

O REILLY AUTOMOTIVE INC
Form 10-K
February 28, 2012
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 10-K

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

For the fiscal year ended December 31, 2011

OR

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

For the transition period from to

O REILLY AUTOMOTIVE, INC.

(Exact name of registrant as specified in its charter)

Missouri
(State or other jurisdiction of
incorporation or organization)

000-21318
Commission

file number
233 South Patterson

27-4358837
(IRS Employer

Identification No.)

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Springfield, Missouri 65802

(Address of principal executive offices, zip code)

(417) 862-6708

(Registrant's telephone number, including area code)

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on which Registered
Common Stock, \$0.01 par value	The NASDAQ Stock Market LLC
	(NASDAQ Global Select Market)

Securities registered pursuant to Section 12(g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by checkmark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained here, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by checkmark whether the registrant is a large accelerated filer, an accelerated filer or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer

Non-Accelerated Filer Smaller Reporting Company

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

At February 20, 2012, an aggregate of 127,315,291 shares of the common stock of the registrant was outstanding. As of that date, the aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$10,764,507,854 based on the last sale price of the common stock reported by The NASDAQ Global Select Market.

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At June 30, 2011, an aggregate of 135,955,214 shares of the common stock of the registrant was outstanding. As of that date, the aggregate market value of the voting stock held by non-affiliates of the Company was approximately \$8,906,426,069 based on the last sale price of the common stock reported by The NASDAQ Global Select Market.

DOCUMENTS INCORPORATED BY REFERENCE

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

Document	Form 10-K Part
Proxy Statement for 2012 Annual Meeting of Shareholders (to be filed pursuant to Regulation 14A within 120 days of the end of registrant's most recently completed fiscal year)	Part III

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O Reilly Automotive, Inc

Form 10-K

For the Year Ended December 31, 2011

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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, 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, integration 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 regulations, our increased debt levels, credit ratings on public debt, our ability to hire and retain qualified employees, risks associated with the performance of acquired businesses such as CSK Auto Corporation, weather, terrorist activities, war and the threat of war. Actual results may materially differ from anticipated results described or implied in these forward-looking statements. Please refer to the Risk Factors section of this annual report on Form 10-K for the year ended December 31, 2011, for additional factors that could materially affect our financial performance. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

PART I

Item 1. Business
GENERAL INFORMATION

O Reilly Automotive, Inc. and its subsidiaries, collectively we, O Reilly or the Company, is one of the largest specialty retailers of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States, selling our products to both do-it-yourself (DIY) customers and professional service providers, our dual market strategy. O Reilly Automotive, Inc. incorporated in 1957 as a corporation, was founded by Charles F. O Reilly and his son, Charles H. Chub O Reilly, Sr. and initially operated from a single store in Springfield, Missouri. Our common stock has traded on The NASDAQ Global Select Market under the symbol ORLY since April 22, 1993.

On December 29, 2010, we completed a corporate reorganization creating a holding company structure, which was implemented through an agreement and plan of merger under Section 351.448 of The General Corporation Law of the State of Missouri, which did not require a vote of the shareholders. As a result of this reorganization, the previous parent company and registrant, O Reilly Automotive, Inc., was renamed O Reilly Automotive Stores, Inc. and is now a wholly-owned subsidiary of the new parent company and registrant, which was renamed O Reilly Automotive, Inc.

On July 11, 2008, we completed our most recent acquisition, CSK Auto Corporation (CSK), which was one of the largest specialty retailers of auto parts and accessories in the Western United States and one of the largest such retailers in the United States, based on store count at the date of acquisition. At the date of the acquisition, CSK had 1,342 stores in 22 states, operating under four brand names: Checker Auto Parts, Schuck's Auto Supply, Kragen Auto Parts and Murray's Discount Auto Parts. The results of CSK's operations have been included in our consolidated financial statements since the acquisition date.

At December 31, 2011, we operated 3,740 stores in 39 states. Our stores carry an extensive product line, including the products identified below:

new and remanufactured automotive hard parts, such as alternators, starters, fuel pumps, water pumps, brake system components, batteries, belts, hoses, temperature control, chassis parts and engine parts;

maintenance items, such as oil, antifreeze, fluids, filters, wiper blades, lighting, engine additives and appearance products; and

accessories, such as floor mats, seat covers and truck accessories.

Our stores offer many enhanced services and programs to our customers, such as those identified below:

used oil and battery recycling

battery diagnostic testing

electrical and module testing

loaner tool program

drum and rotor resurfacing

custom hydraulic hoses

professional paint shop mixing and related materials

machine shops

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See Risk Factors beginning on page 14 for a description of certain risks relevant to our business. These risk factors include, among others, deteriorating economic conditions, the performance of the acquired CSK stores, increased debt levels, our acquisition strategies, competition in the automotive aftermarket business, our dependence upon key and other personnel, future growth assurance, our sensitivity to regional economic and weather conditions, the effect of sales of shares of our common stock eligible for future sale, unanticipated fluctuations in our quarterly results, the volatility of the market price of our common stock, our relationships with key vendors and availability of key products, a downgrade in our credit ratings, complications in our distribution centers (DC s), and environmental legislation and regulations.

OUR BUSINESS

Our goal is to continue to achieve growth in sales and profitability by capitalizing on our competitive advantages and executing our growth strategy. We remain confident in our ability to continue to gain market share in our existing markets and grow our business in new markets by focusing on our dual market strategy and the core O Reilly values of customer service and expense control. Our intent is to be the dominant auto parts provider in all the markets we serve, by providing superior customer service and significant value to both DIY and professional service provider customers.

Competitive Advantages

We believe our effective dual market strategy, superior customer service, strategic distribution systems and experienced management team make up our key competitive advantages that cannot be easily duplicated.

Proven Ability to Execute a Dual Market Strategy:

Over the past 30 years, we have established a track record of effectively serving, at a high level, both DIY customers and professional service providers. We believe our proven ability to effectively execute a dual market strategy is a unique competitive advantage. The execution of this strategy enables us to better compete by targeting a larger base of consumers of automotive aftermarket parts, capitalizing on our existing retail and distribution infrastructure, operating profitably in both large markets and less densely populated geographic areas that typically attract fewer competitors, and enhancing service levels offered to DIY customers through the offering of a broad inventory and the extensive product knowledge required by professional service providers.

In 2011, we derived approximately 59% of our sales from our DIY customers and approximately 41% of our sales from our professional service provider customers. Prior to the acquisition of CSK, we derived approximately 50% of our sales from both our DIY and professional service provider customers. As we continue to grow our commercial business in the acquired CSK markets, we expect that over time our DIY and professional service provider sales mix to approximate historical averages. As a result of our historical success of executing our dual market strategy and our over 460 full-time sales staff dedicated solely to calling upon and servicing the professional service provider, we believe we will continue to increase our sales to professional service providers and will continue to have a competitive advantage over our retail competitors who continue to derive a high concentration of their sales from the DIY market.

Superior Customer Service:

We seek to attract new DIY and professional service provider customers and to retain existing customers by offering superior customer service, the key elements of which are identified below:

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

an extensive selection and availability of products

attractive stores in convenient locations

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

Technically Proficient Professional Parts People:

Our highly-motivated, technically-proficient Professional Parts People provide us with a significant competitive advantage, particularly over less specialized retail operators. We require our Professional Parts People to undergo extensive and ongoing training and to be technically knowledgeable, particularly with respect to hard parts, in order to better serve the technically-oriented professional service providers with whom they interact on a daily basis. Such technical proficiency also enhances the customer service we provide to our DIY customers who value the expert assistance provided by our Professional Parts People.

Strategic Distribution Systems:

We believe our commitment to a robust, regional DC network provides for superior replenishment and access to hard-to-find parts and enables us to optimize product availability and inventory levels throughout our store network. Our inventory management and distribution systems electronically link each of our stores to one or more DCs, which provides for efficient inventory control and management. We currently operate 23 regional DCs, which provide our stores with same-day or overnight access to an average of 123,000 stock keeping units (SKU's), many of which are hard-to-find items not typically stocked by other auto parts retailers. We believe this timely access to a broad range of products is a key competitive advantage in satisfying customer demand and generating repeat business.

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Experienced Management Team:

Our Company philosophy is to promote from with-in and the vast majority of our senior management, district managers and store managers have been promoted from with-in the Company. We augment this promote from with-in philosophy by pursuing strategic hires with a strong emphasis on automotive aftermarket experience. We have a strong management team comprised of senior management with 148 professionals who average 17 years of service; 266 corporate managers who average 13 years of service; and 355 district managers who average 12 years of service. Our management team has demonstrated the consistent ability to successfully execute our business plan and growth strategy by generating nineteen consecutive years of record revenues and earnings and positive comparable store sales results since becoming a public company in April of 1993.

Growth Strategy

Aggressively Open New Stores:

We intend to continue to consolidate the fragmented automotive aftermarket. We plan to open approximately 180 new stores in 2012 increasing our penetration in existing markets and expanding into new, contiguous markets. The sites for these new stores have been identified, and to date, we have not experienced significant difficulties in locating suitable sites for construction of new stores or identifying suitable acquisition targets for conversion to O Reilly stores. We typically open new stores either by (i) constructing a new facility or renovating an existing one on property we purchase or lease and stocking the new store with fixtures and inventory, (ii) acquiring an independently owned auto parts store, typically by the purchase of substantially all of the inventory and other assets (other than realty) of such store, or (iii) purchasing multi-store chains. New store sites are strategically located in clusters within geographic areas that complement our distribution network in order to achieve economies of scale in management, advertising and distribution. Other key factors we consider in the site selection process include population density and growth patterns, demographic lifestyle segmentation, age and per capita income, vehicle traffic counts, number and type of existing automotive repair facilities, competing auto parts stores within a pre-determined radius, and the operational strength of such competitors.

We target both small and large markets for expansion of our store network. While we have faced, and expect to continue to face, aggressive competition in the more densely populated markets, we believe we have competed effectively, and are well positioned to continue to compete effectively, in such markets and to achieve our goal of continued sales/profit growth within these markets. We also believe that with our dual market strategy, we are better able to operate stores in less densely populated areas, which would not otherwise support a national chain store selling primarily to the retail automotive aftermarket. Consequently, we continue to pursue opening new stores in less densely populated market areas as part of our growth strategy.

Grow Sales in Existing Stores:

Profitable same store sales growth is also an important part of our growth strategy. To achieve improved sales and profitability at existing O Reilly stores, we continually strive to improve the service provided to our customers. We believe that while competitive pricing is an essential component of successful growth in the automotive aftermarket business, it is customer satisfaction, whether of the DIY consumer or professional service provider, resulting from superior customer service that generates increased sales and profitability.

Selectively Pursue Strategic Acquisitions:

Although the automotive aftermarket industry is still highly fragmented, we believe the ability of national retail chains, such as ourselves, to operate more efficiently than smaller independent operators or mass merchandisers will result in continued industry consolidation. Thus, our intention is to continue to selectively pursue acquisition targets that will strengthen our position as a leading automotive aftermarket parts supplier in existing markets and provide a springboard into new markets.

Continually Enhance Store Design and Location:

Our current prototype store design features enhancements such as optimized square footage, higher ceilings, more convenient interior store layouts, improved in-store signage, brighter lighting, increased parking availability and dedicated counters to serve professional service providers, each designed to increase sales and operating efficiencies and enhance customer service. We continually update the location and condition of our store network through systematic renovation and relocation of our existing stores to enhance store performance. We believe that our ability to consistently achieve growth in same store sales is due in part to our commitment to maintaining an attractive store network, which is strategically located to best serve our customers.

Grow Professional Relationships with Professional Service Providers in the Western United States:

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In order to implement our proven dual market strategy throughout the acquired CSK store network and grow our share of the professional service provider market in those areas, we have added four additional DCs to the Western markets since the CSK acquisition. Our strategically located DCs provide converted CSK stores with same-day or overnight delivery access to an average of 123,000 SKUs and give these stores an important tool to provide industry-leading customer service to the professional service provider, as well as the DIY customer. In addition, our Professional Parts People receive ongoing training on our product lines, customer service and O Reilly policies and procedures aimed at building and improving relationships with professional service providers.

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The steps we have taken to implement our dual market strategy in the acquired CSK stores have allowed us to begin to capture market share in the Western United States. However, we continue to see significant opportunities to grow our share of the professional service provider business. This growth will be driven by our ability to consistently provide superior customer service and parts availability, proving O Reilly as a reliable partner and elevating our status as the preferred supplier on the call lists of professional service providers.

Team Members

As of January 31, 2012, we employed 49,148 Team Members (32,700 full-time Team Members and 16,448 part-time Team Members), of whom 41,693 were employed at our stores, 5,917 were employed at our DCs and 1,538 were employed at our corporate and regional offices. A union represents 49 stores (459 Team Members) in the Greater Bay Area in California, and has for many years. In addition, approximately 75 Team Members who drive over-the-road trucks in two of our DCs are represented by a labor union. Except for these Team Members, our Team Members are not represented by labor unions. Our tradition of 55 years has been to treat all of our Team Members with honesty and respect and to commit significant resources to instill in them our Live Green Culture, which emphasizes the importance of each Team Member's contribution to the success of O Reilly. This focus on professionalism and fairness has created an industry-leading team and we consider our relations with our Team Members to be excellent.

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As a result of our dual market strategy, we are able to profitably operate in both large, densely populated markets and small, less densely populated areas that would not otherwise support a national chain selling primarily to the retail automotive aftermarket. Our stores, on average, carry approximately 21,000 SKUs and average approximately 7,100 total square feet in size. At December 31, 2011, we had a total of approximately 27 million square feet in our 3,740 stores. Our stores are served primarily by the nearest DC, which averages 123,000 SKUs, but also have same-day access to the broad selection of inventory available at one of our 192 Hub stores, which, on average, carry approximately 39,000 SKUs and average approximately 10,000 square feet in size.

We believe that our stores are destination stores generating their own traffic rather than relying on traffic created by the presence of other stores in the immediate vicinity. Consequently, most of our stores are freestanding buildings and prominent end caps situated on or near major traffic thoroughfares, and offer ample parking, easy customer access and are generally located in close proximity to our professional service provider customers.

The following table sets forth the geographic distribution and activity of our stores as of December 31, 2011 and 2010:

State	December 31, 2010		2011 Net, New Stores		December 31, 2011		
	Store Count	% of Total Store Count	Store Change	% of Total Store Change	Store Count	% of Total Store Count	Cumulative % of Total Store Count
Texas	545	15.3%	18	10.6%	563	15.1%	15.1%
California	473	13.2%	1	0.6%	474	12.7%	27.7%
Missouri	180	5.0%	1	0.6%	181	4.8%	32.6%
Georgia	152	4.3%	9	5.3%	161	4.3%	36.9%
Washington	139	3.9%	2	1.2%	141	3.8%	40.6%
Illinois	128	3.6%	13	7.6%	141	3.8%	44.4%
Tennessee	135	3.8%	3	1.8%	138	3.7%	48.1%
Arizona	129	3.6%	(1)	-0.6%	128	3.4%	51.5%
North Carolina	97	2.7%	23	13.5%	120	3.2%	54.7%
Oklahoma	110	3.1%	2	1.2%	112	3.0%	57.7%
Alabama	108	3.0%	4	2.4%	112	3.0%	60.7%
Minnesota	104	2.9%	2	1.2%	106	2.8%	63.6%
Ohio	79	2.2%	22	12.9%	101	2.7%	66.3%
Arkansas	97	2.7%	2	1.2%	99	2.6%	68.9%
Michigan	76	2.1%	18	10.6%	94	2.5%	71.4%
Indiana	83	2.3%	6	3.5%	89	2.4%	73.8%
Louisiana	84	2.4%	3	1.8%	87	2.3%	76.1%
Colorado	87	2.4%	(3)	-1.8%	84	2.2%	78.4%
Wisconsin	67	1.9%	11	6.5%	78	2.1%	80.5%
Mississippi	71	2.0%		0.0%	71	1.9%	82.4%
Kansas	66	1.8%	5	2.9%	71	1.9%	84.3%
Iowa	66	1.8%		0.0%	66	1.8%	86.0%
Kentucky							