O REILLY AUTOMOTIVE INC
Form 10-Q
August 09, 2005

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549
FORM 10-Q

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

For the quarterly period ended June 30, 2005

OR

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

For the transition period from ____________________ to _____________________

Commission file number 0-21318

O'REILLY AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Missouri	44-0618012
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

233 South Patterson
Springfield, Missouri 65802

(Address of principal executive offices, Zip code)

(417) 862-6708

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes [X] No [ ]

Indicate by a check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

Yes [X] No [ ]

Common stock, $0.01 par value - 111,816,886 shares outstanding as of June 30, 2005. As of that date, the aggregate market value of the voting stock held by non-affiliates of the Company was approximately $3,335,497,709.38 based on the last sale price of the common stock reported by the Nasdaq Stock Market

(National Market).

This report contains a total of 23 pages of which this page is number 1.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
FORM 10-Q
Quarter Ended June 30, 2005

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PART I FINANCIAL INFORMATION
ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except share data)

	June 30, 2005	December 31, 2004
	(Unaudited)	(Note)
Assets		
Current assets:		

Cash and cash equivalents	$ 36,452	$ 69,028
Accounts receivable, net	75,481	60,928
Amounts receivable from vendors, net	47,304	52,976
Inventory	695,842	625,320
Other current assets	13,093	5,225
Total current assets	868,172	813,477
Property and equipment, at cost	895,448	791,794
Accumulated depreciation and amortization	248,527	224,301
Net property and equipment	646,921	567,493
Notes receivable, less current portion	31,290	21,690
Other assets, net	61,726	29,697
Total assets	$ 1,608,109	$ 1,432,357
Liabilities and shareholders' equity		
Current liabilities:		
Income taxes payable	$ 29,379	$ 9,736
Accounts payable	272,100	240,548
Accrued payroll	16,884	15,130
Accrued benefits and withholdings	43,596	35,794
Deferred income taxes	5,209	7,198
Other current liabilities	51,946	24,817
Current portion of long-term debt	75,587	592
Total current liabilities	494,701	333,815
Long-term debt, less current portion	25,471	100,322
Deferred income taxes	31,353	38,440
Other liabilities	12,998	11,963
Shareholders' equity:		
Common stock, $0.01 par value:		
Authorized shares-245,000,000		
Issued and outstanding shares-		
111,816,886 shares at June 30, 2005,		
and 55,377,130 at December 31, 2004	1,118	554
Additional paid-in capital	346,278	326,650
Retained earnings	696,190	620,613
Total shareholders' equity	1,043,586	947,817
Total liabilities and shareholders' equity	$ 1,608,109	$ 1,432,357

NOTE: The condensed consolidated balance sheet at December 31, 2004, 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.

See "Notes to Condensed Consolidated Financial Statements."

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)

	Three Months Ended June 30, 2005	Three Months Ended June 30, 2004	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
	(In thousands, except per share data)			
Product sales	$ 521,209	$ 435,167	$ 987,448	$ 838,461
Cost of goods sold, including warehouse and distribution expenses	292,239	245,732	562,309	479,433
Gross profit	228,970	189,435	425,139	359,028
Operating, selling, general and administrative expenses	160,843	135,193	303,431	260,759
Operating income	68,127	54,242	121,708	98,269
Other income (expense), net	195	(438)	(473)	(884)
Income before income taxes and cumulative effect of accounting change	68,322	53,804	121,235	97,385
Provision for income taxes	25,399	20,109	45,099	36,405
Income before cumulative effect of accounting change	42,923	33,695	76,136	60,980
Cumulative effect of accounting change, net of tax	-	-	-	21,892
Net income	$ 42,923	$ 33,695	$ 76,136	$ 82,872
Income per common share - basic:				
Income before cumulative effect of accounting change	$ 0.39	$ 0.31	$ 0.68	$ 0.56
Cumulative effect of accounting change, net of tax	-	-	-	0.20
Net income per common share	$ 0.39	$ 0.31	$ 0.68	$ 0.76
Income per common share - assuming dilution:				
Income before cumulative effect of accounting change	$ 0.38	$ 0.30	$ 0.67	$ 0.55
Cumulative effect of accounting change, net of tax	-	-	-	0.20
Net income per common share - assuming dilution	$ 0.38	$ 0.30	$ 0.67	$ 0.75
Weighted-average common shares outstanding - basic	111,448	109,868	111,174	109,627
Adjusted weighted-average common shares outstanding - assuming dilution	113,138	111,441	112,827	111,101

See "Notes to Condensed Consolidated Financial Statements."

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
	(In thousands)	
Net cash provided by operating activities	$ 125,389	$ 159,535
Investing activities:		
Purchases of property and equipment	(102,494)	(81,747)
Proceeds from sale of property and equipment	665	1,079
Payments received on notes receivable	2,231	1,856
Advance on notes receivable	(7,155)	-
Acquisition, net of cash acquired	(62,909)	-
Net reduction (investments) in other assets	1,388	(1,112)
Net cash used in investing activities	(168,274)	(79,924)
Financing activities:		
Payments on long-term debt	(306)	(20,510)
Proceeds from issuance of common stock	10,615	7,922
Net cash provided by (used in) financing activities	10,309	(12,588)
Net (decrease) increase in cash and cash equivalents	(32,576)	67,023
Cash and cash equivalents at beginning of period	69,028	21,094
Cash and cash equivalents at end of period	$ 36,452	$ 88,117

See "Notes to Condensed Consolidated Financial Statements."

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
June 30, 2005

1. Basis of Presentation

The accompanying unaudited condensed consolidated financial statements of O'Reilly Automotive, Inc. and Subsidiaries (the "Company") have been prepared in accordance with United States generally accepted accounting principles for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and footnotes required by U.S. generally accepted accounting principles for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the six months ended June 30, 2005, are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. For further information, refer to the consolidated financial statements and footnotes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2004 ("2004 Form 10-K").

2. 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 $63 million cash, including acquisition costs. Midwest is a specialty retailer, which supplies 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 preliminarily to assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The pro forma effect on earnings of the acquisition of Midwest is not material.

3. Stock Split

On May 20, 2005, the Company's Board of Directors declared a two-for-one stock split to be 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 earnings per share information included in the accompanying consolidated financial statements has been restated to reflect the effect of the stock split for all periods presented.

4. Stock-based Compensation

The Company has elected to use the intrinsic value method of accounting for stock options issued under our stock option plans and accordingly does not record an expense for such stock options. For purposes of pro forma disclosures under the fair value method, the estimated fair value of the options is amortized to expense over the options' vesting period. The Company's pro forma information for the periods ended June 30, is as follows:

	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 2004
	(In thousands, except per share data)			
Net income as reported................	$ 42,923	$ 33,695	$ 76,136	$ 82,872
Stock-based compensation expense, net of tax, as reported.............	-	-	-	-
Stock-based compensation expense, net of tax, under fair value method..	1,606	3,200	3,420	6,094
Pro forma net income..................	$ 41,317	$ 30,495	$ 72,716	$ 76,778
Pro forma basic net income per share...	$ 0.37	$ 0.28	$ 0.65	$ 0.70

Pro forma net income per share-assuming dilution	$ 0.37	$ 0.27	$ 0.64	$ 0.69

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
June 30, 2005

5. Synthetic Lease Facility

On June 26, 2003, we completed an amended and restated master agreement relating to our properties leased from SunTrust Equity Funding, LLC ("the Facility"). The terms of the amended and restated Facility provide for an initial lease period of five years, a residual value guarantee of approximately $43.2 million at June 30, 2005, and purchase options on the properties. The Facility also contains a provision for an event of default whereby the lessor, among other things, may require us to purchase any or all of the properties. One additional renewal period of five years may be requested from the lessor, although the lessor is not obligated to grant such renewal. The agreement with SunTrust Equity Funding, LLC has been recorded and disclosed as an operating lease in accordance with Financial Accounting Standards Board (FASB) Statement No. 13 and Financial Interpretation No. 46, "Consolidation of Variable Interest Entities" and Financial Interpretation No. 46R.

6. Income Per Common Share

The following table sets forth the computation of basic and diluted income per common share for the periods ended June 30:

	For the three months ended June 30, 2005	For the three months ended June 30, 2004	For the six months ended June 30, 2005	For the six months ended June 30, 2004
	(In thousands, except per share data)			
Numerator (basic and diluted):				
Net income	$ 42,923	$ 33,695	$ 76,136	$ 82,872
Denominator:				
Denominator for basic income per common share - weighted-average shares	111,448	109,868	111,174	109,627
Effect of stock options	1,690	1,573	1,653	1,474
Denominator for diluted income per common share-adjusted weighted-average shares and assumed conversion	113,138	111,441	112,827	111,101
Basic net income per common share	$ 0.39	$ 0.31	$ 0.68	$ 0.76
Net income per common share-assuming dilution	$ 0.38	$ 0.30	$ 0.67	$ 0.75

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)
(Unaudited)
June 30, 2005

7. Recent Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) 151, Inventory Costs, an amendment of APB No. 43, Chapter 4. The standard requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. The standard is effective for fiscal periods beginning after June 15, 2005. We do not expect the adoption of this standard to have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets, an amendment of APB No. 29, Accounting for Nonmonetary Transactions. SFAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the adoption of this standard to have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock Based Compensation, and supersedes APB No. 25. Among other items, SFAS 123R eliminates the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after January 1, 2006, which is first quarter 2006 for calendar year companies, such as ourselves, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS 123. We currently utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. While SFAS 123R permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. We have not yet determined which model we will use to measure the fair value of employee stock options upon the adoption of SFAS 123R. See Note 8 of the Company's 2004 Form 10-K for further information. SFAS 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 current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated, because they depend on, among other things, when employees exercise stock options. However, the amount of operating cash flows recognized in prior periods for such excess tax deductions, as shown in our Consolidated Statement of Cash Flows of the 2004 Form 10-K, were \$4.5 million, \$5.5 million, and \$1.5 million, for the years ended December 31, 2004, 2003, and 2002, respectively. We currently expect to adopt SFAS 123R effective January 1, 2006; however, we have not yet determined which of the aforementioned adoption methods we will use and are still evaluating the standard. See Note 8 of the Company's 2004 Form 10-K for further information on our stock-based compensation plans.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Unless otherwise indicated, "we," "us," "our" and similar terms, as well as references to the "Company" or "O'Reilly" refer to O'Reilly Automotive, Inc. and its subsidiaries.

Critical Accounting Policies and Estimates

The fundamental objective of financial reporting is to provide useful information that allows a reader to comprehend the business activities of our Company. To aid in that understanding, management has identified our "critical accounting policies." These policies have the potential to have a more significant impact on our financial statements, either because of the significance of the financial statement item to which they relate, or because they require judgment and estimation due to the uncertainty involved in measuring, at a specific point in time, events which are continuous in nature.

- Cost of goods sold - Cost of goods sold includes warehouse and distribution expenses and estimates of amounts due from vendors for certain merchandise allowances and rebates. These estimates are consistent with historical experience.

- Operating, selling, general and administrative expense (OSG&A) - OSG&A expense includes estimates for medical, workers' compensation and other general liability insurance obligations, which are partially based on estimates of certain claim costs and historical experience.

- Accounts receivable - Allowance for doubtful accounts is estimated based on historical loss ratios and consistently has been within management's expectations.

- Revenue - Over-the-counter retail sales are recorded when the customer takes possession of merchandise. Sales to professional installers, also referred to as "commercial sales", are recorded upon delivery of 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 merchandise. All sales are recorded net of estimated allowances and discounts.

- Vendor concessions - The Company receives concessions from its vendors through a variety of programs and arrangements, including co-operative advertising, allowances for warranties and volume purchase rebates. Co-operative advertising allowances that are incremental to our advertising program, specific to a product or event and identifiable for accounting purposes are reported as a reduction of advertising expense in the period in which the advertising occurred. All other vendor concessions are recognized as a reduction of cost of sales when recognized in the consolidated statement of income.

- Stock-based compensation - We have elected to use the intrinsic value method of accounting for stock options issued under our stock option plans and accordingly do not record an expense for such stock options. For purposes of pro forma disclosures under the fair value method, the estimated fair value of the options is amortized to expense over the options' vesting period. Our pro forma information for the periods ended June 30, is as follows:

	For the three months ended June 30, 2005	2004	For the six months ended June 30, 2005	2004
	(In thousands, except per share data)			
Net income as reported................	$ 42,923	$ 33,695	$ 76,136	$ 82,872
Stock-based compensation expense, net of tax, as reported.............	-	-	-	-
Stock-based compensation expense, net of tax, under fair value method..	1,606	3,200	3,420	6,094
Pro forma net income..................	$ 41,317	$ 30,495	$ 72,716	$ 76,778
Pro forma basic net income per share...	$ 0.37	$ 0.28	$ 0.65	$ 0.70
Pro forma net income per share-assuming dilution...................	$ 0.37	$ 0.27	$ 0.64	$ 0.69

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

Recent Developments

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 $63 cash million including acquisition costs. Midwest is a specialty retailer, which supplies 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 preliminarily to assets acquired and liabilities assumed based on their estimated fair values on the date of acquisition. The pro forma effect on earnings of the acquisition of Midwest is not material.

On May 20, 2005, the Company's Board of Directors declared a two-for-one stock split to be 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 earnings per share information included in the accompanying consolidated financial statements has been restated to reflect the effect of the stock split for all periods presented.

Results of Operations

Product sales for the second quarter of 2005 were $521.2 million, an increase of $86.0 million or 19.8% over product sales for the second quarter of 2004. Product sales for the first six months of 2005 were $987.4 million, an increase of $149.0 million or 17.8% over product sales for the first six months of 2004. These increases are primarily due to the opening of 41 net, new stores during the second quarter of 2005, excluding the effect of the acquisition of Midwest and 78 net, new stores during the first six months of 2005, excluding the effect of the acquisition of Midwest, in addition to a 9.6% and 8.4% increase in comparable store product sales for the second quarter and first six months of 2005, respectively. At June 30, 2005, we operated 1,399 stores compared to 1,170 stores at June 30, 2004.

Gross profit increased 20.9% from $189.4 million (or 43.6% of product sales) in the second quarter of 2004 to $229.0 million (or 43.9% of product sales) in the second quarter of 2005. Gross profit for the first six months increased 18.4% from $359.0 million (or 42.8% of product sales) in 2004 to $425.1 million (or 43.1% of product sales) in 2005. As with product sales, the increase in gross profit dollars is primarily a result of the increase in the number of stores open during the second quarter and first six months of 2005 compared to the same periods in 2004, and increased sales levels at existing stores. The increase in gross profit as a percentage of product sales is primarily due to lower acquisition costs of inventory, favorable changes in product sales mix and improved efficiencies in our distribution centers.

Operating, selling, general and administrative expenses ("OSG&A expenses") increased $25.6 million from $135.2 million (or 31.1% of product sales) in the second quarter of 2004 to $160.8 million (or 30.9% of product sales) in the second quarter of 2005. OSG&A expenses increased $42.6 million from $260.8 million (or 31.1% of product sales) in the first six months of 2004 to $303.4 million (or 30.7% of product sales) in the first six months of 2005. The dollar increase in OSG&A expenses resulted from the addition of team members and resources in order to support the increased level of our operations. The decrease in OSG&A as a percentage of product sales was primarily due to economies of scale achieved and the result of management's efforts to increase labor productivity.

Other income increased by $633,000 in the second quarter of 2005 compared to the second quarter of 2004 and other expense decreased by $411,000 for the first six months of 2005 compared to the first six months of 2004. These changes were primarily due to increases in interest income as a result of higher cash balances.

Our estimated provision for income taxes increased $5.3 million and $8.7 million for the second quarter and first six months of 2005, respectively, compared to comparable periods in 2004, as a result of our increased taxable income. Our effective tax rate was 37.2% of income before income taxes for the second quarter of 2005 and the first six months of 2005.

Principally, as a result of the foregoing, income before cumulative effect of accounting change increased from $33.7 million (or 7.7% of product sales) in the second quarter of 2004 to $42.9 million (or 8.2% of product sales) in the second quarter of 2005. Income before cumulative effect of accounting change increased from $61.0 million (or 7.3% of product sales) in the first six months of 2004 to $76.1 million (or 7.7% of product sales) in the first six months of 2005.

FINANCIAL CONDITION AND RESULTS OF OPERATIONS (CONT.)

Liquidity and Capital Resources

Net cash provided by operating activities decreased from $159.5 million for the first six months in 2004 to $125.4 million for the first six months of 2005. During 2004, we negotiated extended payment terms with many suppliers, which resulted in a large increase in accounts payable. The decrease for 2005 from 2004 was primarily due to a smaller increase in accounts payable.

Net cash used in investing activities increased from $79.9 million during the first six months in 2004 to $168.3 million for the comparable period in 2005, primarily due to the acquisition of Midwest and increased purchases of property and equipment resulting from new store growth.

Net cash used in financing activities was $12.6 million in the first six months of 2004, compared to $10.3 million provided by the first six months of 2005. The increase in net cash provided is primarily due to a reduction in principal payments on long-term debt and increased proceeds from issuance of common stock.

We had available an unsecured, three-year syndicated revolving credit facility in the amount of $150 million (the "Credit Facility"). The Credit Facility was guaranteed by all of our subsidiaries and could have been increased to a total of $200 million, subject to availability of such additional credit from either existing banks within the syndicate or other banks. At June 30, 2005, none of the Credit Facility was outstanding. Letters of credit totaling $24.0 million were outstanding at June 30, 2005. Accordingly, we had aggregate availability for additional borrowings of $126.0 million under the Credit Facility. The Credit Facility, which bore interest at LIBOR plus a spread ranging from 0.875% to 1.375% (3.34% at June 30, 2005), was to expire on July 31, 2005. On July 29, 2005 we renewed our Credit Facility. The new Credit Facility is an unsecured, five year facility in the amount of $100 million. The Credit Facility may increase to $200 million, subject to availability of such additional credit from either existing or new banks. The new Credit Facility bears interest at LIBOR plus a spread ranging from 0.50% to 1.00% and expires in July 2010.

In May 2006, $75 million of our private placement notes become due. We anticipate repaying these notes with cash expected to be provided by operating activities or a combination of such cash and available borrowing capacity under our revolving credit facility.

Our continuing store expansion program requires significant capital expenditures and working capital, used principally for inventory requirements. The costs associated with the opening of a new store (including the cost of land acquisition, improvements, fixtures, inventory and computer equipment) are estimated to average approximately $900,000 to $1.1 million; however, such costs may be significantly reduced where we lease, rather than purchase, the store site. Although the cost to acquire the business of an independently owned parts store varies, depending primarily upon the amount of inventory and the amount, if any, of real estate being acquired, we estimate that the average cost to acquire such a business and convert it to one of our stores is approximately $400,000, exclusive of the cost of inventory. We plan to finance our expansion program through cash expected to be provided from operating activities and available borrowings under our existing credit facilities.

During the first six months of 2005, 78 net, new stores were opened, excluding the effect of the acquisition of Midwest. The Company plans to open 72 additional stores during the remainder of 2005. The funds required for such planned expansions are expected to be provided by operating activities and the existing and available bank credit facilities.

We believe that our existing cash, short-term investments, 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 and liquidity needs for the foreseeable future.

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.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONT.)

Off Balance Sheet Arrangements (continued)

On December 29, 2000, we completed a sale-leaseback transaction. 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 the Company. The transaction did not result in a material gain or loss. The lease, which has been accounted for as an operating lease, calls for an initial term of 15 years with three five-year renewal options.

On June 26, 2003, we completed an amended and restated master agreement to our $50 million Synthetic Operating Lease Facility, relating to our properties leased from SunTrust Equity Funding, LLC (the "Synthetic Lease"), with a group of financial institutions. The terms of the Synthetic Lease provide for an initial lease period of five years, a residual value guarantee of approximately $43.2 million at June 30, 2005, and purchase options on the properties. The Synthetic Lease also contains a provision for an event of default whereby the lessor, among other things, may require us to purchase any or all of the properties. One additional renewal period of five years may be requested from the lessor, although the lessor is not obligated to grant such renewal. The Synthetic Lease has been accounted for as an operating lease under the provisions of FASB SFAS No. 13 and related interpretations, including FASB Interpretation No. 46.

We issue stand-by letters of credit provided by a $30 million sublimit under the Credit Facility that reduce our available borrowings. These letters of credit are issued primarily to satisfy the requirements of workers compensation, general liability and other insurance policies. Substantially all of the outstanding letters of credit have a one-year term from the date of issuance and have been issued to replace surety bonds that were previously issued. Letters of credit totaling $24.0 million and $15.8 million were outstanding at June 30, 2005 and 2004, respectively.

New Accounting Standards

In November 2004, the FASB issued SFAS 151, Inventory Costs, an amendment of APB No. 43, Chapter 4. The standard requires that abnormal amounts of idle capacity and spoilage costs should be excluded from the cost of inventory and expensed when incurred. The standard is effective for fiscal periods beginning after June 15, 2005. We do not expect the adoption of this standard to have a material effect on our financial position, results of operations or cash flows.

In December 2004, the FASB issued SFAS 153, Exchanges of Nonmonetary Assets, an amendment of APB No. 29, Accounting for Nonmonetary Transactions. SFAS 153 requires exchanges of productive assets to be accounted for at fair value, rather than at carryover basis, unless (1) neither the asset received nor the asset surrendered has a fair value that is determinable within reasonable limits or (2) the transactions lack commercial substance. SFAS 153 is effective for nonmonetary asset exchanges occurring in fiscal periods beginning after June 15, 2005. We do not expect the adoption of this standard to have a material effect on our financial position, results of operations or cash flows.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONT.)

New Accounting Standards (continued)

In December 2004, the FASB issued SFAS No. 123R, Share-Based Payment. SFAS No. 123R is a revision of SFAS No. 123, Accounting for Stock Based Compensation, and supersedes APB No. 25. Among other items, SFAS 123R eliminates the use of APB No. 25 and the intrinsic value method of accounting, and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments, based on the grant date fair value of those awards, in the financial statements. The effective date of SFAS 123R is the first reporting period beginning after January 1, 2006, which is first quarter 2006 for calendar year companies, such as ourselves, although early adoption is allowed. SFAS 123R permits companies to adopt its requirements using either a "modified prospective" method, or a "modified retrospective" method. Under the "modified prospective" method, compensation cost is recognized in the financial statements beginning with the effective date, based on the requirements of SFAS 123R for all share-based payments granted after that date, and based on the requirements of SFAS 123 for all unvested awards granted prior to the effective date of SFAS 123R. Under the "modified retrospective" method, the requirements are the same as under the "modified prospective" method, but also permits entities to restate financial statements of previous periods based on pro forma disclosures made in accordance with SFAS 123. We currently utilize a standard option pricing model (i.e., Black-Scholes) to measure the fair value of stock options granted to employees. While SFAS 123R permits entities to continue to use such a model, the standard also permits the use of a "lattice" model. We have not yet determined which model we will use to measure the fair value of employee stock options upon the adoption of SFAS 123R. See Note 8 of the Company's Annual Report on Form 10-K for the year ended December 31, 2004 ("2004 Form 10-K") for further information. SFAS 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 current literature. This requirement will reduce net operating cash flows and increase net financing cash flows in periods after the effective date. These future amounts cannot be estimated, because they depend on, among other things, when employees exercise stock options. However, the amount of operating cash flows recognized in prior periods for such excess tax deductions, as shown in our Consolidated Statement of Cash Flows of the 2004 Form 10-K, were $4.5 million, $5.5 million, and $1.5 million, for the years ended December 31, 2004, 2003, and 2002, respectively. We currently expect to adopt SFAS 123R effective January 1, 2006; however, we have not yet determined which of the aforementioned adoption methods we will use and are still evaluating the standard. See Note 8 of the Company's 2004 Form 10-K for further information on our stock-based compensation plans.

Inflation and Seasonality

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

Our business is seasonal to some extent primarily as a result of the impact of weather conditions on store sales. 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.

Internet Address and Access to SEC Filings

Our Internet address is www.oreillyauto.com. Interested readers can access the Company's annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and any amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, through the Securities and Exchange Commission website, www.sec.gov. Such reports are generally available on the day they are filed. Additionally, the Company will furnish interested readers upon request and free of charge, a paper copy of such reports. Written requests for paper copies may be sent to our Corporate Secretary at O'Reilly Automotive, Inc., 233 South Patterson, Springfield, Missouri 65802.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF
RESULTS OF OPERATIONS AND FINANCIAL CONDITION (CONT.)

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," "good," "plan," "intend," "estimate," "project," "will" or similar words. In addition, statements contained within this filing 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 Exhibit 99.1 of this Form 10-Q, for additional factors that could materially affect our financial performance.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are subject to interest rate risk to the extent we borrow against our revolving credit facility with variable interest rates. Since no amounts were outstanding under the revolving credit facility at June 30, 2005, changes in interest rates would not have any effect. In the event of an adverse change in interest rates and assuming the Company had amounts outstanding under the credit facility, management would likely take actions that would mitigate our exposure to interest rate risk particularly if our borrowing levels increase to any significant extent; however, due to the uncertainty of the actions that would be taken and their possible effects, this analysis assumes no such action. Further, this analysis does not consider the effects of the change in the level of overall economic activity that could exist in such an environment.

ITEM 4. CONTROLS AND PROCEDURES

Management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, has reviewed and evaluated the effectiveness of our disclosure controls and procedures as required by Rule 13a-15(b) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), as of June 30, 2005. Based on such review and evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that the disclosure controls and procedures were effective as of June 30, 2005, to ensure that the information required to be disclosed by the Company in the reports that we file or submit under the Exchange Act (a) is recorded, processed, summarized and reported within the time period specified in the Securities and Exchange Commission's rules and forms and (b) is accumulated and communicated to the Company's management, including our principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. There were no material changes in our internal control over financial reporting during the quarter ended June 30, 2005, that have materially affected, or are reasonably likely to materially affect, internal controls over financial reporting.

PART II - OTHER INFORMATION

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

(a) Our Annual Meeting of the Shareholders was held on May 3, 2005. Of the 55,421,404 shares entitled to vote at such meeting, 52,337,992 shares were present at the meeting in person or by proxy.

(b) The individuals listed below were elected as a Class III Director, and with respect to each such Director, the number of shares voted for and withheld were as follows:

Name of Nominee	Number of Shares Voted For	Number of Shares Withheld
David E. O'Reilly	44,505,956	7,832,036
Jay D. Burchfield	50,400,959	1,937,033
Paul R. Lederer	51,757,381	580,611

The individuals listed below are Directors whose term of office continued after the meeting:

Charles H. O'Reilly Jr.
Ronald Rashkow
John Murphy
Rosalie Wooten
Larry O'Reilly
Joe Greene

(c) In addition to the election of three Class III Directors, the following matters were voted upon:

(i) Ernst & Young LLP was ratified as independent auditor for the fiscal year ending December 31, 2005. The number of shares voted for, against and abstained were as follows:

	Number of Shares	
Voted For	Voted Against	Abstained
47,575,436	847,195	33,807

(ii) The proposal to amend and restate the 2003 Employee Stock Option Plan to the 2003 Incentive Plan was approved. The number of shares voted for, against and abstained were as follows:

	Number of Shares	
Voted For	Voted Against	Abstained
39,418,962	2,485,120	319,098

(iii) The proposal to amend and restate the 2003 Director Stock Option Plan to the 2003 Director Stock Plan was approved. The number of shares voted for, against and abstained were as follows:

	Number of Shares	
Voted For	Voted Against	Abstained
33,810,414	4,775,497	3,637,269

(iv) The proposal to amend our Amended and Restated Articles of Incorporation to change our authorized shares to 250,000,000 was approved. The number of shares voted for, against and abstained were as follows:

	Number of Shares	
Voted For	Voted Against	Abstained
34,351,486	17,893,211	93,295

ITEM 6. EXHIBITS

(a) Exhibits:

Exhibit	Description	Page Number
31.1	Certificate of the Chief Executive Officer pursuant to Section	18

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 thereunto duly authorized.

O'REILLY AUTOMOTIVE, INC.

August 8, 2005	/s/ Greg Henslee
Date	Greg Henslee, Chief Executive Officer (Principal Executive Officer) and Co-President
August 8, 2005	/s/ James R. Batten
Date	James R. Batten, Executive Vice-President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
Exhibit 31.1 - CEO Certification

CERTIFICATIONS

I, Greg Henslee, certify that:

1. I have reviewed this quarterly report on Form 10-Q of O'Reilly Automotive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material

respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:August 8, 2005 /s/ Greg Henslee

Greg Henslee, Co-President and Chief Executive Officer
(Principal Executive Officer)

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

Exhibit 31.2 - CFO Certification

CERTIFICATIONS

I, James R. Batten, certify that:

1. I have reviewed this quarterly report on Form 10-Q of O'Reilly Automotive, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this quarterly report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, 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;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting;

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date:August 8, 2005 /s/ James R. Batten

James R. Batten, Executive Vice President of Finance and Chief Financial Officer (Principal Financial and Accounting Officer)

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O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
Exhibit 32.1 - CEO Certification

O'REILLY AUTOMOTIVE, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of O'Reilly Automotive, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2005, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Greg Henslee, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ Greg Henslee

Greg Henslee
Chief Executive Officer
Principle Executive Officer

August 8, 2005

This certification is made solely for purposes of 18 U.S.C. Section 1350, and not for any other purpose.

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O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
Exhibit 32.2 - CFO Certification

O'REILLY AUTOMOTIVE, INC.

CERTIFICATION PURSUANT TO
18 U.S.C. SECTION 1350
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report of O'Reilly Automotive, Inc. (the "Company") on Form 10-Q for the period ended June 30, 2004, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, James R. Batten, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

(1) The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

(2) The information contained in the Report fairly presents, in all material respects, the financial condition and result of operations of the Company.

/s/ James R. Batten

James R. Batten
Chief Financial Officer

August 8, 2005

This certification is made solely for purposes of 18 U.S.C. Section 1350, and not for any other purpose.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
Exhibit 99.1 - Certain Risk Factors

Some of the information in this Form 10-Q contains, and future reports, press releases and other public information may contain, forward-looking statements that involve substantial risks and uncertainties. You can identify these statements by forward-looking words such as "may," "will," "expect," "anticipate," "believe," "estimate," and "continue" or similar words. These "forward-looking statements" are made in reliance upon the safe harbor provisions of the Private Securities Litigation Reform Act of 1995 (See Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934.) You should read statements that contain these words carefully because they: (1) discuss our future expectations; (2) contain projections of our future results of operations or of our financial condition; or (3) state other "forward-looking" information. We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to accurately predict or over which we have no control.

The risk factors listed in this exhibit, as well as any cautionary language in this Form 10-Q, 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 business, weather, terrorist activities, war and the threat of war. Actual results may materially differ from anticipated results described in these forward-looking statements. You should be aware that the occurrence of the events described in these risk factors and elsewhere in our annual report on Form 10-K for the year ended December 31, 2004 (the "2004 Form 10-K") could have a material adverse effect on our business, operating results and financial condition.

Competition

We compete with a large number of retail (DIY) and wholesale (professional installers) automotive aftermarket product suppliers. The distribution of automotive aftermarket products is a highly competitive industry, particularly in the more densely populated market areas that we serve. Competitors include national and regional automotive parts chains, independently owned parts stores (some of which are associated with national auto parts distributors or associations), automobile dealerships, mass or general merchandise, discount and convenience chains that carry automotive products, independent warehouse distributors and parts stores and national warehouse distributors and associations. Some of our competitors are larger than we are and have greater financial resources. In addition, some of our competitors are smaller than we are overall but have a greater presence than we do in a particular market. For a list of our principal competitors, see the "Competition" section of Item 1 to our 2004 Form 10-K.

No Assurance of Future Growth

We believe that our ability to open additional stores at an accelerated rate will be a significant factor in achieving our growth objectives for the future. Failure to achieve our growth objectives may negatively impact the trading price of our common stock. Our ability to accomplish our growth objectives is dependent, in part, on matters beyond our control, such as weather conditions, zoning and other issues related to new store site development, the availability of qualified management personnel and general business and economic conditions. We cannot be sure that our growth plans for 2005 and beyond will be achieved. For a discussion of our growth strategies, see the "Growth and Expansion Strategies" section of Item 1 to our 2004 Form 10-K.

Acquisitions May Not Lead to Expected Growth

We expect to continue to make acquisitions as an element of our growth strategy. Acquisitions involve certain risks that could cause our actual growth to differ from our expectations. For example: (1) we may not be able to continue to identify suitable acquisition candidates or to acquire additional companies at favorable prices or on other favorable terms; (2) our management's attention may be distracted; (3) we may fail to retain key acquired personnel; (4) we may assume unanticipated legal liabilities and other problems; and (5) we may not be able to successfully integrate the operations (accounting and billing functions, for example) of businesses we acquire to realize economic, operational and other benefits.

Sensitivity to Regional Economic and Weather Conditions

All of our stores are located in the Central and Southern United States. In particular, approximately 28% of our stores are located in Texas. Therefore, our business is sensitive to the economic and weather conditions of this region. Unusually severe or inclement weather tends to reduce sales, particularly to DIY customers.

Dependence Upon Key and Other Personnel

Our success has been largely dependent on the efforts of certain key personnel, including David E. O'Reilly, Ted F. Wise, Greg L. Henslee and James R. Batten. Our business and results of operations could be materially adversely affected by the loss of the services of one or more of these individuals. Additionally, our successful implementation and management of our growth and expansion strategies will depend on our ability to continue to attract and retain qualified personnel. We cannot be sure that we will be able to continue to attract such personnel. For a further discussion of our management and personnel, see the "Business" section of Item 1 and Item 4a of our 2004 Form 10-K and our Proxy Statement on Schedule 14A for the 2005 Annual Meeting of Shareholders.

Concentration of Ownership by Management

Our executive officers and directors as a group beneficially own a substantial percentage of the outstanding shares of our common stock. These officers and directors have the ability to exercise effective voting control of the company, including the election of all of our directors, and to effectively determine the vote on any matter being voted on by our shareholders, including any merger, sale of assets or other change in control of the company.

Possible Volatility of Our Stock Price

The stock market and the price of our common stock may be subject to volatile fluctuations based on general economic and market conditions. The market price for our common stock may also be affected by our ability to meet analysts' expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock. In addition, stock market volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such a company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Shares Eligible for Future Sale

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