

O REILLY AUTOMOTIVE INC  
Form 8-K  
October 26, 2006  
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 8-K

CURRENT REPORT PURSUANT

TO SECTION 13 OR 15(d) OF THE

SECURITIES EXCHANGE ACT OF 1934

Date of report (Date of earliest event reported): October 24, 2006

O'REILLY AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Missouri

(State or other jurisdiction)

44-0618012

(I.R.S. Employer Identification No.)

of incorporation or

organization)

233 South Patterson

Springfield, Missouri 65802

(Address of principal executive offices, Zip code)

(417) 862-6708

(Registrant's telephone number, including area code)

(Not Applicable)

(Former name or former address, if changed since last report.)

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2):

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- o Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)
- o Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)
- o Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))
  
- o Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

**Section 2 Financial Information**

**Item 2.02 Results of Operations and Financial Condition**

On October 24, 2006, O Reilly Automotive, Inc. issued a press release announcing their 2006, third quarter earnings. The text of the press release is attached hereto as Exhibit 99.1.

**Section 9 Financial Statements and Exhibits**

**Item 9.01 Financial Statements and Exhibits**

| <u>Exhibit Number</u> | <u>Description</u>                   |
|-----------------------|--------------------------------------|
| 99.1                  | Press Release dated October 24, 2006 |

The information in this Current Report on Form 8-K, including the exhibit hereto, shall not be deemed filed for the purposes of Section 18 of the Securities and Exchange Act of 1934, as amended, or otherwise subject to the liabilities of that section, nor shall it be deemed incorporated by reference in any filing under the Securities Act of 1933, as amended.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

Date: October 25, 2006

O REILLY AUTOMOTIVE, INC.

By: /s/ Thomas McFall  
Thomas McFall  
Senior Vice President of Finance  
Chief Financial Officer  
(principal financial officer)

Exhibit 99.1

FOR IMMEDIATE RELEASE

For further information contact:

Greg Henslee  
Tom McFall  
(417) 862-3333

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## **O REILLY AUTOMOTIVE, INC. REPORTS RECORD**

### **2006 THIRD QUARTER RESULTS**

#### **12.6% OPERATING MARGIN AND**

#### **13.5% INCREASE IN ADJUSTED EARNINGS PER SHARE**

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**Springfield, MO, October 24, 2006** -- O Reilly Automotive, Inc. ( O Reilly or the Company ) (Nasdaq: ORLY) today announced record revenues and earnings for the third quarter of 2006, representing 52 quarters of record revenues and earnings for O Reilly since becoming a public company in April 1993.

Product sales for the third quarter ended September 30, 2006, totaled \$597 million, up 10.0% from \$543 million for the same period a year ago. Gross profit for the third quarter of 2006 increased to \$263 million (or 44.1% of product sales) from \$236 million (or 43.5% of product sales) for the third quarter of 2005, representing an increase of 11.6%. Operating, Selling, General and Administrative ( OSG&A ) expenses increased to \$188 million (or 31.5% of product sales) for the third quarter of 2006 from \$168 million (or 31.0% of product sales) for the third quarter of 2005, representing an increase of 11.8%.

Net income for the three months ended September 30, 2006, totaled \$47.9 million. Net income for the three months ended September 30, 2005, totaled \$48.6 million, which includes a one-time benefit of \$6.1 million from the favorable resolution of prior tax uncertainties. On an adjusted basis excluding the favorable tax benefit, net income increased \$5.3 million to \$47.9 million, up 12.4% from \$42.6 million for the same period a year ago. Diluted earnings per common share for the third quarter of 2006 were even at \$0.42 on 115.0 million shares compared to \$0.42 for the third quarter of 2005 on 113.8 million shares, which includes the favorable tax benefit of \$0.05. On an adjusted basis excluding the favorable tax benefit, diluted earnings per common share for the third quarter increased 13.5% to \$0.42 from \$0.37 in the third quarter of 2005.

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Product sales for the first nine months of 2006 totaled \$1.72 billion, up 12.7% from \$1.53 billion for the same period a year ago. Gross profit for the first nine months of 2006 increased to \$758 million (or 43.9% of product sales) from \$661 million (or 43.2% of product sales) for the same period a year ago, representing an increase of 14.6%. OSG&A expenses increased to \$539 million (or 31.3% of product sales) for the first nine months of 2006 from \$472 million (or 30.8% of product sales) for the same period a year ago, representing an increase of 14.3%.

Net income for the first nine months of 2006 totaled \$137.7 million. Net income for the nine months ended September 30, 2005, totaled \$124.8 million, which includes a one-time benefit of \$6.1 million from the favorable resolution of prior tax uncertainties. On an adjusted basis excluding the favorable tax benefit, net income increased \$19.0 million to \$137.7 million, up 16.0% from \$118.7 million for the same period a year ago. Diluted earnings per common share for the first nine months of 2006 increased 9.1% to \$1.20 on 114.9 million shares compared to \$1.10 a year ago on 113.2 million shares, which includes the favorable tax benefit of \$0.05. On an adjusted basis excluding the favorable tax benefit, diluted earnings per common share for the first nine months of 2006 increased 14.3% to \$1.20 from \$1.05 in the first nine months of 2005.

Comparable store product sales for stores open at least one year increased 3.6% for the third quarter and first nine months of 2006.

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Greg Henslee, CEO and Co-President stated, "We are pleased with another successful quarter for Team O'Reilly particularly in light of the challenging macroeconomic environment in the aftermarket industry. Our team continues to focus on the basic fundamentals of providing the best customer service in our business to both our professional installer and do-it-yourself customer. We were able to maintain strong margins and post a respectable 3.6% comparable store sales growth despite the challenging conditions in the third quarter."

The quarter was highlighted by continued expansion with the addition of 41 new stores primarily in regions serviced by our newest distribution centers in Indianapolis and Atlanta," stated Ted Wise, COO and Co-President. "We continue to find great markets for expansion and expect to add approximately another 44 stores in the fourth quarter."

The Company will host a conference call Wednesday, October 25, 2006, at 10:00 a.m. central time to discuss its results, as well as future expectations. Interested parties may listen to the conference call live on the Company's website [www.oreillyauto.com](http://www.oreillyauto.com), by clicking "Investor Relations" then "News Room." A replay will also be available on the website shortly after the call.

This release contains certain financial information not derived in accordance with United States generally accepted accounting principles ("GAAP"). The Company does not, and does not suggest investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, GAAP financial information. Whenever the Company uses such non-GAAP measures, it provides a reconciliation of such measures to the most closely applicable GAAP measure. The Company reports both GAAP and adjusted income and earnings per share amounts and comparisons to reflect what it believes are ongoing and/or comparable operating results excluding the one-time, non-cash tax benefit in the third quarter of 2005. The Company excludes this item in judging its performance and believes this non-GAAP information is useful to investors as well.

**O'Reilly Automotive, Inc.** is one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States, serving both the do-it-yourself and professional installer markets. Founded in 1957 by the O'Reilly family, the Company operated 1,596 stores within the states of Alabama, Arkansas, Florida, Georgia, Illinois, Indiana, Iowa, Kansas, Kentucky, Louisiana, Minnesota, Mississippi, Missouri, Montana, Nebraska, North Carolina, North Dakota, Oklahoma, South Carolina, South Dakota, Tennessee, Texas, Virginia, Wisconsin and Wyoming as of September 30, 2006.

The Company claims the protection of the safe-harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements can be identified by forward-looking words such as "expect," "believe," "anticipate," "should," "plan," "intend," "estimate," "project," "will" or similar words. In addition, statements contained within this press release 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 Company's Form 10-K for the year ended December 31, 2005, for more details.

**O REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED BALANCE SHEETS

|  | September 30,                     | December 31,   |
|--|-----------------------------------|----------------|
|  | 2006<br>(Unaudited)               | 2005<br>(Note) |
|  | (In thousands, except share data) |                |
| <b>Assets</b>  |                                   |                |
| Current assets:  |                                   |                |
| Cash and cash equivalents                                      | \$ 40,823                         | \$ 31,384      |
| Accounts receivable, net                                       | 82,154                            | 73,849         |
| Amounts receivable from vendors, net                           | 48,475                            | 57,224         |
| Inventory  | 816,661                           | 726,390        |
| Deferred income taxes  | 838                               | --             |
| Other current assets   | 17,253                            | 22,845         |
| Total current assets   | 1,006,204                         | 911,692        |
| Property and equipment, at cost                                | 1,162,664                         | 992,899        |
| Accumulated depreciation and amortization                      | 316,000                           | 274,533        |
| Net property and equipment                                     | 846,664                           | 718,366        |
| Notes receivable, less current portion                         | 31,033                            | 29,062         |
| Other assets, net  | 61,967                            | 60,827         |
| Total assets   | \$ 1,945,868                      | \$ 1,719,947   |
| <b>Liabilities and shareholders' equity</b>                    |                                   |                |
| Current liabilities:   |                                   |                |
| Accounts payable   | \$ 341,375                        | \$ 292,667     |
| Accrued payroll  | 22,824                            | 19,356         |
| Accrued benefits and withholdings                              | 42,611                            | 49,794         |
| Deferred income taxes  | --                                | 2,451          |
| Other current liabilities                                      | 49,072                            | 47,137         |
| Current portion of long-term debt                              | 307                               | 75,313         |
| Total current liabilities                                      | 456,189                           | 486,718        |
| Long-term debt, less current portion                           | 100,548                           | 25,461         |
| Deferred income taxes  | 41,699                            | 42,516         |
| Other liabilities  | 31,353                            | 19,483         |
| Shareholders' equity:  |                                   |                |
| Common stock, \$0.01 par value:                                |                                   |                |
| Authorized shares  | 245,000,000                       |                |
| Issued and outstanding shares                                  | 113,641,241                       |                |
| at September 30, 2006, and<br>112,389,002 at December 31, 2005 | 1,136                             | 1,124          |
| Additional paid-in capital                                     | 392,890                           | 360,325        |
| Retained earnings  | 922,053                           | 784,320        |
| Total shareholders' equity                                     | 1,316,079                         | 1,145,769      |
| Total liabilities and shareholders' equity                     | \$ 1,945,868                      | \$ 1,719,947   |



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Note: The balance sheet at December 31, 2005, has been derived from the audited consolidated financial statements at that date, but does not include all of the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements.

**O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES**

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

|   | Three Months Ended<br>September 30,   |            | Nine Months Ended<br>September 30, |              |
|---|---------------------------------------|------------|------------------------------------|--------------|
|   | 2006                                  | 2005       | 2006                               | 2005         |
|   | (In thousands, except per share data) |            |                                    |              |
| Product sales   | \$ 597,144                            | \$ 542,906 | \$ 1,724,890                       | \$ 1,530,354 |
| Cost of goods sold, including warehouse and distribution expenses     | 333,818                               | 306,990    | 967,208                            | 869,299      |
| Gross profit  | 263,326                               | 235,916    | 757,682                            | 661,055      |
| Operating, selling, general and administrative expenses               | 188,242                               | 168,331    | 539,396                            | 471,762      |
| Operating income  | 75,084                                | 67,585     | 218,286                            | 189,293      |
| Other income (expense), net   | 272                                   | (561)      | (18)                               | (1,034)      |
| Income before income taxes  | 75,356                                | 67,024     | 218,268                            | 188,259      |
| Provision for income taxes  | 27,500                                | 18,401     | 80,535                             | 63,500       |
| Net income  | \$ 47,856                             | \$ 48,623  | \$ 137,733                         | \$ 124,759   |
| Net income per common share   | \$ 0.42                               | \$ 0.43    | \$ 1.22                            | \$ 1.12      |
| Net income per common share-assuming dilution                         | \$ 0.42                               | \$ 0.42    | \$ 1.20                            | \$ 1.10      |
| Weighted-average common shares basic                                  | 113,464                               | 111,911    | 113,084                            | 111,423      |
| Adjusted weighted-average common shares outstanding assuming dilution | 115,026                               | 113,830    | 114,949                            | 113,164      |

## O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

## SELECTED FINANCIAL INFORMATION

(Unaudited)

|   | September 30,<br>2006                    | 2005      |
|---|--|-----------|
| Inventory turnover (1)                              | 1.6                                      | 1.7       |
| Inventory turnover, net of payables (2)             | 2.8                                      | 2.7       |
| AP to inventory (3)                                 | 41.8%                                    | 40.2%     |
| Debt-to-capital (4)                                 | 7.1%                                     | 8.4%      |
| Return on equity (5)                                | 14.8%                                    | 14.5%     |
| Return on assets (6)                                | 9.9%                                     | 9.5%      |
|   | Three Months Ended September 30,<br>2006 | 2005      |
| Other information (in thousands):                   |  |           |
| Capital expenditures                                | \$ 55,431                                | \$ 47,107 |
| Depreciation and amortization                       | \$ 16,547                                | \$ 15,227 |
| Interest expense                                    | \$ 929                                   | \$ 1,463  |
| Lease and rental expense                            | \$ 12,215                                | \$ 11,504 |
| Sales per weighted-average square foot (7)          | \$ 55.56                                 | \$ 56.34  |
| Sales per weighted-average store (in thousands) (8) | \$ 372                                   | \$ 375    |
| Square footage (in thousands)                       | 10,697                                   | 9,511     |
| Store count:  |  |           |
| New stores, net                                     | 41                                       | 33        |
| Total stores  | 1,596                                    | 1,432     |
| Total employment                                    | 22,091                                   | 19,629    |

- (1) Calculated as cost of sales for the last 12 months divided by average inventory. Average inventory is calculated as the simple average of beginning and ending inventory for the same period used in determining the numerator.
- (2) Calculated as cost of sales for the last 12 months divided by average inventory less accounts payable. Average inventory is calculated as the simple average of beginning and ending inventory for the same period used in determining the numerator.

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- (3) Accounts payable divided by inventory.
- (4) The sum of long-term debt and current portion of long-term debt, divided by the sum of long-term debt, current portion of long-term debt and total shareholders equity.
- (5) Last 12 months net income divided by average shareholders equity. Average shareholders equity is calculated by taking a simple average of the beginning and ending shareholders equity for the same period used in determining the numerator.
- (6) Last 12 months net income divided by average total assets. Average total assets is calculated by taking a simple average of the beginning and ending total assets for the same period used in determining the numerator.
- (7) Total sales less jobber sales, divided by weighted-average square feet. Weighted-average sales per square foot is weighted to consider the approximate dates of store openings or expansions.
- (8) Total sales less jobber sales, divided by weighted-average stores. Weighted-average sales per store is weighted to consider the approximate dates of store openings or expansions.

## O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES TO COMPARABLE GAAP MEASURES

(Unaudited)

|   | Three months ended September 30,      |              | Adjustment (1) | Adjusted   |
|---|---------------------------------------|--------------|----------------|------------|
|   | 2006                                  | 2005         |                |            |
|   | GAAP Results                          | GAAP Results |                |            |
|   | (In thousands, except per share data) |              |                |            |
| Income before income taxes  | \$ 75,356                             | \$ 67,024    | \$ -           | \$ 67,024  |
| Provision for income taxes  | 27,500                                | 18,401       | 6,057          | 24,458     |
| Net income  | \$ 47,856                             | \$ 48,623    | \$ (6,057)     | \$ 42,566  |
| Net income per common share   | \$ 0.42                               | \$ 0.43      | \$ (0.05)      | \$ 0.38    |
| Net income per common share assuming dilution                         | \$ 0.42                               | \$ 0.42      | \$ (0.05)      | \$ 0.37    |
| Weighted-average common shares outstanding basic                      | 113,464                               | 111,911      | 111,911        | 111,911    |
| Adjusted weighted-average common shares outstanding assuming dilution | 115,026                               | 113,830      | 113,830        | 113,830    |
|   |                                       |              |                |            |
|   | Nine months ended September 30,       |              | Adjustment (1) | Adjusted   |
|   | 2006                                  | 2005         |                |            |
|   | GAAP Results                          | GAAP Results |                |            |
|   | (In thousands, except per share data) |              |                |            |
| Income before income taxes  | \$ 218,268                            | \$ 188,259   | \$ -           | \$ 188,259 |
| Provision for income taxes  | 80,535                                | 63,500       | 6,057          | 69,557     |
| Net income  | \$ 137,733                            | \$ 124,759   | \$ (6,057)     | \$ 118,702 |
| Net income per common share   | \$ 1.22                               | \$ 1.12      | \$ (0.05)      | \$ 1.07    |
| Net income per common share assuming dilution                         | \$ 1.20                               | \$ 1.10      | \$ (0.05)      | \$ 1.05    |
| Weighted-average common shares outstanding basic                      | 113,084                               | 111,423      | 111,423        | 111,423    |
| Adjusted weighted-average common shares outstanding assuming dilution | 114,949                               | 113,164      | 113,164        | 113,164    |

(1) Third quarter 2005 income taxes include a benefit of \$6.1 million resulting from the favorable resolution of prior tax uncertainties. Due to the one-time nature of the tax benefit, this adjustment is made to provide comparable results.

