accounting change	193,988	178,085	164,266
Cumulative effect of accounting change, net of tax (a)	--	--	--
Net income	$ 193,988	$ 178,085	$ 164,266
BASIC EARNINGS PER COMMON SHARE:			
Income before cumulative effect of accounting change	$ 1.69	$ 1.57	$ 1.47
Cumulative effect of accounting change (a)	--	--	--
Net income per share	$ 1.69	$ 1.57	$ 1.47
Weighted-average common shares outstanding	114,667	113,253	111,613
EARNINGS PER COMMON SHARE-ASSUMING DILUTION:			
Income before cumulative effect of accounting change	$ 1.67	$ 1.55	$ 1.45
Cumulative effect of accounting change (a)	--	--	--
Net income per share	$ 1.67	$ 1.55	$ 1.45
Weighted-average common shares outstanding – adjusted	116,080	115,119	113,385
PRO FORMA INCOME STATEMENT DATA: (b)			
Sales			
Cost of goods sold, including warehouse and distribution expenses			
Gross profit			
Operating, selling, general and administrative expenses			
Operating income			
Other income (expense), net			
Income before income taxes			
Provision for income taxes			
Net income			
Net income per share			
Net income per share – assuming dilution			

(a) The cumulative change in accounting method, effective January 1, 2004, changed the method of applying LIFO accounting policy for certain inventory costs. Under the new method, included in the value of inventory are 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.

(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)

2004	2003	2002	2001	2000	1999	1998
$ 1,721,241	$ 1,511,816	$ 1,312,490	$ 1,092,112	$ 890,421	$ 754,122	$ 616,302
978,076	873,481	759,090	624,294	507,720	428,832	358,439
743,165	638,335	553,400	467,818	382,701	325,290	257,863
552,707	473,060	415,099	353,987	292,672	248,370	200,962
190,458	165,275	138,301	113,831	90,029	76,920	56,901
(2,721)	(5,233)	(7,319)	(7,104)	(6,870)	(3,896)	(6,958)
187,737	160,042	130,982	106,727	83,159	73,024	49,943
70,063	59,955	48,990	40,375	31,451	27,385	19,171
117,674	100,087	81,992	66,352	51,708	45,639	30,772
21,892	--	--	--	--	--	--
$ 139,566	$ 100,087	$ 81,992	$ 66,352	$ 51,708	$ 45,639	$ 30,772
$ 1.07	$ 0.93	$ 0.77	$ 0.64	$ 0.51	$ 0.47	$ 0.36
0.20	--	--	--	--	--	--
$ 1.27	$ 0.93	$ 0.77	$ 0.64	$ 0.51	$ 0.47	$ 0.36
110,020	107,816	106,228	104,242	102,336	97,348	84,952
$ 1.05	$ 0.92	$ 0.76	$ 0.63	$ 0.50	$ 0.46	$ 0.36
0.20	--	--	--	--	--	--
$ 1.25	$ 0.92	$ 0.76	$ 0.63	$ 0.50	$ 0.46	$ 0.36
111,423	109,060	107,384	105,572	103,456	99,430	86,408
	$ 1,511,816	$ 1,312,490	$ 1,092,112	$ 890,421	$ 754,122	$ 616,302
	872,658	754,844	618,217	501,567	425,229	350,581
	639,158	557,646	473,895	388,854	328,893	265,721
	473,060	415,099	353,987	292,672	248,370	200,962
	166,098	142,547	119,908	96,182	80,523	64,759
	(5,233)	(7,319)	(7,104)	(6,870)	(3,896)	(6,958)
	160,865	135,228	112,804	89,312	76,627	57,801
	60,266	50,595	42,672	33,776	28,747	22,141
	$ 100,599	$ 84,633	$ 70,132	$ 55,536	$ 47,880	$ 35,660
	$ 0.93	$ 0.80	$ 0.67	$ 0.54	$ 0.49	$ 0.42
	$ 0.92	$ 0.79	$ 0.66	$ 0.54	$ 0.48	$ 0.41

Selected Consolidated Financial Data (continued)

(In thousands, except per share data)

Years ended December 31,	2007	2006	2005
SELECTED OPERATING DATA:			
Number of stores at year-end (a)	1,830	1,640	1,470
Total store square footage at year-end (in 000's)(a)(b)	12,439	11,004	9,801
Sales per weighted-average store (in 000's)(a)(b)	$ 1,430	$ 1,439	$ 1,478
Sales per weighted-average square foot (b)(d)	$ 212	$ 215	$ 220
Percentage increase in same store sales (c)	3.7%	3.3%	7.5%
BALANCE SHEET DATA:			
Working capital	$ 573,328	$ 566,892	$ 424,974
Total assets	2,279,737	1,977,496	1,718,896
Current portion of long-term debt and short-term debt	25,320	309	75,313
Long-term debt, less current portion	75,149	110,170	25,461
Shareholders' equity	1,592,477	1,364,096	1,145,769

(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. Sales per weighted-average store and 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 sales per weighted-average square foot were $207.

Selected Consolidated Financial Data (continued)

2004	2003	2002	2001	2000	1999	1998
1,249	1,109	981	875	672	571	491
8,318	7,348	6,408	5,882	4,491	3,777	3,172
$ 1,443	$ 1,413	$ 1,372	$ 1,426	$ 1,412	$ 1,422	$ 1,368
$ 217	$ 215	$ 211	$ 219	$ 218	$ 223	$ 238
6.8%	7.8%	3.7%	8.8%	5.0%	9.6%	6.8%
$ 479,662	$ 441,617	$ 483,623	$ 429,527	$ 296,272	$ 249,351	$ 208,363
1,432,357	1,157,033	1,009,419	856,859	715,995	610,442	493,288
592	925	682	16,843	49,121	19,358	13,691
100,322	120,977	190,470	165,618	90,463	90,704	170,166
947,817	784,285	650,524	556,291	463,731	403,044	218,394

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 installer 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 judgments 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 to 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 material vendor concessions are recognized as a reduction to the cost of inventory. Amounts receivable from vendors also include amounts due to us relating to vendor purchases and product returns. Management regularly reviews amounts receivable from vendors and assesses the need for a reserve for uncollectible amounts based on our evaluation of our vendors' financial position and corresponding ability to meet their financial obligations. Based on our historical results and current assessment, we have not recorded a reserve for uncollectible amounts in our consolidated financial statements, and we do not believe there is a reasonable likelihood that our ability to collect these amounts will differ from our expectations. The eventual ability of our vendors to pay us the obliged amounts 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. The assumptions made by management as they relate to each of these factors represents our judgment as to the most probable cumulative impact of each factor to our future obligations. Our calculation of our self-insurance 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 and the application of alternative assumptions would result in a different estimate of these liabilities. Actual claim activity or development may vary from our assumptions and estimates, which may result in material losses or gains. As we obtain additional information that affects the assumptions and estimates we used to recognize liabilities for claims incurred in prior accounting periods, we adjust our self-insurance liabilities to reflect the revised estimates based on this additional information. If self-insurance reserves were changed 10% from our estimated reserves at December 31, 2007, the financial impact would have been approximately $4.7 million or 1.5% of pretax income.

- **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 the future that will require a significant change in the 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. If the allowance for doubtful accounts were changed 10% from our estimated allowance at December 31, 2007, the financial impact would have been approximately $0.3 million or 0.1% of pretax income.

● **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. The amount of such liabilities is based on various factors, such as differing interpretations of tax regulations by the responsible tax authority, experience with previous tax audits and applicable tax law rulings. 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. The estimates of our potential tax liabilities contain uncertainties because management must use judgment to estimate the exposures associated with our various tax positions and actual results could differ from our estimates. Alternatively, we could have applied assumptions regarding the eventual outcome of the resolution of open tax positions that would differ from our current estimates but that would still be reasonable given the nature of a particular position. Our judgment regarding the most likely outcome of uncertain tax positions has historically resulted in an estimate of our tax liability that is greater than actual results. While our estimates are subject to the uncertainty noted in the preceding discussion, our initial estimates of our potential tax liabilities have historically not been materially different from actual results except in instances where we have reversed liabilities that were recorded for periods that were subsequently closed with the applicable taxing authority.

The accounting for our tax reserves changed with the adoption of Financial Accounting Standards Board ("FASB") Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48") on January 1, 2007. Refer to Note 1 for further discussion of the impact of adopting FIN 48 and change in reserves during Fiscal 2007.

● **Share-based compensation** – Prior to January 1, 2006, we accounted for 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, we adopted SFAS No. 123R, "Share Based Payment," under the modified prospective method. Accordingly, prior period amounts have not been restated. Under this application, we record 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, our 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, we use a Black-Scholes option-pricing model to determine the fair value of stock options. The Black-Scholes model includes various assumptions, including the expected life of stock options, the expected volatility and the expected risk-free interest rate. These assumptions reflect our best estimates, but they involve inherent uncertainties based on market conditions generally outside our control. Since our adoption of SFAS No. 123R, share-based compensation cost would not have been materially impacted by the variability in the range of reasonable assumptions we could have applied to value option award grants, but we anticipate that share-based compensation cost could be materially impacted by the application of alternate assumptions in future periods. Also, under SFAS No. 123R, we are required to record share-based compensation expense net of estimated forfeitures. Our forfeiture rate assumption used in determining share-based compensation expense is estimated based on historical data. The actual forfeiture rate and corresponding share-based compensation expense could differ from those estimates.

● **Inventory Obsolescence and Shrink** – Inventory, which consists of automotive hard parts, maintenance items, accessories and tools is stated at the lower of cost or market. The extended nature of the life cycle of our products is such that the risk of obsolescence of our inventory is minimal. The products that we sell generally have application in our markets for a relatively long period of time in conjunction with the corresponding vehicle population. We have developed sophisticated systems for monitoring the life cycle of a given product and, accordingly, have historically been very successful in adjusting the volume of our inventory in conjunction with a decrease in demand. We do record a reserve to reduce the carrying value of our inventory through a charge to cost of sales in the isolated instances where we believe that the market value of a product line is lower than our recorded cost. This reserve is based on our assumptions about the marketability of our existing inventory and is subject to uncertainty to the extent that we must estimate, at a given point in time, the market value of inventory that will be sold in future periods. Ultimately, our projections could differ from actual results and could result in a material impact to our stated inventory balances. We have historically not had to materially adjust our obsolescence reserves due to the factors discussed above and do not anticipate that we will experience material changes in our estimates in the future.

We also record a reserve to reduce the carrying value of our perpetual inventory to account for quantities in our perpetual records above the actual existing quantities on hand caused by unrecorded shrink. We estimate this reserve based on the results of our extensive and frequent cycle counting programs and periodic, full physical inventories at our stores and distribution centers. To the extent that our estimates do not accurately reflect the actual inventory shrinkage, we could potentially experience a material impact to our inventory balances. We have historically been able to provide a timely and accurate measurement of shrink and have not experienced material adjustments to our estimates. If unrecorded shrink at December 31, 2007 were double the estimate that we recorded based on our historical experience, the financial impact would have been less than $3 million or less than 1.0% of pretax income.

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,	2007	2006	2005
Sales	100.0%	100.0%	100.0%
Cost of goods sold, including warehouse and distribution expenses	55.6	55.9	56.4
Gross profit	44.4	44.1	43.6
Operating, selling, general and administrative expenses	32.3	31.7	31.3
Operating income	12.1	12.4	12.3
Other income/(expense), net	0.1	--	(0.1)
Income before income taxes and cumulative effect of accounting change	12.2	12.4	12.2
Provision for income taxes	4.5	4.6	4.2
Net income	7.7%	7.8%	8.0%

2007 COMPARED TO 2006

Sales increased $239 million, or 10.5%, from $2.28 billion in 2006 to $2.52 billion in 2007, due to 190 net additional stores opened during 2007 which contributed $72.5 million to the sales increase, a full year of sales for stores opened throughout 2006 adding $83.5 million and a 3.7% increase in same-store sales for stores open at least one year providing $82.6 million of the sales increase. We believe that the increased sales achieved by our existing stores are the result of superior inventory availability, offering 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, compensation programs for all store team members that provide incentives for performance and our continued focus on serving professional installers. The same store sales increase in 2007 of 3.7% was greater than the prior year's increase of 3.3%, but below our historical results. The decrease from historical trends is the result of challenging external macroeconomic factors in 2006 and 2007. The external macroeconomic factors, which we believe negatively impacted our sales, were constraints on our customers' discretionary income as a result of increased interest rates and higher energy costs. Consumers also encountered higher gas prices which resulted in annual miles driven, a key driver of demand for our products, remaining flat in comparison to the long term trend of annual increases. We anticipate that continued store unit and sales growth consistent with our historical rates will continue in the future.

Gross profit increased $113.7 million, or 11.3%, from $1.01 billion (44.1% of sales) in 2006 to $1.12 billion (44.4% of sales) in 2007, primarily due to the increase in sales resulting from a larger number of stores and increased sales levels at existing stores. The increase in gross profit as a percent of sales is the result of improvements in product mix, lower product acquisition cost and distribution system efficiencies. Improvements in product mix were the result of strategies which differentiated our merchandise selections at each store based on customer demand and vehicle demographics in the store's market and through ongoing Team Member training initiatives focused on selling products with greater gross margin contribution. Product acquisition cost improved due to increased imports from lower cost providers in foreign countries as well as improved negotiating leverage with our vendors resulting from our increased purchasing power. Improvements in our distribution system were the result of capital projects designed to create operating expense efficiencies. We anticipate these trends to continue at a moderate rate throughout 2008.

SG&A increased $90.9 million, or 12.6%, from $724.4 million (31.7% of sales) in 2006 to $815.3 million (32.3% of sales) in 2007. 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 SG&A as a percentage of sales was the result of increased store salaries primarily driven by the timing of new store openings, higher advertising costs, increased depreciation expense primarily driven by investment in new store technology and increased stock compensation expense.

Other income, net, increased by $2.4 million from ($0.1) million in 2006 to $2.3 million in 2007. The increase was primarily due to decreased interest expense on long-term debt resulting from a reduction in the interest rate on long-term debt as well as increased interest income derived from a higher than average cash balance.

Provision for income taxes increased from $104.2 million in 2006 (36.9% effective tax rate) to $113.5 million in 2007 (36.9% effective tax rate). The increase in the dollar amount was due to the increase of income before income taxes.

As a result of the impacts discussed above, net income increased $15.9 million from $178.1 million in 2006 (7.8% of sales) to $194.0 million in 2007 (7.7% of sales).

2006 COMPARED TO 2005

Sales increased $238 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 which contributed $67.4 million to the sales increase, a full year of sales for stores opened throughout 2005 adding $76.1 million and a 3.3% increase in same-store sales for stores open at least one year providing $93.5 million of the sales increase. 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. Improvements in product mix were the result of strategies which differentiated our merchandise selections at each store based on customer demand and vehicle demographics in the store's market and through ongoing Team Member training initiatives focused on selling products with greater gross margin contribution. Product acquisition cost improved due to increased imports from lower cost providers in foreign countries as well as improved negotiating leverage with our vendors resulting from our increased purchasing power.

SG&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 SG&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).

LIQUIDITY AND CAPITAL RESOURCES

Net cash provided by operating activities was $299.4 million in 2007, $185.9 million in 2006 and $206.7 million in 2005. The increase in net cash provided by operating activities in 2007 was principally due to increased net income and a reduction in net inventory investment. Net inventory investment reflects our investment in inventory net of the amount of accounts payable to vendors. The reduction in net inventory investment is the result of reductions in our per store inventory levels and our ongoing effort to extend terms with our vendors. Reductions in our per store inventory levels are driven by our continued optimization of inventory selection at our stores and our ability to efficiently deploy inventory throughout our distribution network.

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 in 2006 was also due to the reclassification of the tax benefit derived from the exercise of stock options. In accordance with our prior 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.

Net cash used in investing activities was $300.3 million in 2007, $225.2 million in 2006 and $262.4 million in 2005. The increase in cash used in investing activities in 2007 was due to increases in capital expenditures resulting from our ongoing store expansion program, store relocations, enhancements in existing store technology and the purchase of $21.7 million in short-term investments. The changes in cash used in investing activities during 2006 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 $282.7 million in 2007, $228.9 million in 2006 and $205.2 million in 2005. 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 190, 170, and 149 (excluding the 72 stores acquired with Midwest) net stores in 2007, 2006 and 2005, respectively. We remodeled or relocated 55, 31 and 37 stores in 2007, 2006 and 2005, respectively. Enhancements in existing store technology include the roll out of our new point of sale system as well as hardware upgrades, new in-store starter and alternator testers and the installation of energy management systems. We acquired a location and began construction in 2007 on a new distribution center that will be located in Lubbock, TX. The new distribution center is scheduled to be completed and to begin operations in 2008. We acquired a new facility near Minneapolis, Minnesota in 2006 for the relocation of the St. Paul, Minnesota distribution center that was completed and began operations in 2007. We acquired a new distribution center near Indianapolis, Indiana in 2005 that was subsequently equipped and opened in 2006.

Our continuing store expansion program requires significant capital expenditures and working capital principally for inventory requirements. Our 2008 growth plans call for approximately 205 new stores and the addition of one distribution center with total capital expenditures of $275 million to $285 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 $1.2 million to $1.4 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 0.750% (5.25% at December 31, 2007) and expires in July 2010. There were no outstanding borrowings under the Credit Facility at December 31, 2007. Outstanding borrowings totaled $9.7 million at December 31, 2006. 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 $71.4 million and $57.4 million at December 31, 2007 and 2006, 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 September 28, 2007, the Company completed a second amended and restated master agreement to its $49 million Synthetic Operating Lease Facility with a group of financial institutions. The terms of such lease facility provide for an initial lease period of seven years, a residual value guarantee of approximately $39.7 million at December 31, 2007 and purchase options on the properties. The lease facility also contains a provision for an event of default whereby the lessor, among other things, may require the Company to purchase any or all of the properties. Management believes it is reasonable to assume that such an event of default will not occur. One additional renewal period of seven years may be requested from the lessor, although the lessor is not obligated to grant such renewal. The second amended and restated Facility has been accounted for as an operating lease under SFAS No. 13 and related interpretations, including FASB Interpretation No. 46R.

We issue stand-by letters of credit provided by a $50 million sub limit 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 $28.6 million and $32.9 million were outstanding at December 31, 2007 and 2006, respectively.

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 2008 that are included in current liabilities. In addition, we have commitments with various vendors for the purchase of inventory as of December 31, 2007. 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	3-5 Years	Over 5 Years
CONTRACTUAL OBLIGATIONS:					
Long-term debt	$ 100,469	$ 25,320	$ 149	$ --	$ 75,000
Interest payments related to long-term debt	35,165	4,845	8,086	8,085	14,149
Operating leases	502,583	51,765	90,619	74,896	285,303
Purchase obligations	96,251	96,251	--	--	--
Total contractual cash obligations	$ 734,468	$ 178,181	$ 98,854	$ 82,981	$ 374,452

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 2007 and 2006. 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 2007			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Sales	$ 613,145	$ 643,108	$ 661,778	$ 604,288
Gross profit	269,281	287,185	293,701	270,293
Operating income	77,192	81,558	82,716	63,685
Net income	48,407	51,899	53,087	40,595
Basic net income per common share	0.42	0.45	0.46	0.35
Net income per common share – assuming dilution	0.42	0.45	0.46	0.35

(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

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 2007 and for pro forma information regarding the Company's accounting for stock options in 2005.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement process for recording in the financial statements the tax benefit of uncertain tax positions taken or expected to be taken in a tax return. For a benefit to be recognized, a tax position must be more-likely-than-not to be sustainable upon examination by the applicable taxing authority. Additionally, FIN 48 provides guidance on derecognition, measurement, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company adopted the provisions of FIN 48 on January 1, 2007. No adjustment was required in the liability for unrecognized income tax benefits as a result of the implementation of FIN 48. As of January 1, 2007 and December 31, 2007, the Company had a gross exposure for unrecognized tax benefits (including interest and penalties) of $14.9 million and $19.7 million, respectively, all of which would affect the Company's effective tax rate if recognized, generally net of federal tax effect. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2007 and December 31, 2007, the Company had accrued approximately $1.7 million and $2.8 million, respectively, of interest and penalties related to uncertain tax positions before the benefit of the deduction for interest on state and federal returns. During the year ended December 31, 2007, the Company recorded tax expense related to an increase in its liability for interest and penalties of $1.3 million. Although unrecognized tax benefits for individual tax positions may increase or decrease during 2008, the Company expects a reduction of $0.8 million of unrecognized tax benefits during the one-year period subsequent to December 31, 2007 resulting from settlement or expiration of the statute of limitations.

The Company's U.S. federal income tax returns for tax years 2005 and beyond remain subject to examination by the Internal Revenue Service ("IRS"). The IRS concluded an examination of the Company's consolidated 2002, 2003 and 2004 federal income tax returns in the first quarter of 2007. The statute of limitations for the Company's federal income tax returns for tax years 2003 and prior have expired. The statute of limitations for the Company's U.S. federal income tax return for 2004 will expire on September 15, 2008, unless otherwise extended. The Company's state income tax returns remain subject to examination by various state authorities for tax years ranging from 2001 through 2006.

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, 2007, 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, 2007. 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, 2007, 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 and has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, as stated in their report which is included herein.

Greg Henslee
Chief Executive Officer and
Co-President

Thomas McFall
Chief Financial Officer and
Executive Vice President

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, 2007 and 2006, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2007. 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, 2007 and 2006, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2007, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), O'Reilly Automotive, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2007, 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 27, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

Kansas City, Missouri
February 27, 2008

Report Of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders of O'Reilly Automotive, Inc. and Subsidiaries

We have audited O'Reilly Automotive, Inc. and Subsidiaries' internal control over financial reporting as of December 31, 2007, 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 included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the company's internal control over financial reporting based on our audit.

We 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, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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, O'Reilly Automotive, Inc. and Subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2007, 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 as of December 31, 2007 and 2006, and the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2007 of O'Reilly Automotive, Inc. and Subsidiaries and our report dated February 27, 2008 expressed an unqualified opinion thereon.

Ernst & Young LLP

Kansas City, Missouri
February 27, 2008

Consolidated Balance Sheets

(In thousands, except share data)

December 31,	2007	2006
ASSETS		
Current assets:		
Cash and cash equivalents	$ 47,555	$ 29,903
Accounts receivable, less allowance for doubtful accounts of $3,179 in 2007 and $2,861 in 2006	84,242	81,048
Amounts receivable from vendors	48,263	47,790
Inventory	881,761	812,938
Other current assets	40,483	28,997
Total current assets	1,102,304	1,000,676
Property and equipment, at cost	1,479,779	1,214,854
Less: accumulated depreciation and amortization	389,619	331,759
Net property and equipment	1,090,160	883,095
Notes receivable, less current portion	25,437	30,288
Goodwill	50,447	49,065
Other assets	11,389	14,372
Total assets	$ 2,279,737	$ 1,977,496
LIABILITIES AND SHAREHOLDERS' EQUITY:		
Current liabilities:		
Accounts payable	$ 380,683	$ 318,404
Self insurance reserve	29,967	31,084
Accrued payroll	23,739	21,171
Accrued benefits and withholdings	13,496	12,948
Deferred income taxes	6,235	5,779
Other current liabilities	49,536	44,089
Current portion of long-term debt	25,320	309
Total current liabilities	528,976	433,784
Long-term debt, less current portion	75,149	110,170
Deferred income taxes	27,241	38,171
Other liabilities	55,894	31,275
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 – 115,260,564 in 2007 and 113,929,327 in 2006	1,153	1,139
Additional paid-in capital	441,731	400,552
Retained earnings	1,156,393	962,405
Accumulated other comprehensive loss	(6,800)	--
Total shareholders' equity	1,592,477	1,364,096
Total liabilities and shareholders' equity	$ 2,279,737	$ 1,977,496

See accompanying Notes to Consolidated Financial Statements

Consolidated Statements Of Income

(In thousands, except per share data)

December 31,	2007	2006	2005
Sales	$ 2,522,319	$ 2,283,222	$ 2,045,318
Cost of goods sold, including warehouse and distribution expenses	1,401,859	1,276,511	1,152,815
Gross profit	1,120,460	1,006,711	892,503
Operating, selling, general and administrative expenses	815,309	724,396	639,979
Operating income	305,151	282,315	252,524
Other income (expense), net:			
Interest expense	(3,723)	(4,322)	(5,062)
Interest income	4,077	1,573	1,582
Other, net	1,983	2,699	2,025
Total other income (expense), net	2,337	(50)	(1,455)
Income before income taxes	307,488	282,265	251,069
Provision for income taxes	113,500	104,180	86,803
Net income	$ 193,988	$ 178,085	$ 164,266
Basic income per common share:			
Net income per common share	$ 1.69	$ 1.57	$ 1.47
Weighted-average common shares outstanding	114,667	113,253	111,613
Income per common share-assuming dilution:			
Net income per common share-assuming dilution	$ 1.67	$ 1.55	$ 1.45
Adjusted weighted-average common shares outstanding	116,080	115,119	113,385

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Shareholders' Equity

(In thousands)	Common Stock Shares	Par Value	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total	Comprehensive Income
Balance at December 31, 2004	55,377	$ 554	$ 326,650	$ 620,613	$ --	$ 947,817	
Net income	--	--	--	164,266	--	164,266	$ 164,266
Other comprehensive income	--	--	--	--	--	--	--
Comprehensive income							$ 164,266
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	
Balance at December 31, 2005	112,389	$ 1,124	$ 360,325	$ 784,320	--	$ 1,145,769	
Net income	--	--	--	178,085	--	178,085	$ 178,085
Other comprehensive income	--	--	--	--	--	--	--
Comprehensive income							$ 178,085
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	
Balance at December 31, 2006	113,929	$ 1,139	$ 400,552	$ 962,405	--	$ 1,364,096	
Net income	--	--	--	193,988	--	193,988	$ 193,988
Other comprehensive loss	--	--	--	--	(6,800)	(6,800)	(6,800)
Comprehensive income							$ 187,188
Issuance of common stock under employee benefit plans	367	4	11,543	--	--	11,547	
Issuance of common stock under stock option plans	965	10	17,114	--	--	17,124	
Tax benefit of stock options exercised	--	--	6,835	--	--	6,835	
Share based compensation	--	--	5,687	--	--	5,687	
Balance at December 31, 2007	115,261	$ 1,153	$ 441,731	$ 1,156,393	$ (6,800)	$ 1,592,477	

See accompanying Notes to Consolidated Financial Statements.

Consolidated Statements Of Cash Flows

(In thousands)

Years ended December 31,	2007	2006	2005
OPERATING ACTIVITIES			
Net income	$ 193,988	$ 178,085	$ 164,266
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	78,943	64,938	57,228
Deferred income taxes	(6,341)	(1,017)	(671)
Share based compensation programs	12,777	11,029	7,840
Tax benefit of stock options exercised	--	--	7,137
Other	5,007	1,812	1,978
Changes in operating assets and liabilities:			
Accounts receivable	(8,555)	(9,426)	(8,974)
Inventory	(68,823)	(91,427)	(68,794)
Accounts payable	62,279	25,737	43,158
Other	30,143	6,197	3,517
Net cash provided by operating activities	299,418	185,928	206,685
INVESTING ACTIVITIES			
Purchases of property and equipment	(282,655)	(228,871)	(205,159)
Proceeds from sale of property and equipment	2,327	875	1,935
Payments received on notes receivable	5,202	5,174	4,558
Purchase of short-term investments	(21,724)	--	--
Advances made on notes receivable	--	--	(624)
Acquisition of Midwest Auto Parts Distributors net of cash acquired	--	--	(63,145)
Other	(3,468)	(2,379)	(1)
Net cash used in investing activities	(300,318)	(225,201)	(262,436)
FINANCING ACTIVITIES			
Proceeds from issuance of long-term debt	16,450	88,950	--
Principal payments on long-term debt	(26,460)	(80,189)	(602)
Tax benefit of stock options exercised	6,835	8,538	--
Net proceeds from issuance of common stock	21,727	20,493	18,709
Net cash provided by financing activities	18,552	37,792	18,107
Net increase (decrease) in cash and cash equivalents	17,652	(1,481)	(37,644)
Cash and cash equivalents at beginning of year	29,903	31,384	69,028
Cash and cash equivalents at end of year	$ 47,555	$ 29,903	$ 31,384
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:			
Income taxes paid	$ 93,040	$ 98,650	$ 98,440
Interest paid, net of capitalized interest	3,727	4,536	5,062

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, Ohio, 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 inter-company 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 same-day 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 from a regional distribution center with same-day delivery to the jobber customer's location. 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 day 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 was $888,299,000 and $833,626,000 as of December 31, 2007 and 2006, 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 the Company's 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 material 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.
The Company regularly reviews vendor receivables for collectibility and assesses the need for a reserve for uncollectible amounts based on an evaluation of the Company's vendors' financial position and corresponding ability to meet its financial obligations. Management does not believe there is a reasonable likelihood that the Company will be unable to collect the amounts receivable from vendors and the Company did not record a reserve for uncollectible amounts in the consolidated financial statements at December 31, 2007 and 2006.

Investments

The Company determines the appropriate classification of marketable equity securities at the time of purchase and reevaluates such designation as of each balance sheet date. Available-for-sale securities are stated at fair value, with the unrecognized gains and losses, net of tax, reported in accumulated other comprehensive income (loss). Available-for-sale securities in the amount of $10.8 million, stated at fair value, are included in Other Current Assets on the Company's balance sheet at December 31, 2007. The Company did not own any material available-for-sale securities on December 31, 2006. See Note 2, "Investments", for information regarding available-for-sale securities acquired during 2007.

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. 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.

(In thousands)	Original Useful Lives	December 31, 2007	December 31, 2006
Land		$ 220,950	$ 171,048
Buildings and building improvements	15 – 39 years	501,598	394,810
Leasehold improvements	3 – 25 years	189,097	147,357
Furniture, fixtures and equipment	3 – 20 years	429,217	351,889
Vehicles	5 – 10 years	102,665	90,240
Construction in progress		36,252	59,510
		1,479,779	1,214,854
Less: accumulated depreciation and amortization		389,619	331,759
Net property and equipment		$ 1,090,160	$ 883,095

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, 2007, 2006 and 2005 were $2,554,000, $2,639,000 and $2,885,000, respectively.

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.

Notes Receivable

The Company had notes receivable from vendors and other third parties amounting to $32,119,000 and $36,955,000 at December 31, 2007 and 2006, respectively. The notes receivable, which bear interest at rates ranging from 0% to 10%, are due in varying amounts through August 2017.

Goodwill

The accompanying consolidated balance sheets at December 31, 2007 and 2006 include 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, 2007 and 2006.

At December 31, 2007 and 2006, the carrying value of the Company's goodwill was as follows:

(In thousands)	December 31, 2007	December 31, 2006
Beginning balance	$ 49,065	$ 48,069
Acquisitions	1,382	996
Ending balance	$ 50,447	$ 49,065

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 its 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,* which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities using enacted tax rules currently scheduled to be in effect for the year in which the differences are expected to reverse. The effect of a change in tax rates on deferred tax assets and liabilities is recognized in income in the period of the enactment date.

The Company adopted the provisions of FIN 48 on January 1, 2007. This interpretation provides guidance on measurement, derecognition of benefits, classification, interest and penalties, accounting in interim periods, disclosure and transition and requires that income tax positions must meet a more-likely-than-not recognition threshold at the effective date to be recognized.

Advertising Costs
The Company expenses advertising costs as incurred. Advertising expense charged to operations amounted to $40,472,000, $34,929,000 and $28,715,000 for the years ended December 31, 2007, 2006 and 2005, 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 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 year ended December 31, 2005, 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 31, 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)

Year Ended December 31, 2005	
Net income, as reported	$ 164,266
Add stock-based compensation expense, net of tax, as reported	5,699
Deduct stock-based compensation expense, net of tax, under fair value method	(26,522)
Pro forma net income	$ 143,443
Pro forma basic net income per share	$ 1.29
Pro forma net income per share – assuming dilution	$ 1.27
Net income per share, as reported	
Basic	$ 1.47
Assuming dilution	$ 1.45

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 was $6.8 million and $8.5 million for the years ended December 31, 2007 and 2006, respectively.

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 1,613,000, 448,000 and 226,750 for the years ended December 31, 2007, 2006 and 2005, respectively.

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 to the presentation used in 2007.

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 2007 and for pro forma information regarding the Company's accounting for stock options in 2005.

In July 2006, the Financial Accounting Standards Board ("FASB") issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes - an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 prescribes a recognition threshold and a measurement process for recording in the financial statements the tax benefit of uncertain tax positions taken or expected to be taken in a tax return. For a benefit to be recognized, a tax position must be more-likely-than-not to be sustainable upon examination by the applicable taxing authority. Additionally, FIN 48 provides guidance on derecognition, measurement, classification, accounting in interim periods and disclosure requirements for uncertain tax positions. The Company adopted the provisions of FIN 48 on January 1, 2007. No adjustment was required in the liability for unrecognized income tax benefits as a result of the implementation of FIN 48. As of January 1, 2007 and December 31, 2007, the Company had a gross exposure for unrecognized tax benefits (including interest and penalties) of $14.9 million and $19.7 million, respectively, all of which would affect the Company's effective tax rate if recognized, generally net of federal tax affect. The Company recognizes interest and penalties related to uncertain tax positions in income tax expense. As of January 1, 2007 and December 31, 2007, the Company had accrued approximately $1.7 million and $2.8 million, respectively, of interest and penalties related to uncertain tax positions before the benefit of the deduction for interest on state and federal returns. During the year ended December 31, 2007, the Company recorded tax expense related to an increase in its liability for interest and penalties of $1.3 million. Although unrecognized tax benefits for individual tax positions may increase or decrease during 2008, the Company expects a reduction of $0.8 million of unrecognized tax benefits during the one-year period subsequent to December 31, 2007 resulting from settlement or expiration of the statute of limitations.

The Company's U.S. federal income tax returns for tax years 2005 and beyond remain subject to examination by the Internal Revenue Service ("IRS"). The IRS concluded an examination of the Company's consolidated 2002, 2003 and 2004 federal income tax returns in the first quarter of 2007. The statute of limitations for the Company's federal income tax returns for tax years 2003 and prior have expired. The statute of limitations for the Company's U.S. federal income tax return for 2004 will expire on September 15, 2008, unless otherwise extended. The Company's state income tax returns remain subject to examination by various state authorities for tax years ranging from 2001 through 2006.

A summary of the changes in the gross amount of unrecognized tax benefits, excluding interest and penalties, for the year ended December 31, 2007, is shown below:

(In thousands)	
Balance as of January 1, 2007	$ 13,245
Addition based on tax postions related to the current year	3,484
Addition based on tax positions related to prior years	827
Reduction due to lapse of statute of limitations	(604)
Balance as of December 31, 2007	$ 16,952

NOTE 2 – INVESTMENTS

The following is a summary of available-for-sale securities included in Other Current Assets on the Company's balance sheet at December 31,2007:

Available-for-Sale-Securities

	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value (Net Carrying Amount)
Equity securities				
(In thousands)	$ 21,724	$ --	$ (10,933)	$ 10,791
	$ 21,724	$ --	$ (10,933)	$ 10,791

Available-for-sale securities held by the Company are securities that are publicly traded in active markets and are valued based on quoted closing prices as of December 31, 2007.

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 48 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 21 of its O'Reilly Auto Parts stores under fifteen-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 $3,446,000, $3,413,000 and $3,380,000 in 2007, 2006 and 2005, 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 0.750% (5.25% at December 31, 2007) and expires in July 2010. There were no outstanding borrowings under the Credit Facility at December 31, 2007. Outstanding borrowings under the Credit Facility at December 31, 2006 totaled $9.7 million.

The Company issues stand-by letters of credit provided by a $50 million sub limit 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 $28.6 million and $32.9 million were outstanding at December 31, 2007 and 2006, respectively. Accordingly, the Company's aggregate availability for additional borrowings under the Credit Facility was $71.4 million and $57.4 million at December 31, 2007 and 2006, respectively. The Company is subject to a commitment fee ranging from 0.075% to 0.175% (.075% at December 31, 2007) 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, 2007, the monthly installment under this agreement was approximately $28,000. The present value of the future minimum lease payments under capital leases totaled approximately $469,000 and $779,000 at December 31, 2007 and 2006 respectively, which have been classified as long-term debt in the accompanying consolidated financial statements. The Company did not acquire any equipment under capital

leases during the period ended December 31, 2007. The Company acquired $943,000 of assets under the capital lease during the periods ended December 31, 2006.

Principal maturities of long-term debt are as follows (amounts in thousands):

2008	$ 25,320
2009	149
2010	--
2011	--
2012	--
Thereafter	75,000
	$ 100,469

NOTE 7—COMMITMENTS

Lease Commitments

On September 28, 2007, the Company completed a second amended and restated master agreement to its $49 million Synthetic Operating Lease Facility with a group of financial institutions. The terms of such lease facility provide for an initial lease period of seven years, a residual value guarantee of approximately $39.7 million at December 31, 2007 and purchase options on the properties. The lease facility also contains a provision for an event of default whereby the lessor, among other things, may require the Company to purchase any or all of the properties. One additional renewal period of seven years may be requested from the lessor, although the lessor is not obligated to grant such renewal. The second amended and restated Facility has been accounted for as an operating lease under SFAS No. 13 and related interpretations, including FASB Interpretation No. 46R. 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, 2007, 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
2008	$ 3,404	$ 48,361	$ 51,765
2009	2,790	45,131	47,921
2010	2,043	40,655	42,698
2011	1,778	37,452	39,230
2012	1,746	33,920	35,666
Thereafter	6,817	278,486	285,303
	$ 18,578	$ 484,005	$ 502,583

Rental expense amounted to $55,358,000, $49,245,000 and $43,047,000 for the years ended December 31, 2007, 2006, and 2005, respectively.

Other Commitments

The Company had construction commitments, which totaled approximately $96.3 million, at December 31, 2007.

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 and typically vest 25% a year, over four years. Since the adoption of SFAS No. 123R, 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, 2006	6,450,745	$ 20.38		
Granted	1,416,925	33.67		
Exercised	(1,045,292)	16.38		
Forfeited	(577,538)	27.86		
Outstanding at December 31, 2007	6,244,840	$ 23.41	6.69	$ 58,549,000
Vested or expected to vest at December 31, 2007	5,846,832	$ 22.76	6.53	$ 58,319,000
Exercisable at December 31, 2007	4,404,403	$ 19.31	5.70	$ 57,879,000

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. Since the adoption of SFAS No. 123R, 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, 2006	190,000	$ 18.09		
Granted	25,000	34.84		
Exercised	--	--		
Forfeited	--	--		
Outstanding at December 31, 2007	215,000	$ 20.12	2.89	$ 2,769,000
Vested or expected to vest at December 31, 2007	215,000	$ 20.12	2.89	$ 2,769,000
Exercisable at December 31, 2007	215,000	$ 20.12	2.89	$ 2,769,000

At December 31, 2007, approximately 10,687,000 and 375,000 shares were reserved for future issuance under the employee stock option plan and director stock option plan, respectively. For the year ended December 31, 2007, the Company recognized stock option compensation expense related to these plans of $4,882,000 and a corresponding income tax benefit of $1,801,000. 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, 2007, 2006 and 2005:

	2007	2006	2005
Risk free interest rate	4.47%	4.01%	4.25%
Expected life	4.4 years	4.7 years	4.0 years
Expected volatility	33.7%	35.1%	35.8%
Expected dividend yield	0%	0%	0%

The weighted-average grant-date fair value of options granted during the years ended December 31, 2007, 2006 and 2005 were $11.81, $11.72 and $8.82, respectively. The total intrinsic value of options exercised during the years ended December 31, 2007, 2006 and 2005 were $19,511,000, $22,985,000 and $19,100,000, respectively. The Company recorded cash received from the exercise of stock options of $17,124,000, $15,970,000 and $14,915,000, in the years ended December 31, 2007, 2006 and 2005, respectively. The remaining unrecognized compensation cost related to unvested awards at December 31, 2007, was $18,107,000 and the weighted-average period of time over which this cost will be recognized is 2.9 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, 2007, the Company issued 156,466 shares under the purchase plan at a weighted average price of $29.12 per share. 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. 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, 2007, the Company recorded $804,000 of compensation cost related to employee share purchases and a corresponding income tax benefit of $290,000. 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, 2007, approximately 243,000 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, 2007, the Company recorded $6,849,000 of compensation cost for contributions to this plan and a corresponding income tax benefit of $2,527,000. 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. The compensation cost recorded in 2007 includes matching contributions made in 2007 and profit sharing contributions accrued in 2007 to be funded with issuance of shares of common stock in 2008. The Company issued 197,431 shares in 2007 to fund profit sharing and matching contributions at an average grant date fair value of $32.90. 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. A portion of these shares related to profit sharing contributions accrued in prior periods. At December 31, 2007, approximately 863,000 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 $459,000 of compensation cost for this plan for the year ended December 31, 2007 and recognized a corresponding income tax benefit of $169,000. 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 total fair value of shares vested (at vest date) for the years ended December 31, 2007, 2006 and 2005 were $478,000, $503,000 and $524,000, respectively. The remaining unrecognized compensation cost related to unvested awards at December 31, 2007 was $521,000. The Company awarded 16,189 shares under this plan in 2007 with an average grant date fair value of $34.02. The Company awarded 18,698 shares under this plan in 2006 with an average grant date fair value of $33.12. The Company awarded 14,896 shares under this plan in 2005 with an average grant date fair value of $25.41. Compensation cost for shares awarded is recognized over the three-year vesting period. Changes in the Company's restricted stock for the year ended December 31, 2007 were as follows:

	Shares	Weighted-Average Grant Date Fair Value
Non-vested at December 31, 2006	16,291	$ 30.80
Granted during the period	16,189	34.02
Vested during the period	(14,738)	31.05
Forfeited during the period	(2,619)	32.53
Non-vested at December 31, 2007	15,123	$ 33.70

At December 31, 2007, approximately 645,000 shares were reserved for future issuance under this plan.

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,	2007	2006	2005
Numerator (basic and diluted):			
Net income	$ 193,988	$ 178,085	$ 164,266
Denominator:			
Denominator for basic income per common share– weighted-average shares	114,667	113,253	111,613
Effect of stock options (Note 9)	1,413	1,866	1,772
Denominator for diluted income per common share- adjusted weighted-average shares and assumed conversion	116,080	115,119	113,385
Basic net income per common share	$ 1.69	$ 1.57	$ 1.47
Net income per common share-assuming dilution	$ 1.67	$ 1.55	$ 1.45

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)	2007	2006
Deferred tax assets:		
Current:		
Allowance for doubtful accounts	$ 1,202	$ 958
Unrecognized loss on short term investments	4,133	--
Other accruals	14,440	19,251
Noncurrent:		
Other accruals	17,800	2,967
Total deferred tax assets	37,575	23,176
Deferred tax liabilities:		
Current:		
Inventories	26,010	25,988
Noncurrent:		
Property and equipment	40,431	37,517
Other	4,610	3,621
Total deferred tax liabilities	71,051	67,126
Net deferred tax liabilities	$ (33,476)	$ (43,950)

The provision for income taxes consists of the following:

(In thousands)	Current	Deferred	Total
2007:			
Federal	$ 110,302	$ (5,847)	$ 104,455
State	9,539	(494)	9,045
	$ 119,841	$ (6,341)	$ 113,500
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

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

(In thousands)	2007	2006	2005
Federal income taxes at statutory rate	$ 107,620	$ 98,793	$ 87,874
State income taxes, net of federal tax benefit	5,880	5,387	4,986
Other items, net	--	--	(6,057)
	$ 113,500	$ 104,180	$ 86,803

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.

NOTE 13—ACCUMULATED OTHER COMPREHENSIVE LOSS

The adjustment to unrealized holding loss on available-for-sale securities included in accumulated other comprehensive loss for the period ended December 31, 2007 totaled $10,933,000 with a corresponding tax benefit of $4,133,000 resulting in a net of tax effect of $6,800,000.

Changes in accumulated other comprehensive loss for the period ended December 31, 2007 consist of the following:

(In thousands)	Unrealized Losses on Securities	Accumulated Other Comprehensive Loss
Balance at December 31, 2006	$ --	$ --
Current-period change	(6,800)	(6,800)
Balance at December 31, 2007	$ (6,800)	$ (6,800)

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
Chief Financial Officer and Executive Vice President

Greg Johnson
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

Greg Beck
Vice President of Purchasing

Brad Beckham
Vice President of Eastern Region

Ken Cope
Vice President of Central Region

Charlie Downs
Vice President of Real Estate and Expansion

Phyllis Evans
Vice President of Store Administration

Alan Fears
Vice President of Jobber Sales and Acquisitions

Brett Heintz
Vice President of Retail Systems

Jaime Hinojosa
Vice President of Southern Region

Steve Jasinski
Vice President of Information Systems

Randy Johnson
Vice President of Store Inventories

Kenny Martin
Vice President of Northern Region

Wayne Price
Vice President of Risk Management

Doug Ruble
Vice President of Marketing and Advertising

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

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

Jeremy Fletcher
Director of Finance/Controller

Jason Frizzell
Director of Knoxville Region

David Glore
Director of Ozark Sales

John Gouette
Director of Minneapolis/St. Paul Northwest Region

Julie Gray
Director of Corporate Services

Larry Gray
Regional DC Director

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

Chris Harrelson
Director of Nashville Region

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

Michelle Kimrey
Director of Accounting

Brad Knight
Director of Pricing

Scott Kraus
Director of Minneapolis/St. Paul Northeast Region

John Krebs
Director of Gulf States Region

Terry Lee
Director of Mississippi Region

Dave Leonhart
Regional DC Director

Scott Leonhart
Director of Ohio Region

John Martinez
Director of Rio Grande Valley Region

Operations Management (continued)

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 Site Acquisitions

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 Store Inventory

Denny Smith
Director of Springfield Region

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 Financial Analysis and Planning

Jeff Watts
Director of Eastern Division Sales

Saundra Wilkinson
Director of Store Administration

Wes Wise
Director of Marketing

Mike Young
Director of Construction

CORPORATE MANAGEMENT

Dale Agee
Computer Help Support Manager

Jeff Alexander
Creative Services Manager

Curt Allen
Real Estate Site Acquisition Manager

Dan Altis
Distribution Center Manager

Keith Asby
Sales Manager of Special Markets

Gary Baker
Technical Assistance Manager

Carl Barina
Regional Field Sales Manager

Jason Bayless
Retail Facilities Manager

Doug Bennett
Installer Pricing/Bid Manager

Merle Bever
Senior 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

Adam Buchanan
Regional Field Sales Manager

Eddie Buttler
Regional Field Sales Manager

Brian Callis
Regional Field Sales Manager

Scott Cannon
Product Manager

Yvonne Cannon
Payroll Manager

Stephen Carlson
Jobber Systems Sales Manager

Danny Clark
Regional Field Sales Manager

Dennis Cook
Real Estate Site Acquisition Manager

Rudy Cortez
Regional Field Sales Manager

Mike Crawford
Division Loss Prevention Manager

Bruce Creason
DC Safety Manager

Garry Curbow
Replenishment Manager

Josh Dalrymple
Distribution Center Manager

Jack Darovich
Regional Field Sales Manager

Cecil Davis
DC Inbound Operations Manager

Tim Evans
National Accounts Manager

Paula Eyman
Special Projects Manager

Paul Fagan
Distribution Center Manager

Becky Fincher
Advertising 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
Special Orders Manager

Jaydee Garrison
Regional Field Sales Manager

Bob Gillespie
Regulatory and Environmental Manager

Art Glidewell
Distribution Center Manager

Bridget Harmon
PC Support Manager

Jim Harnisfager
Product Manager

Candy Haskin
Treasury Manager

Mike Hauk
Division Training Manager

David Hawker
Regional Field Sales Manager

Troy Hellerud
Central Support Manager

Diana Hicks
Internal Communications Manager

Charlie Hill
Regional Field Sales Manager

Mike Hill
Installer Systems Manager

Brian Holdcraft
Regional Field Sales 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
Retail Marketing Manager

John Jay
Regional Field Sales Manager

Les Keeth
Accounts Payable Manager

Jennifer Kent
Store Design Manager

Duane Keys
Application Development Manager

Steve Lines
Installer Programs Manager

Jim Litchford
Jobber Regional Field Sales Manager

T. J. Madrid
Regional Field Sales 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

Operations Management (continued)

Tom Nunley
Regional Field Sales Manager

James Owens
Regional Field Sales Manager

Bryan Packer
Jobber Computer Sales and Support Manager

Wendi Page
Real Estate Property Manager

Suzanne Parks
Accounts Receivable Manager

Rob Payne
Product Manager

Abby Pennell
Real Estate Counsel

Kolby Perusse
Distribution Center Manager

Tony Phelps
Distribution Center Manager

Steve Phillips
Division Loss Prevention Manager

Matt Pickering
Inventory Maintenance Manager

Paul Pike
Regional Field Sales Manager

Chris Pridgen
Human Resources Employment Manager

Brian Prock
Division Training Manager

Tim Rathbun
Store Inventory Manager

Jim Riggs
Construction Manager

Corey Robinson
Inventory Accounting Manager

Mary Sabor
DC Administrative Services Manager

James Samson
Distribution Center Manager

Hugo Sanchez
Hispanic/Sports Marketing Manager

Tim Scholl
DC Field Projects Manager

Ronald Scivicque
Regional Field Sales Manager

William Seiber
Distribution Center Manager

Darren Shaw
Product Manager II

Tim Shaw
Eastern Division Human Resources Manager

John Shelton
Regional Field Sales Manager

Leigh Sides
Alarm Services Manager

Craig Smith
Real Estate Counsel

Dave Smith
Product Manager II

Phil Smith
Division Loss Prevention Manager

Tim Smith
Credit Manager

Tom Smith
Training Manager

Paul Southard
IS Governance Manager

Kim Stone
Product Manager II

Mary Stratton
Human Resources Programs/Tech Support Manager

Camille Strickland
Real Estate Contract Manager

Robert Suter
Senior Product Manager

Roger Taylor
Regional Field Sales Manager

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
Training Manager Eastern Division

Lane Wallace
Pricing Manager

Susan Weaver
Human Resources Records/Benefits Manager

Sherry Webb
Accounts Payable Merchandise Manager

Les Weber
Regional Field Sales Manager

David Wehrenberg
Distribution Center Manager

Scotty Weidman
Product Manager II

Brian Welch
Logistics Manager

Matt Weldon
PBE 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

Christina Zahn
HRIS and Compensation Manager

DISTRICT CORPORATE MANAGEMENT

Abel Abila
Eddie Allen
Kurt Anderson
Henry Armington
Scott Baglo
Chris Baker
Tracy Banks
Brince Beasley
Jim Belschner
Michael Bering
Adam Berryman
Aaron Biggs
Kirk Bilski
Richard Blackwell
Tommy Boudwin
Robert Boutwell
Mic Bowers
Eric Bowman
Randy Brewer
Lester Brown
Patrick Brown
Mark Cannon
Donnie Carden
Fred Carrington
Jimmy Carter
Jimmy Chadwick
Carl Chaffin
David Chavis
Dirk Chester
Aaron Clay
Mark Cleary
Justin Coker
Tim Coleman
Adam Cortez
Dean Dassel
Jim Dickens
Robert Doss
Bruce 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
Curtis Fulkerson
Butch Galloway
Tim Gardner
Brad Garrison
Craig Garrison
Ernie Golden
Dennis Gonzales
Daniel Grandquest
Dan Griffin
Tony Haag
Jeffery Haire
James Harris
Jon Haught
Paul Hayden
Rick Hedges
Mike Heiter
Gerry Hendrix
Shannon Henry
Ed Hernandez
Perry Hess
Brady Hicks
Matt Hill
Mike Hollis
Kenneth Hubbart
Allen Hughes
Clint Hunter
Johnny Jarvis
Jeff Jennings
Wayne Johnson
Natalie Johnson
Chuck Kaiser
Justin Kale
Butch Kelton
Todd Kemper
Jimi Kent
Troy King
Rick Koehn
Greg Lair
Chris Lewis
Oliverio Lopez
Steve Luellen
Billy Lynn
Shelton Maben
Mark Mach
Chris Mancini
Albert Martinez
Tommy Mason
Brian Matthews
Clint McFadden
Marc McGehee
Chris Meade
Tom Meyer
Jack Miller
Chuck Mitchell
Andy Moore
Don Morgan
Trey Morgan
Randy Morris
Ciro Moya Jr
Ramon Odems
Lance O'Donnell
Ron Papay
Jude Patterson
Gilbert Perez
Pernell Peters
Randy Peterson
David Pilat
Brent Pizzolato
David Plaster
Mike Platt
Rob Pocklington
Troy Polston
Charles Ponder
Robert Poynor
James Ramsey
Clint Reaux
Lee Reese
Will Reger
Christopher
Reynolds
Tommy Rhoads
Alan Riddle
Larry Roof
Randall Rowland
Daniel Rozowski
Juan Salinas
Steve Sandman
Diego Santillana
Matt Schlueter
Paul Schmidt
Barry Scott
Jim Scott
Dusty Sermersheim
Steven Severe
Garry Shelby
Frank Silvas
Eric Sims
Greg Sims
Bobby Smith
Bob Snodgrass
Wayne Spratlin
Robin Stivers
Angela Stokes
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
Robert Verver
Fred Wadle
Bo Waldrop
Terry Walker
Mark Warden
Brent Warner
Rob Weiskirch
Chris Westfall
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

Computershare Investor Services
P.O. Box 43078
Providence, RI 02940-3078

Inquiries regarding stock transfers, lost certificates or address changes should be directed to Computershare Investor Services at the above address.

INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Ernst & Young LLP
One Kansas City Place
1200 Main Street, Suite 2000
Kansas City, Missouri 64105-2143

ANNUAL MEETING

The annual meeting of shareholders of O'Reilly Automotive, Inc. will be held at 10:00 a.m. local time on May 6, 2008, at the Clarion Hotel, Ballrooms 1 and 2, 3333 South Glenstone Ave in Springfield, Missouri. Shareholders of record as of February 28, 2008, 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, Chief Financial Officer and Executive Vice President, at the corporate address.

TRADING SYMBOL

The Company's common stock is traded on The Nasdaq Global Select Market under the symbol ORLY.

NUMBER OF SHAREHOLDERS

As of February 28, 2008, O'Reilly Automotive, Inc. had approximately 48,463 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.:

BB&T Capital Markets – Anthony Cristello
BMO Capital Markets U.S. – Richard Weinhart
Credit Suisse – Gary Balter
Deutsche Bank Research – Michael Baker
FTN Midwest Research Securities Corp. – William Keller
Goldman Sachs Research – Matthew J. Fassler
Kevin Dann & Partners – Cid Wilson
Merriman Curhan Ford & Co. – Robert Straus
Morgan Stanley – Gregory Melich
Raymond James & Associates – Dan Wewer
RBC Capital Markets – Scot Ciccarelli
Robert W. Baird & Co. – J. David Cumberland
Sidoti & Company – Scott Stember
Stifel Nicolaus & Company, Incorportated – David Schick
Wachovia Securities – Peter Benedict
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 Global Select Market (see Note 4 in the Company's consolidated financial statements for information concerning the Company's stock split in 2005).

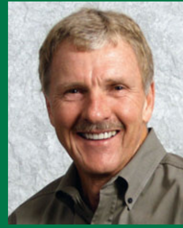
The common stock began trading on April 22, 1993. No cash dividends have been declared since 1992, and the Company does not anticipate paying any cash dividends in the foreseeable future.

	2007		2006	
	High	Low	High	Low
First Quarter	$ 35.20	$ 31.45	$ 38.30	$ 30.87
Second Quarter	38.84	32.58	36.99	29.30
Third Quarter	38.20	31.44	34.24	27.49
Fourth Quarter	34.72	30.43	35.10	30.92
For the Year	38.84	30.43	38.30	27.49

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

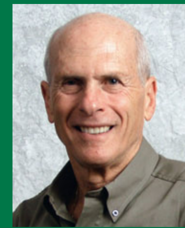
ROSALIE O'REILLY -WOOTEN
Director

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, 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."

233 South Paterson
Springfield, Missouri 65802
417.862.3333
www.oreillyauto.com