

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-Q

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

For the quarterly period ended September 30, 2014

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

27-4358837

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

**233 South Patterson Avenue
Springfield, Missouri 65802**

(Address of principal executive offices, Zip code)

(417) 862-6708

(Registrant's telephone number, including area code)

Not applicable

(Former name, former address and former fiscal year, if changed since last report)

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

Yes ☐ No ☒

Indicate the number of shares outstanding of each of the issuer's classes of common stock as of the latest practicable date: Common stock, \$0.01 par value - 101,444,779 shares outstanding as of November 3, 2014.

O'REILLY AUTMOTIVE, INC. AND SUBSIDIARIES
FORM 10-Q
FOR THE QUARTER ENDED SEPTEMBER 30, 2014

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PART I. FINANCIAL INFORMATION**Item 1. Financial Statements**

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

	<u>September 30, 2014</u>	<u>December 31, 2013</u>
	(Unaudited)	(Note)
Assets		
Current assets:		
Cash and cash equivalents	\$ 298,283	\$ 231,318
Accounts receivable, net	152,779	131,504
Amounts receivable from vendors	67,073	66,619
Inventory	2,517,927	2,375,047
Other current assets	34,689	30,713
Total current assets	<u>3,070,751</u>	<u>2,835,201</u>
Property and equipment, at cost	3,895,165	3,606,837
Less: accumulated depreciation and amortization	<u>1,294,053</u>	<u>1,181,734</u>
Net property and equipment	2,601,112	2,425,103
Notes receivable, less current portion	14,283	13,066
Goodwill	756,335	756,225
Other assets, net	32,695	37,613
Total assets	<u>\$ 6,475,176</u>	<u>\$ 6,067,208</u>
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 2,409,054	\$ 2,056,521
Self-insurance reserves	65,632	57,700
Accrued payroll	71,451	65,520
Accrued benefits and withholdings	58,602	41,262
Deferred income taxes	21,039	20,222
Income taxes payable	18,645	—
Other current liabilities	201,475	181,718
Current portion of long-term debt	44	67
Total current liabilities	<u>2,845,942</u>	<u>2,423,010</u>
Long-term debt, less current portion	1,396,488	1,396,141
Deferred income taxes	61,789	80,713
Other liabilities	194,551	201,023
Shareholders' equity:		
Common stock, \$0.01 par value:		
Authorized shares – 245,000,000		
Issued and outstanding shares –		
102,393,366 as of September 30, 2014, and		
105,939,766 as of December 31, 2013	1,024	1,059
Additional paid-in capital	1,168,741	1,118,929
Retained earnings	806,641	846,333
Total shareholders' equity	<u>1,976,406</u>	<u>1,966,321</u>
Total liabilities and shareholders' equity	<u>\$ 6,475,176</u>	<u>\$ 6,067,208</u>

Note: The balance sheet at December 31, 2013, 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 accompanying Notes to condensed consolidated financial statements.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF INCOME
(Unaudited)
(In thousands, except per share data)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Sales	\$ 1,876,872	\$ 1,728,025	\$ 5,451,903	\$ 5,028,003
Cost of goods sold, including warehouse and distribution expenses	908,671	848,862	2,655,109	2,478,302
Gross profit	968,201	879,163	2,796,794	2,549,701
Selling, general and administrative expenses	624,433	578,783	1,829,432	1,701,976
Operating income	343,768	300,380	967,362	847,725
Other income (expense):				
Interest expense	(12,983)	(13,295)	(39,211)	(36,162)
Interest income	551	514	1,688	1,460
Other, net	982	690	2,237	2,022
Total other expense	(11,450)	(12,091)	(35,286)	(32,680)
Income before income taxes	332,318	288,289	932,076	815,045
Provision for income taxes	115,321	101,800	335,572	297,100
Net income	\$ 216,997	\$ 186,489	\$ 596,504	\$ 517,945
<i>Earnings per share-basic:</i>				
Earnings per share	\$ 2.10	\$ 1.72	\$ 5.67	\$ 4.71
Weighted-average common shares outstanding – basic	103,498	108,307	105,146	110,034
<i>Earnings per share-assuming dilution:</i>				
Earnings per share	\$ 2.06	\$ 1.69	\$ 5.58	\$ 4.63
Weighted-average common shares outstanding – assuming dilution	105,222	110,193	106,945	111,885

See accompanying Notes to condensed consolidated financial statements.

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

	For the Nine Months Ended September 30,	
	2014	2013
Operating activities:		
Net income	\$ 596,504	\$ 517,945
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization of property, equipment and intangibles	143,515	136,071
Amortization of debt discount and issuance costs	1,563	1,526
Excess tax benefit from stock options exercised	(32,296)	(25,195)
Deferred income taxes	(18,108)	8,501
Share-based compensation programs	17,424	16,485
Other	3,801	4,635
Changes in operating assets and liabilities:		
Accounts receivable	(26,167)	(24,489)
Inventory	(142,880)	(88,206)
Accounts payable	352,533	146,413
Income taxes payable	51,043	18,842
Other	36,022	7,320
Net cash provided by operating activities	<u>982,954</u>	<u>719,848</u>
Investing activities:		
Purchases of property and equipment	(317,157)	(299,511)
Proceeds from sale of property and equipment	2,304	1,101
Payments received on notes receivable	2,770	3,905
Net cash used in investing activities	<u>(312,083)</u>	<u>(294,505)</u>
Financing activities:		
Proceeds from the issuance of long-term debt	—	299,976
Payment of debt issuance costs	—	(2,967)
Principal payments on capital leases	(54)	(207)
Repurchases of common stock	(687,154)	(687,162)
Excess tax benefit from stock options exercised	32,296	25,195
Net proceeds from issuance of common stock	51,006	54,702
Net cash used in financing activities	<u>(603,906)</u>	<u>(310,463)</u>
Net increase in cash and cash equivalents	<u>66,965</u>	<u>114,880</u>
Cash and cash equivalents at beginning of the period	231,318	248,128
Cash and cash equivalents at end of the period	<u>\$ 298,283</u>	<u>\$ 363,008</u>
Supplemental disclosures of cash flow information:		
Income taxes paid	\$ 308,029	\$ 271,898
Interest paid, net of capitalized interest	47,173	44,060

See accompanying Notes to condensed consolidated financial statements.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
September 30, 2014

NOTE 1 - BASIS OF PRESENTATION

The accompanying unaudited condensed consolidated financial statements of O'Reilly Automotive, Inc. and its subsidiaries (the "Company" or "O'Reilly") have been prepared in accordance with United States generally accepted accounting principles ("U.S. GAAP") 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. GAAP 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 three and nine months ended September 30, 2014, are not necessarily indicative of the results that may be expected for the year ended December 31, 2014. 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, 2013.

NOTE 2 – FAIR VALUE MEASUREMENTS

The Company uses the fair value hierarchy, which prioritizes the inputs used to measure the fair value of certain of its financial instruments. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurement) and the lowest priority to unobservable inputs (Level 3 measurement). The Company uses the income and market approaches to determine the fair value of its assets and liabilities. The three levels of the fair value hierarchy are set forth below:

- Level 1 – Quoted prices (unadjusted) in active markets for identical assets or liabilities that the reporting entity can access at the measurement date.
- Level 2 – Inputs other than quoted prices in active markets included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3 – Unobservable inputs for the asset or liability.

Non-financial assets and liabilities measured at fair value on a nonrecurring basis:

Certain long-lived non-financial assets and liabilities may be required to be measured at fair value on a nonrecurring basis in certain circumstances, including when there is evidence of impairment. These non-financial assets and liabilities may include assets acquired in a business combination or property and equipment that are determined to be impaired. As of September 30, 2014, and December 31, 2013, the Company did not have any non-financial assets or liabilities that had been measured at fair value subsequent to initial recognition.

Fair value of financial instruments:

The carrying amounts of the Company's senior notes are included in "Long-term debt, less current portion" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013.

The table below identifies the estimated fair value of the Company's senior notes, using the market approach. The fair values as of September 30, 2014, and December 31, 2013, were determined by reference to quoted market prices of the same or similar instruments (Level 2) (in thousands):

	September 30, 2014		December 31, 2013	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
4.875% Senior Notes due 2021	\$ 497,788	\$ 548,188	\$ 497,525	\$ 524,434
4.625% Senior Notes due 2021	\$ 299,637	\$ 325,432	\$ 299,598	\$ 310,141
3.800% Senior Notes due 2022	\$ 299,084	\$ 307,882	\$ 299,011	\$ 290,453
3.850% Senior Notes due 2023	\$ 299,979	\$ 307,859	\$ 299,976	\$ 289,362

The accompanying Condensed Consolidated Balance Sheets include other financial instruments, including cash and cash equivalents, accounts receivable, amounts receivable from vendors and accounts payable. Due to the short-term nature of these financial instruments, the Company believes that the carrying values of these instruments approximate their fair values.

NOTE 3 – LONG-TERM DEBT

The following table identifies the amounts included in "Current portion of long-term debt" and "Long-term debt, less current portion" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013 (in thousands):

	September 30, 2014	December 31, 2013
	\$	\$
Revolving Credit Facility	—	—
4.875% Senior Notes due 2021 ⁽¹⁾ , effective interest rate of 4.967%	497,788	497,525
4.625% Senior Notes due 2021 ⁽²⁾ , effective interest rate of 4.648%	299,637	299,598
3.800% Senior Notes due 2022 ⁽³⁾ , effective interest rate of 3.845%	299,084	299,011
3.850% Senior Notes due 2023 ⁽⁴⁾ , effective interest rate of 3.851%	299,979	299,976
Capital leases	44	98
Total debt and capital lease obligations	1,396,532	1,396,208
Current portion of long-term debt	44	67
Long-term debt, less current portion	\$ 1,396,488	\$ 1,396,141

⁽¹⁾ Net of unamortized discount of \$2.2 million as of September 30, 2014, and \$2.5 million as of December 31, 2013.

⁽²⁾ Net of unamortized discount of \$0.4 million as of September 30, 2014, and \$0.4 million as of December 31, 2013.

⁽³⁾ Net of unamortized discount of \$0.9 million as of September 30, 2014, and \$1.0 million as of December 31, 2013.

⁽⁴⁾ Net of unamortized discount of less than \$0.1 million as of September 30, 2014, and December 31, 2013.

Unsecured revolving credit facility:

In January of 2011, and as amended in September of 2011 and July of 2013, the Company entered into a credit agreement (the "Credit Agreement") for a five-year \$600 million unsecured revolving credit facility (the "Revolving Credit Facility") arranged by Bank of America, N.A., which is scheduled to mature in July of 2018. The Credit Agreement includes a \$200 million sub-limit for the issuance of letters of credit and a \$75 million sub-limit for swing line borrowings under the Revolving Credit Facility. As described in the Credit Agreement governing the Revolving Credit Facility, the Company may, from time to time, subject to certain conditions, increase the aggregate commitments under the Revolving Credit Facility by up to \$200 million. As of September 30, 2014, and December 31, 2013, the Company had outstanding letters of credit, primarily to support obligations related to workers' compensation, general liability and other insurance policies, in the amount of \$47.8 million and \$51.7 million, respectively, reducing the aggregate availability under the Revolving Credit Facility by those amounts. As of September 30, 2014, and December 31, 2013, the Company had no outstanding borrowings under the Revolving Credit Facility.

Borrowings under the Revolving Credit Facility (other than swing line loans) bear interest, at the Company's option, at the Base Rate or Eurodollar Rate (both as defined in the Credit Agreement) plus an applicable margin. Swing line loans made under the Revolving Credit Facility bear interest at the Base Rate plus the applicable margin for Base Rate loans. In addition, the Company pays a facility fee on the aggregate amount of the commitments in an amount equal to a percentage of such commitments. The interest rate margins and facility fee are based upon the better of the ratings assigned to the Company's debt by Moody's Investor Service, Inc. and Standard & Poor's Rating Services, subject to limited exceptions. As of September 30, 2014, based upon the Company's credit ratings, its margin for Base Rate loans was 0.000%, its margin for Eurodollar Rate loans was 0.975% and its facility fee was 0.150%.

The Credit Agreement contains certain covenants, including limitations on indebtedness, a minimum consolidated fixed charge coverage ratio of 2.25 times through December 31, 2014, and 2.50 times thereafter through maturity, and a maximum consolidated leverage ratio of 3.00 times through maturity. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and stock-based compensation expense. Adjusted debt includes outstanding debt, outstanding stand-by letters of credit and similar instruments, six-times rent expense and excludes any premium or discount recorded in conjunction with the issuance of long-term debt. In the event that the Company should default on any covenant contained within the Credit Agreement, certain actions may be taken, including, but not limited to, possible termination of credit extensions, immediate payment of outstanding principal amounts plus accrued interest and other amounts payable under the Credit Agreement and litigation from lenders. As of September 30, 2014, the Company remained in compliance with all covenants under the Credit Agreement.

Senior notes:

The Company has issued \$1.4 billion aggregate principal amount of unsecured senior notes due between 2021 and 2023 with United Missouri Bank, N.A. ("UMB") as trustee. Interest on the unsecured notes of 3.800% to 4.875% is payable biannually and is computed on the basis of a 360-day year.

The senior notes are guaranteed on a senior unsecured basis by each of the Company's subsidiaries ("Subsidiary Guarantors") that incurs or guarantees the Company's obligations under the Company's Revolving Credit Facility or certain other debt of the Company or any of the Subsidiary Guarantors. The guarantees are joint and several and full and unconditional, subject to certain customary automatic release provisions, including release of the subsidiary guarantor's guarantee under the Company's Credit Agreement and certain other debt, or, in certain circumstances, the sale or other disposition of a majority of the voting power of the capital interest in, or of all or substantially all of the property of, the subsidiary guarantor. Each of the Subsidiary Guarantors is 100% owned, directly or indirectly, by the Company and the Company has no independent assets or operations other than those of its subsidiaries. The only direct or indirect subsidiaries of the Company that would not be Subsidiary Guarantors would be minor subsidiaries. Neither the Company, nor any of its Subsidiary Guarantors, are subject to any material or significant restrictions on the Company's ability to obtain funds from its subsidiaries by dividend or loan or to transfer assets from such subsidiaries, except as provided by applicable law. Each of the senior notes is subject to certain customary covenants, with which the Company complied as of September 30, 2014.

NOTE 4 – WARRANTIES

The Company provides warranties on certain merchandise it sells with warranty periods ranging from 30 days to limited lifetime warranties. The risk of loss arising from warranty claims is typically the obligation of the Company's vendors. Certain vendors provide upfront allowances to the Company in lieu of accepting the obligation for warranty claims. For this merchandise, when sold, the Company bears the risk of loss associated with the cost of warranty claims. Differences between vendor allowances received by the Company in lieu of warranty obligations and estimated warranty expense are recorded as an adjustment to cost of sales. Estimated warranty costs are based on the historical failure rate of each individual product line. The Company's historical experience has been that failure rates are relatively consistent over time and that the ultimate cost of warranty claims to the Company has been driven by volume of units sold as opposed to fluctuations in failure rates or the variation of the cost of individual claims. The Company's product warranty liabilities are included in "Other current liabilities" on the accompanying Condensed Consolidated Balance Sheets as of September 30, 2014, and December 31, 2013.

The following table identifies the changes in the Company's aggregate product warranty liabilities for the nine months ended September 30, 2014 (in thousands):

Balance at December 31, 2013	\$	33,386
Warranty claims		(39,635)
Warranty accruals		40,763
Balance at September 30, 2014	\$	34,514

NOTE 5 – SHARE REPURCHASE PROGRAM

Under the Company's share repurchase program, as approved by the Board of Directors, the Company may, from time to time, repurchase shares of its common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements and overall market conditions. The Company and its Board of Directors may increase or otherwise modify, renew, suspend or terminate the share repurchase program at any time, without prior notice. As announced on February 5, 2014, the Company's Board of Directors approved a resolution to increase the cumulative authorization amount by an additional \$500 million and, as announced on August 13, 2014, the Company's Board of Directors approved a resolution to increase the cumulative authorization amount by an additional \$500 million to \$4.5 billion. The additional \$500 million authorizations are each effective for three-year periods, which began on February 5, 2014, and August 13, 2014, respectively.

The following table identifies shares of the Company's common stock that have been repurchased as part of the Company's publicly announced share repurchase program (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Shares repurchased	2,542	1,534	4,564	6,548
Average price per share	\$ 152.42	\$ 120.71	\$ 150.55	\$ 104.93
Total investment	\$ 387,461	\$ 185,226	\$ 687,086	\$ 687,064

As of September 30, 2014, the Company had \$458.6 million remaining under its share repurchase program. Subsequent to the end of the third quarter and through November 7, 2014, the Company repurchased an additional 1.1 million shares of its common stock under its share repurchase program, at an average price of \$151.05, for a total investment of \$172.3 million. The Company has repurchased a

total of 46.3 million shares of its common stock under its share repurchase program since the inception of the program in January of 2011 and through November 7, 2014, at an average price of \$90.99, for a total aggregate investment of \$4.2 billion.

NOTE 6 – SHARE-BASED COMPENSATION

The Company recognizes share-based compensation expense based on the fair value of the grants, awards or shares at the time of the grant, award or issuance. Share-based compensation includes stock option awards issued under the Company's employee incentive plans and director stock plan, restricted stock awarded under the Company's employee incentive plans, performance incentive plan and director stock plan, stock issued through the Company's employee stock purchase plan and stock awarded to employees through other benefit programs.

Stock options:

The Company's stock-based incentive plans provide for the granting of stock options for the purchase of common stock of the Company to directors and certain key employees of the Company. Options are granted at an exercise price that is equal to the closing market price of the Company's common stock on the date of the grant. Director options granted under the plans expire after seven years and are fully vested after six months. Employee options granted under the plans expire after ten years and typically vest 25% per year, over four years. The Company records compensation expense for the grant date fair value of the option awards, adjusted for estimated forfeitures, evenly over the vesting period.

The table below identifies stock option activity under these plans during the nine months ended September 30, 2014:

	Shares (in thousands)	Weighted-Average Exercise Price
Outstanding at December 31, 2013	5,227	\$ 54.11
Granted	292	141.91
Exercised	(943)	46.10
Forfeited	(202)	85.38
Outstanding at September 30, 2014	4,374	\$ 60.25
Exercisable at September 30, 2014	2,882	\$ 41.37

The fair value of each stock option award is estimated on the date of the grant using the Black-Scholes option pricing model. The Black-Scholes model requires the use of assumptions, including the risk free rate, expected life, expected volatility and expected dividend yield.

- *Risk-free interest rate* – The United States Treasury rates in effect at the time the options are granted for the options' expected life.
- *Expected life* - Represents the period of time that options granted are expected to be outstanding. The Company uses historical experience to estimate the expected life of options granted.
- *Expected volatility* – Measure of the amount by which the Company's stock price has historically fluctuated.
- *Expected dividend yield* – The Company has not paid, nor does it have plans in the foreseeable future to pay, any dividends.

The table below identifies the weighted-average assumptions used for stock options awarded during the nine months ended September 30, 2014 and 2013:

	For the Nine Months Ended September 30,	
	2014	2013
Risk free interest rate	1.60%	0.89%
Expected life	5.3 Years	5.1 Years
Expected volatility	25.0%	32.0%
Expected dividend yield	—%	—%

The Company's forfeiture rate is the estimated percentage of options awarded that are expected to be forfeited or canceled prior to becoming fully vested. The Company's estimate is evaluated periodically and is based upon historical experience at the time of evaluation and reduces expense ratably over the vesting period or the minimum required service period.

The following table summarizes activity related to stock options awarded by the Company for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Compensation expense for stock options awarded	\$ 4,184	\$ 4,341	\$ 13,978	\$ 13,579
Income tax benefit from compensation expense related to stock options	1,548	1,656	5,173	5,180

The weighted-average grant-date fair value of options granted during the nine months ended September 30, 2014, was \$36.86 compared to \$29.76 for the nine months ended September 30, 2013. The remaining unrecognized compensation expense related to unvested stock option awards at September 30, 2014, was \$29.4 million and the weighted-average period of time over which this cost will be recognized is 2.3 years.

Other share-based compensation plans:

The Company sponsors other share-based compensation plans: an employee stock purchase plan (the “ESPP”), which permits all eligible employees to purchase shares of the Company’s common stock at 85% of the fair market value; a performance incentive plan, which provides for the award of shares of restricted stock to its corporate and senior management that vest evenly over a three-year period and are held in escrow until such vesting has occurred; and a director stock plan, which provides for the award of shares of restricted stock to the Company's independent directors that vest evenly over a three-year period and are held in escrow until such vesting has occurred. The fair value of shares awarded under these plans is based on the closing market price of the Company's common stock on the date of award, and compensation expense is recorded evenly over the vesting period.

The table below summarizes activity related to the Company’s other share-based compensation and benefit plans for the three and nine months ended September 30, 2014 and 2013 (in thousands):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Compensation expense for shares issued under the ESPP	\$ 451	\$ 442	\$ 1,332	\$ 1,273
Income tax benefit from compensation expense related to shares issued under the ESPP	167	169	493	486
Compensation expense for restricted shares awarded	652	527	2,114	1,633
Income tax benefit from compensation expense related to restricted awards	241	201	782	623

NOTE 7 – EARNINGS PER SHARE

The following table reconciles the numerator and denominator used in the basic and diluted earnings per share calculations for the three and nine months ended September 30, 2014 and 2013 (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Numerator (basic and diluted):				
Net income	\$ 216,997	\$ 186,489	\$ 596,504	\$ 517,945
Denominator:				
Denominator for basic earnings per share - weighted-average shares	103,498	108,307	105,146	110,034
Effect of stock options ⁽¹⁾	1,724	1,886	1,799	1,851
Denominator for diluted earnings per share - weighted-average shares	105,222	110,193	106,945	111,885
Earnings per share:				
Earnings per share-basic	\$ 2.10	\$ 1.72	\$ 5.67	\$ 4.71
Earnings per share-assuming dilution	\$ 2.06	\$ 1.69	\$ 5.58	\$ 4.63
Antidilutive potential common shares not included in the calculation of diluted earnings per share:				
Stock options ⁽¹⁾	257	190	328	639
Weighted-average exercise price per share of antidilutive stock options ⁽¹⁾	\$ 141.77	\$ 106.40	\$ 139.13	\$ 98.77

⁽¹⁾ See Note 6 for further discussion on the terms of the Company's share-based compensation plans.

For the three and nine months ended September 30, 2014 and 2013, the computation of diluted earnings per share did not include certain securities. These securities represent underlying stock options not included in the computation of diluted earnings per share, because the inclusion of such equity awards would have been antidilutive.

Subsequent to the end of the third quarter and through November 7, 2014, the Company repurchased 1.1 million shares of its common stock, at an average price of \$151.05, for a total investment of \$172.3 million.

NOTE 8 – LEGAL MATTERS

O'Reilly is currently involved in litigation incidental to the ordinary conduct of the Company's business. The Company records reserves for litigation losses in instances where a material adverse outcome is probable and the Company is able to reasonably estimate the probable loss. The Company reserves for an estimate of material legal costs to be incurred in pending litigation matters. Although the Company cannot ascertain the amount of liability that it may incur from any of these matters, it does not currently believe that, in the aggregate, these matters, taking into account applicable insurance and reserves, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

The Company received a subpoena from the District Attorney of the County of Alameda, along with other environmental prosecutorial offices in the state of California, seeking documents and information related to the handling, storage and disposal of hazardous waste. Management has an ongoing and open dialogue with these agencies regarding this matter and is cooperating fully with the request; however, at this time a prediction of the ultimate outcome of these efforts cannot be determined.

In addition, O'Reilly was involved in resolving governmental investigations that were being conducted against CSK Auto Corporation ("CSK") and CSK's former officers and other litigation, prior to its acquisition by O'Reilly in 2008, as described below.

As previously reported, the governmental investigations of CSK regarding its legacy pre-acquisition accounting practices have concluded. All criminal charges against former employees of CSK related to its legacy pre-acquisition accounting practices, as well as the civil litigation filed against CSK's former Chief Executive Officer by the Securities and Exchange Commission (the "SEC"), have concluded.

Under Delaware law, the charter documents of the CSK entities, and certain indemnification agreements, CSK may have certain indemnification obligations. As a result of the CSK acquisition, O'Reilly has incurred legal fees and costs related to these potential indemnification obligations arising from the litigation commenced by the Department of Justice and SEC against CSK's former employees. Whether those legal fees and costs are covered by CSK's insurance is subject to uncertainty, and, given its complexity and scope, the final outcome cannot be predicted at this time. O'Reilly has a remaining reserve, with respect to the indemnification obligations of \$12.1 million at September 30, 2014, which relates to the payment of those legal fees and costs already incurred. It is possible that in a particular quarter or annual period the Company's results of operations and cash flows could be materially affected by resolution of such matter, depending, in part, upon the results of operations or cash flows for such period. However, at this time, management believes that the ultimate outcome of this matter, after consideration of applicable reserves, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

NOTE 9 - RECENT ACCOUNTING PRONOUNCEMENTS

In May of 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard Update No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). Under ASU 2014-09, an entity is required to follow a five-step process to determine the amount of revenue to recognize when promised goods or services are transferred to customers. ASU 2014-09 offers specific accounting guidance for costs to obtain or fulfill a contract with a customer. In addition, an entity is required to disclose sufficient information to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including periods within that reporting period, and can be adopted either retrospectively or as a cumulative effect adjustment at the date of adoption, with early adoption not permitted. The Company will adopt this guidance beginning with its first quarter ending March 31, 2017; the Company is in the process of evaluating the potential future impact, if any, of ASU 2014-09 on its consolidated financial position, results of operations and cash flows.

In August of 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40)" ("ASU 2014-15"). ASU 2014-15 will require management to assess an entity's ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosure in circumstances in which substantial doubt exists. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter, with early application permitted. The Company will apply this guidance beginning with its annual period ending December 31, 2016; the application of this guidance affects disclosure only and, therefore, it is not expected to have a material impact on the Company's consolidated financial condition, results of operations or cash flows.

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.

In Management's Discussion and Analysis, we provide a historical and prospective narrative of our general financial condition, results of operations, liquidity and certain other factors that may affect our future results, including:

- an overview of the key drivers of the automotive aftermarket industry;
- our results of operations for the three and nine months ended September 30, 2014 and 2013;
- our liquidity and capital resources;
- any contractual obligations to which we are committed;
- our critical accounting estimates;
- the inflation and seasonality of our business; and
- recent accounting pronouncements that may affect our Company.

The review of Management's Discussion and Analysis should be made in conjunction with our condensed consolidated financial statements, related notes and other financial information, forward-looking statements and other risk factors included elsewhere in this quarterly report.

FORWARD-LOOKING STATEMENTS

We claim the protection of the safe-harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as "expect," "believe," "anticipate," "should," "plan," "intend," "estimate," "project," "will" or similar words. In addition, statements contained within this quarterly 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, 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 our annual report on Form 10-K for the year ended December 31, 2013, for additional factors that could materially affect our financial performance. Forward-looking statements speak only as of the date they were made, and we undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise, except as required by applicable law.

OVERVIEW

We are a specialty retailer of automotive aftermarket parts, tools, supplies, equipment and accessories in the United States. We are one of the largest U.S. automotive aftermarket specialty retailers, selling our products to both do-it-yourself ("DIY") customers and professional service providers—our "dual market strategy." Our stores carry an extensive product line consisting of new and remanufactured automotive hard parts, maintenance items, accessories, a complete line of auto body paint and related materials, automotive tools and professional service provider service equipment. Our extensive product line includes an assortment of products that are differentiated by quality and price for most of the product lines we offer. For many of our product offerings, this quality differentiation reflects "good," "better," and "best" alternatives. Our sales and total gross margin dollars are highest for the "best" quality category of products. Consumers' willingness to select products at a higher point on the value spectrum is a driver of sales and profitability in our industry. Our stores also offer enhanced services and programs to our customers: used oil, oil filter and battery recycling; battery, wiper and bulb replacement; battery diagnostic testing; electrical and module testing; check engine light code extraction; loaner tool program; drum and rotor resurfacing; custom hydraulic hoses; professional paint shop mixing and related materials; and machine shops.

Our strategy is to open new stores to achieve greater penetration into existing markets and expansion into new, contiguous markets. We plan to open 200 net, new stores in 2014, and 205 net, new stores in 2015. 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. We believe our investment in store growth will be funded with the cash flows expected to be generated by our existing operations and through available borrowings under our existing credit facility. During the three months ended September 30, 2014, we opened 57 stores and closed three stores. During the nine months ended September 30, 2014, we opened 150 stores and closed five stores and, as of that date, operated 4,311 stores in 43 states.

Operating within the retail industry, we are influenced by a number of general macroeconomic factors including, but not limited to, fuel costs, unemployment rates, consumer preferences and spending habits, and competition. The difficult conditions that affected the overall macroeconomic environment in recent years continue to impact O'Reilly and the retail sector in general. We believe that the average consumer's tendency has been to "trade down" to lower quality products during challenging macroeconomic conditions. We have ongoing initiatives aimed at tailoring our product offering to adjust to customers' changing preferences; however, we also continue to have initiatives focused on marketing and training to educate customers on the advantages of "purchasing up" on the value spectrum.

We believe the key drivers of current and future demand of the products sold within the automotive aftermarket include the number of U.S. miles driven, number of U.S. registered vehicles, new light vehicle registrations, average vehicle age and unemployment.

- **Number of Miles Driven** - The number of total miles driven in the U.S. influences the demand for repair and maintenance products sold within the automotive aftermarket. According to the Department of Transportation, prior to 2007, the annual number of total miles driven in the U.S. had steadily increased; however, since that time, as the U.S. experienced difficult macroeconomic conditions and historically high levels of unemployment, the number of total miles driven in the U.S. have remained relatively flat. Although total miles driven have not significantly increased since 2007, vehicles in the U.S. continue to be driven approximately three trillion miles per year, resulting in ongoing wear and tear and continued demand for the repair and maintenance products sold within the automotive aftermarket. In addition, we believe that as the U.S. economy continues to recover and the level of unemployment declines, total miles driven in the U.S. will return to a period of annual growth, supporting continued demand for automotive aftermarket products.
- **Number of U.S. Registered Vehicles, New Light Vehicle Registrations and Average Vehicle Age** - The total number of vehicles on the road and the average age of the vehicle population heavily influence the demand for products sold within the automotive aftermarket industry. As reported by the Automotive Aftermarket Industry Association ("AAIA"), the total number of registered vehicles has increased 6% over the past decade, from 235 million light vehicles in 2003 to 249 million light vehicles in 2013. Annual new light vehicle registrations have increased in recent years, reaching 15.4 million registered vehicles in 2013, up from 10.4 million registrations in 2009 and the seasonally adjusted annual rate (the "SAAR") of sales of light vehicles in the U.S. increased to approximately 16 million as of September 30, 2014, contributing to the growth in the total number of registered vehicles on the road. In addition, during the past decade, vehicle scrappage rates remained relatively stable, ranging from just 5.2% to 5.7% annually. The stable scrappage rates over the past decade have contributed to an increase in the average age of the U.S. vehicle population over that period, growing 16%, from 9.7 years in 2003 to 11.3 years in 2013. We believe this increase in average age can be attributed to better engineered and manufactured vehicles, which can be reliably driven at higher mileages due to better quality power trains and interiors and exteriors, and the consumer's willingness to invest in maintaining these higher-mileage, better built vehicles. As the average age of the vehicle on the road increases, a larger percentage of miles are being driven by vehicles which are outside of a manufacturer warranty. These out-of-warranty, older vehicles generate strong demand for automotive aftermarket products as they go through more routine maintenance cycles, have more frequent mechanical failures and generally require more maintenance than newer vehicles. As the U.S. economy recovers, we believe consumers will continue to invest in these reliable, higher-quality, higher-mileage vehicles and these investments, along with an increasing total light vehicle fleet, will support continued demand for automotive aftermarket products.
- **Unemployment** - Unemployment, underemployment, the threat of future joblessness and the continued uncertainty surrounding the overall economic health of the U.S. have had a negative impact on consumer confidence and the level of consumer discretionary spending. Long-term trends of high unemployment could continue to impede the growth of annual miles driven, as well as decrease consumer discretionary spending, both of which negatively impact demand for products sold in the automotive aftermarket industry. However, as of September 30, 2014, the U.S. unemployment rate decreased to 5.9%, its lowest rate in over six years. We believe that as the economy continues to recover, total employment should increase and we would expect to see a corresponding increase in commuter traffic as unemployed individuals return to work. Aided by the anticipated increase in commuter miles, we believe overall annual U.S. miles driven should return to a period of annual growth, resulting in continued demand for automotive aftermarket products.

We remain confident in our ability 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 hard work and excellent customer service.

RESULTS OF OPERATIONS

Sales:

Sales for the three months ended September 30, 2014, increased \$149 million to \$1.88 billion from \$1.73 billion for the same period one year ago, representing an increase of 9%. Sales for the nine months ended September 30, 2014, increased \$424 million to \$5.45 billion from \$5.03 billion for the same period one year ago, representing an increase of 8%. Comparable store sales for stores open at least one year increased 6.2% and 4.6% for the three months ended September 30, 2014 and 2013, respectively. Comparable store sales for stores open at least one year increased 5.9% and 3.9% for the nine months ended September 30, 2014 and 2013, respectively. Comparable store

sales are calculated based on the change in sales of stores open at least one year and exclude sales of specialty machinery, sales to independent parts stores and sales to Team Members.

The following table presents the components of the increase in sales for the three and nine months ended September 30, 2014 (in millions):

	Increase in Sales for the Three Months Ended September 30, 2014, Compared to the Same Period in 2013	Increase in Sales for the Nine Months Ended September 30, 2014, Compared to the Same Period in 2013
Store sales:		
Comparable store sales	\$ 105	\$ 289
Non-comparable store sales:		
Sales for stores opened throughout 2013, excluding stores open at least one year that are included in comparable store sales	17	87
Sales in 2013 for stores that have closed	(1)	(4)
Sales for stores opened throughout 2014	26	47
Non-store sales:		
Includes sales of machinery and sales to independent parts stores and Team Members	2	5
Total increase in sales	<u>\$ 149</u>	<u>\$ 424</u>

We believe our increased sales are the result of store growth and the high levels of customer service provided by our well-trained and technically proficient Team Members, superior inventory availability, enhanced services and programs offered in most stores, a broader selection of product offerings in most stores with a dynamic catalog system to identify and source parts, a targeted promotional and advertising effort through a variety of media and localized promotional events, continued improvement in the merchandising and store layouts of our stores, compensation programs for all store Team Members that provide incentives for performance and our continued focus on serving both DIY and professional service provider customers.

Our comparable store sales increases for the three and nine months ended September 30, 2014, were driven by increases in average ticket values and customer transaction counts for both DIY and professional service provider customers. The improvements in average ticket values were the result of the continued growth of the more costly, hard part categories as a percentage of our total sales. The overall growth in the hard part categories continues to be driven by the increasing cost of replacement parts necessary to maintain the current population of better engineered and more technically advanced vehicles. The increases in professional service provider customer transaction counts were primarily driven by our acquired markets and the continued growth of less mature stores. The increases in DIY transaction counts were driven by our ongoing focus on staffing our stores with knowledgeable parts professionals to assist our DIY customers during high DIY traffic periods, including nights and weekends. Although both DIY and professional service provider customer transaction counts were positive for the three and nine months ended September 30, 2014, both DIY and professional service provider customer transaction counts continue to be negatively impacted by better engineered and more technically advanced vehicles, which have been manufactured in recent years. These vehicles require less frequent repairs and the component parts are more durable and last for longer periods of time; however, when repairs are required, the cost of the replacement parts is, on average, greater.

We opened 54 and 145 net, new stores during the three and nine months ended September 30, 2014, respectively, compared to 48 and 159 net, new stores for the three and nine months ended September 30, 2013, respectively. As of September 30, 2014, we operated 4,311 stores in 43 states compared to 4,135 stores in 42 states at September 30, 2013. We anticipate total new store growth to be 200 net, new store openings in 2014, and 205 net, new store openings in 2015.

Gross profit:

Gross profit for the three months ended September 30, 2014, increased to \$968 million (or 51.6% of sales) from \$879 million (or 50.9% of sales) for the same period one year ago, representing an increase of 10%. Gross profit for the nine months ended September 30, 2014, increased to \$2.80 billion (or 51.3% of sales) from \$2.55 billion (or 50.7% of sales) for the same period one year ago, representing an increase of 10%. The increase in gross profit dollars for the three and nine months ended September 30, 2014, was primarily a result of the increase in comparable store sales at existing stores and sales from new stores. The increase in gross profit as a percentage of sales for the three months ended September 30, 2014, was primarily due to product acquisition cost improvements, a lesser impact from non-cash LIFO charges resulting from continued product acquisition cost reductions and a greater benefit from capitalized warehouse costs. The increase in gross profit as a percentage of sales for the nine months ended September 30, 2014, was primarily due to product acquisition cost improvements, partially offset by the larger year-to-date non-cash LIFO impact resulting from continued product acquisition cost reductions. Acquisition cost improvements are the result of our ongoing negotiations with our vendors to improve our inventory purchase

costs. As previously discussed, during the third quarter of 2013, we depleted our LIFO reserve due to acquisition cost improvements we realized over time. Our policy is to not write up inventory in excess of replacement cost and, accordingly, we are effectively valuing our inventory at replacement cost. During the three and nine months ended September 30, 2014, our LIFO cost was written down by approximately \$6 million and \$34 million, respectively, to reflect replacement cost. The increase in capitalized distribution costs is the result of a larger increase in inventory levels during the current period compared to the same period in the prior year. The increase in inventory is primarily attributable to our distribution center expansion projects.

Selling, general and administrative expenses:

Selling, general and administrative expenses ("SG&A") for the three months ended September 30, 2014, increased to \$624 million (or 33.3% of sales) from \$579 million (or 33.5% of sales) for the same period one year ago, representing an increase of 8%. SG&A for the nine months ended September 30, 2014, increased to \$1.83 billion (or 33.6% of sales) from \$1.70 billion (or 33.8% of sales) for the same period one year ago, representing an increase of 7%. The increases in total SG&A dollars for the three and nine months ended September 30, 2014, were primarily the result of additional Team Members, facilities and vehicles to support our increased store count. The decreases in SG&A as a percentage of sales for the three and nine months ended September 30, 2014, were primarily the result of increased leverage of store occupancy costs on strong comparable store sales results.

Operating income:

As a result of the impacts discussed above, operating income for the three months ended September 30, 2014, increased to \$344 million (or 18.3% of sales) from \$300 million (or 17.4% of sales) for the same period one year ago, representing an increase of 14%. Operating income for the nine months ended September 30, 2014, increased to \$967 million (or 17.7% of sales) from \$848 million (or 16.9% of sales) for the same period one year ago, representing an increase of 14%.

Other income and expense:

Total other expense for the three months ended September 30, 2014, decreased to \$11 million (or 0.6% of sales), from \$12 million (or 0.7% of sales) for the same period one year ago, representing a decrease of 5%. Total other expense for the nine months ended September 30, 2014, increased to \$35 million (or 0.6% of sales) from \$33 million (or 0.6% of sales) for the same period one year ago, representing an increase of 8%. The decrease in total other expense during the three months ended September 30, 2014, was primarily the result of increased capitalized interest during the current period. The increase in total other expense during the nine months ended September 30, 2014, was primarily the result of increased interest expense on higher average outstanding borrowings.

Income taxes:

Our provision for income taxes for the three months ended September 30, 2014, increased to \$115 million (or 6.1% of sales) from \$102 million (or 5.9% of sales) for the same period one year ago, representing an increase of 13%. Our provision for income taxes for the nine months ended September 30, 2014, increased to \$336 million (or 6.2% of sales) from \$297 million (or 5.9% of sales) for the same period one year ago, representing an increase of 13%. Our effective tax rate for the three months ended September 30, 2014, was 34.7% of income before income taxes compared to 35.3% for the same period one year ago. Our effective tax rate for the nine months ended September 30, 2014, was 36.0% of income before income taxes compared to 36.5% for the same period one year ago. The increases in our provision for income taxes for the three and nine months ended September 30, 2014, were primarily the result of higher taxable income in the current period, driven by our strong operating results. The decreases in our effective tax rates for the three and nine months ended September 30, 2014, were primarily due to increased benefits from employment tax credits in the current periods.

Net income:

As a result of the impacts discussed above, net income for the three months ended September 30, 2014, increased to \$217 million (or 11.6% of sales), from \$186 million (or 10.8% of sales) for the same period one year ago, representing an increase of 16%. As a result of the impacts discussed above, net income for the nine months ended September 30, 2014, increased to \$597 million (or 10.9% of sales) from \$518 million (or 10.3% of sales) for the same period one year ago, representing an increase of 15%.

Earnings per share:

Our diluted earnings per common share for the three months ended September 30, 2014, increased 22% to \$2.06 on 105 million shares from \$1.69 on 110 million shares for the same period one year ago. Our diluted earnings per common share for the nine months ended September 30, 2014, increased 21% to \$5.58 on 107 million shares versus \$4.63 for the same period one year ago on 112 million shares.

LIQUIDITY AND CAPITAL RESOURCES

Our long-term business strategy requires capital to open new stores, fund strategic acquisitions, expand distribution infrastructure, operate and maintain existing stores and may include the opportunistic repurchase of shares of our common stock through our Board-approved share repurchase program. The primary sources of our liquidity are funds generated from operations and borrowed under our unsecured revolving credit facility. Decreased demand for our products or changes in customer buying patterns could negatively impact our ability to generate funds from operations. Additionally, decreased demand or changes in buying patterns could impact our ability to meet the debt covenants of our credit agreement and, therefore, negatively impact the funds available under our unsecured revolving credit facility.

We believe that cash expected to be provided by operating activities and availability under our unsecured revolving credit facility will be sufficient to fund both our short-term and long-term capital and liquidity needs for the foreseeable future. However, there can be no assurance that we will continue to generate cash flows at or above recent levels.

The following table identifies cash provided by/(used in) our operating, investing and financing activities for the nine months ended September 30, 2014 and 2013 (in thousands):

Liquidity	For the Nine Months Ended September 30,	
	2014	2013
Total cash provided by (used in):		
Operating activities	\$ 982,954	\$ 719,848
Investing activities	(312,083)	(294,505)
Financing activities	(603,906)	(310,463)
Increase in cash and cash equivalents	<u>\$ 66,965</u>	<u>\$ 114,880</u>
Capital expenditures	\$ 317,157	\$ 299,511
Free cash flow ⁽¹⁾	665,797	420,337

⁽¹⁾ Calculated as net cash provided by operating activities, less capital expenditures for the period.

Operating activities:

The increase in net cash provided by operating activities during the nine months ended September 30, 2014, compared to the same period in 2013, was primarily due to larger increases in net income, income taxes payable (adjusted for the effect of non-cash change in deferred income taxes and the excess tax benefit from stock options exercised) and accrued payroll-related liabilities and a greater decrease in net inventory investment in the current period as compared to the same period in the prior year. Net inventory investment reflects our investment in inventory, net of the amount of accounts payable to vendors. Our accounts payable to inventory ratio was 95.7% and 86.6% at September 30, 2014, and December 31, 2013, respectively, versus 87.8% and 84.7% at September 30, 2013, and December 31, 2012, respectively. The larger increase in our accounts payable to inventory ratio was driven by continued strong vendor support. The larger increase in income taxes payable, adjusted for the non-cash impacts discussed above, was primarily the result of a prepaid tax position at the end of 2013 versus a payable position at the end of 2012. The increase in accrued payroll-related liabilities during the period, as compared to the same period in the prior year, was due to the timing of payments under certain benefit plans.

Investing activities:

The increase in net cash used in investing activities during the nine months ended September 30, 2014, compared to the same period in 2013, was primarily the result of an increase in capital expenditures during the current period related to the mix of owned versus leased new store projects as compared to the same period in the prior year.

Financing activities:

The increase in net cash used in financing activities during the nine months ended September 30, 2014, compared to the same period in 2013, was primarily attributable to the net proceeds from the issuance of long-term debt in the prior period.

Unsecured revolving credit facility:

In January of 2011, and as amended in September of 2011 and July of 2013, we entered into a credit agreement (the "Credit Agreement") for a five-year \$600 million unsecured revolving credit facility (the "Revolving Credit Facility") arranged by Bank of America, N.A., which is scheduled to mature in July of 2018. The Credit Agreement includes a \$200 million sub-limit for the issuance of letters of credit and a \$75 million sub-limit for swing line borrowings under the Revolving Credit Facility. As described in the Credit Agreement governing the Revolving Credit Facility, we may, from time to time, subject to certain conditions, increase the aggregate commitments under the Revolving Credit Facility by up to \$200 million. As of September 30, 2014, we had outstanding letters of credit, primarily to support obligations related to workers' compensation, general liability and other insurance policies, in the amount of \$48 million, reducing the aggregate availability under the Revolving Credit Facility by that amount. As of September 30, 2014, we had no outstanding borrowings under the Revolving Credit Facility.

Senior Notes:

We have issued \$1.4 billion aggregate principal amount of unsecured senior notes due between 2021 and 2023 with United Missouri Bank, N.A. ("UMB") as trustee. Interest on the unsecured senior notes of 3.800% to 4.875% is payable biannually and is computed on the basis of a 360-day year.

The senior notes are guaranteed on a senior unsecured basis by each of our subsidiaries (“Subsidiary Guarantors”) that incurs or guarantees our obligations under our Revolving Credit Facility or certain of our other debt or any of our Subsidiary Guarantors. The guarantees are joint and several and full and unconditional, subject to certain customary automatic release provisions, including release of the subsidiary guarantor’s guarantee under our Credit Agreement and certain other debt, or, in certain circumstances, the sale or other disposition of a majority of the voting power of the capital interest in, or of all or substantially all the property of, the subsidiary guarantor. Each of the Subsidiary Guarantors is 100% owned, directly or indirectly, by us and we have no independent assets or operations other than those of our subsidiaries. Our only direct or indirect subsidiaries that would not be Subsidiary Guarantors would be minor subsidiaries. Neither we, nor any of our Subsidiary Guarantors, are subject to any material or significant restrictions on our ability to obtain funds from our subsidiaries by dividend or loan or to transfer assets from such subsidiaries, except as provided by applicable law. Each of our senior notes is subject to certain customary covenants, with which we complied as of September 30, 2014.

Debt covenants:

The indentures governing our senior notes contain covenants that limit our ability and the ability of certain of our subsidiaries to, among other things: (i) create certain liens on assets to secure certain debt; (ii) enter into certain sale and leaseback transactions; and (iii) merge or consolidate with another company or transfer all or substantially all of our or its property, in each case as set forth in the indentures. These covenants are, however, subject to a number of important limitations and exceptions.

The Credit Agreement contains certain covenants, including limitations on indebtedness, a minimum consolidated fixed charge coverage ratio of 2.25 times through December 31, 2014, and 2.50 times thereafter through maturity, and a maximum consolidated leverage ratio of 3.00 times through maturity. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and stock-based compensation expense (“EBITDAR”). Adjusted debt includes outstanding debt, outstanding stand-by letters of credit and similar instruments, six-times rent expense and excludes any premium or discount recorded in conjunction with the issuance of long-term debt. In the event that we should default on any covenant contained within the Credit Agreement, certain actions may be taken, including, but not limited to, possible termination of credit extensions, immediate payment of outstanding principal amounts plus accrued interest and other amounts payable under the Credit Agreement and litigation from our lenders. We had a consolidated fixed charge coverage ratio of 5.24 times and 4.95 times as of September 30, 2014 and 2013, respectively, and a consolidated leverage ratio of 1.77 times and 1.94 times as of September 30, 2014 and 2013, respectively, remaining in compliance with all covenants related to the borrowing arrangements. Under our current financing plan, we have targeted an adjusted debt to EBITDAR ratio range of 2.00 times to 2.25 times.

The table below outlines the calculations of the consolidated fixed charge coverage ratio and consolidated leverage ratio covenants, as defined in the Credit Agreement governing the Revolving Credit Facility, for the twelve months ended September 30, 2014 and 2013 (dollars in thousands):

	For the Twelve Months Ended September 30,	
	2014	2013
GAAP net income	\$ 748,851	\$ 650,747
Add: Interest expense	52,123	47,640
Rent expense	260,010	252,210
Provision for income taxes	427,122	376,975
Depreciation expense	190,680	180,714
Amortization benefit	(56)	(33)
Non-cash share-based compensation	22,661	21,935
Non-GAAP EBITDAR	<u>\$ 1,701,391</u>	<u>\$ 1,530,188</u>
Interest expense	\$ 52,123	\$ 47,640
Capitalized interest	12,665	9,285
Rent expense	260,010	252,210
Total fixed charges	<u>\$ 324,798</u>	<u>\$ 309,135</u>
Consolidated fixed charge coverage ratio	5.24	4.95
GAAP debt	\$ 1,396,532	\$ 1,396,099
Stand-by letters of credit	47,782	52,481
Discount on senior notes	3,512	4,015
Six-times rent expense	1,560,060	1,513,260
Non-GAAP adjusted debt	<u>\$ 3,007,886</u>	<u>\$ 2,965,855</u>
Consolidated leverage ratio	1.77	1.94

Free cash flow, the consolidated fixed charge coverage ratio and consolidated leverage ratio discussed and presented in the tables above are not derived in accordance with United States generally accepted accounting principles ("GAAP"). We do not, nor do we suggest investors should, consider such non-GAAP financial measures in isolation from, or as a substitute for, GAAP financial information. We believe that the presentation of our free cash flow, consolidated fixed charge coverage ratio and consolidated leverage ratio provides meaningful supplemental information to both management and investors and reflects the required covenants under our credit agreement. We include these items in judging our performance and believe this non-GAAP information is useful to investors as well. Material limitations of these non-GAAP measures are that such measures do not reflect actual GAAP amounts. We compensate for such limitations by presenting, in the tables above, a reconciliation to the most directly comparable GAAP measures.

Share repurchase program:

Under our share repurchase program, as approved by our Board of Directors, we may, from time to time, repurchase shares of our common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements and overall market conditions. We may increase or otherwise modify, renew, suspend or terminate the share repurchase program at any time, without prior notice. As announced on February 5, 2014, our Board of Directors approved a resolution to increase the cumulative authorization amount by an additional \$500 million and, as announced on August 13, 2014, our Board of Directors approved a resolution to increase the cumulative authorization amount by an additional \$500 million to \$4.5 billion. The additional \$500 million authorizations are each effective for three-year periods, which began on February 5, 2014, and August 13, 2014, respectively.

The following table identifies shares of our common stock that have been repurchased as part of our publicly announced share repurchase program (in thousands, except per share data):

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Shares repurchased	2,542	1,534	4,564	6,548
Average price per share	\$ 152.42	\$ 120.71	\$ 150.55	\$ 104.93
Total investment	\$ 387,461	\$ 185,226	\$ 687,086	\$ 687,064

As of September 30, 2014, we had \$459 million remaining under our share repurchase program. Subsequent to the end of the third quarter and through November 7, 2014, we repurchased an additional 1.1 million shares of our common stock under our share repurchase program, at an average price of \$151.05, for a total investment of \$172 million. We have repurchased a total of 46.3 million shares of our common stock under our share repurchase program since the inception of the program in January of 2011 and through November 7, 2014, at an average price of \$90.99, for a total aggregate investment of \$4.2 billion.

CONTRACTUAL OBLIGATIONS

There have been no material changes to the contractual obligations to which we are committed since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

CRITICAL ACCOUNTING ESTIMATES

The preparation of our financial statements in accordance with GAAP requires the application of certain estimates and judgments by management. Management bases its assumptions, estimates, and adjustments on historical experience, current trends and other factors believed to be relevant at the time the condensed consolidated financial statements are prepared. There have been no material changes in the critical accounting estimates since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

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. To the extent our acquisition cost increased due to base commodity price increases industry-wide, we have typically been able to pass along these increased costs through higher retail prices for the affected products. As a result, we do not believe inflation has had a material adverse effect on our operations.

To some extent, our business is seasonal primarily as a result of the impact of weather conditions on customer buying patterns. While we have historically realized operating profits in each quarter of the year, our store sales and profits have historically been higher in the second and third quarters (April through September) than in the first and fourth quarters (October through March) of the year.

RECENT ACCOUNTING PRONOUNCEMENTS

In May of 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standard No. 2014-09, "Revenue from Contracts with Customers (Topic 606)" ("ASU 2014-09"). Under ASU 2014-09, an entity is required to follow a five-step process to determine the amount of revenue to recognize when promised goods or services are transferred to customers. ASU 2014-09 offers specific accounting guidance for costs to obtain or fulfill a contract with a customer. In addition, an entity is required to disclose sufficient information to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. ASU 2014-09 is effective for annual reporting periods beginning after December 15, 2016, including periods within that reporting period, and can be adopted either retrospectively or as a cumulative effect adjustment at the date of adoption, with early adoption not permitted. We will adopt this guidance beginning with our first quarter ending March 31, 2017; we are in the process of evaluating the potential future impact, if any, of ASU 2014-09 on our consolidated financial position, results of operations and cash flows.

In August of 2014, the FASB issued ASU No. 2014-15, "Presentation of Financial Statements - Going Concern (Subtopic 205-40)" ("ASU 2014-15"). ASU 2014-15 will require management to assess an entity's ability to continue as a going concern for each annual and interim reporting period and to provide related footnote disclosure in circumstances in which substantial doubt exists. ASU 2014-15 is effective for annual periods ending after December 15, 2016, and for annual periods and interim periods thereafter, with early application permitted. We will apply this guidance beginning with our annual period ending December 31, 2016; the application of this guidance affects disclosure only and, therefore, it is not expected to have a material impact on our consolidated financial condition, results of operations or cash flows.

INTERNET ADDRESS AND ACCESS TO SEC FILINGS

Our Internet address is www.oreillyauto.com. Interested readers can access, free of charge, our 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's website at www.sec.gov and searching with our ticker symbol "ORLY." Such reports are generally available the day they are filed. Upon request, we will furnish interested readers a paper copy of such reports free of charge.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We are subject to interest rate risk to the extent we borrow against our unsecured revolving credit facility (the "Revolving Credit Facility") with variable interest rates based on either a Base Rate or Eurodollar Rate, as defined in the credit agreement governing the Revolving Credit Facility. As of September 30, 2014, we had no outstanding borrowings under our Revolving Credit Facility.

We invest certain of our excess cash balances in short-term, highly-liquid instruments with maturities of 90 days or less. We do not expect any material losses from our invested cash balances and we believe that our interest rate exposure is minimal. As of September 30, 2014, our cash and cash equivalents totaled \$298 million.

Our market risks have not materially changed since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 4. Controls and Procedures

EVALUATION OF DISCLOSURE CONTROLS AND PROCEDURES

As of the end of the period covered by this report, our management, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of the design and operation of our disclosure controls and procedures pursuant to Rule 13a-15(b) and as defined in Rule 13a-15(e) of the Securities Exchange Act of 1934, as amended ("the Exchange Act"). Based on that evaluation, the Chief Executive Officer and the Chief Financial Officer concluded that our disclosure controls and procedures as of the end of the period covered by this report are functioning effectively to provide reasonable assurance that the information required to be disclosed by us (including our consolidated subsidiaries) in reports filed under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms and is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

CHANGES IN INTERNAL CONTROLS

There were no changes in our internal control over financial reporting during the fiscal quarter ending September 30, 2014, that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

O'Reilly is currently involved in litigation incidental to the ordinary conduct of the Company's business. The Company records reserves for litigation losses in instances where a material adverse outcome is probable and the Company is able to reasonably estimate the probable loss. The Company reserves for an estimate of material legal costs to be incurred in pending litigation matters. Although the Company cannot ascertain the amount of liability that it may incur from any of these matters, it does not currently believe that, in the aggregate, these matters, taking into account applicable insurance and reserves, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

The Company received a subpoena from the District Attorney of the County of Alameda, along with other environmental prosecutorial offices in the state of California, seeking documents and information related to the handling, storage and disposal of hazardous waste. Management has an ongoing and open dialogue with these agencies regarding this matter and is cooperating fully with the request; however, at this time a prediction of the ultimate outcome of these efforts cannot be determined.

In addition, O'Reilly was involved in resolving governmental investigations that were being conducted against CSK Auto Corporation ("CSK") and CSK's former officers and other litigation, prior to its acquisition by O'Reilly in 2008, as described below.

As previously reported, the governmental investigations of CSK regarding its legacy pre-acquisition accounting practices have concluded. All criminal charges against former employees of CSK related to its legacy pre-acquisition accounting practices, as well as the civil litigation filed against CSK's former Chief Executive Officer by the Securities and Exchange Commission (the "SEC"), have concluded.

Under Delaware law, the charter documents of the CSK entities and certain indemnification agreements, CSK may have certain indemnification obligations. As a result of the CSK acquisition, O'Reilly has incurred legal fees and costs related to these potential indemnification obligations arising from the litigation commenced by the Department of Justice and SEC against CSK's former employees. Whether those legal fees and costs are covered by CSK's insurance is subject to uncertainty, and, given its complexity and scope, the final outcome cannot be predicted at this time. O'Reilly has a remaining reserve, with respect to the indemnification obligations of \$12 million at September 30, 2014, which relates to the payment of those legal fees and costs already incurred. It is possible that in a particular quarter or annual period the Company's results of operations and cash flows could be materially affected by resolution of such matter, depending, in part, upon the results of operations or cash flows for such period. However, at this time, management believes that the ultimate outcome of this matter, after consideration of applicable reserves, should not have a material adverse effect on the Company's consolidated financial condition, results of operations or cash flows.

Item 1A. Risk Factors

As of September 30, 2014, there have been no material changes in our risk factors since those discussed in our Annual Report on Form 10-K for the year ended December 31, 2013.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

There were no sales of unregistered securities during the three or nine months ended September 30, 2014. The following table identifies all repurchases during the three months ended September 30, 2014, of any of our securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, by or on behalf of us or any affiliated purchaser (in thousands, except per share amounts):

Period	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Programs	Maximum Dollar Value of Shares that May Yet Be Purchased Under the Programs ⁽¹⁾
July 1, 2014, through July 31, 2014	903	\$ 151.08	903	\$ 209,722
August 1, 2014, through August 31, 2014	886	152.03	886	575,014
September 1, 2014, through September 30, 2014	753	154.48	753	458,648
Total as of September 30, 2014	2,542	\$ 152.42	2,542	

⁽¹⁾ Under our share repurchase program, as approved by our Board of Directors, we may, from time to time, repurchase shares of our common stock, solely through open market purchases effected through a broker dealer at prevailing market prices, based on a variety of factors such as price, corporate trading policy requirements and overall market conditions. We may increase or otherwise modify, renew, suspend or terminate the share repurchase program at any time, without prior notice. As announced on February 5, 2014, our Board of Directors approved a resolution to increase the cumulative authorization amount by an additional \$500 million and, as announced on August 13, 2014, our Board of Directors approved a resolution to increase the cumulative authorization amount by an additional \$500 million to \$4.5 billion. The additional \$500 million authorizations

are each effective for three-year periods, which began on February 5, 2014, and August 13, 2014, respectively. The current authorization under the share repurchase program is scheduled to expire on August 13, 2017. No other share repurchase programs existed during the three or nine months ended September 30, 2014.

Subsequent to the end of the third quarter and through November 7, 2014, we repurchased an additional 1.1 million shares of our common stock under our share repurchase program, at an average price of \$151.05, for a total investment of \$172 million. We have repurchased a total of 46.3 million shares of our common stock under our share repurchase program since the inception of the program in January of 2011 and through November 7, 2014, at an average price of \$90.99, for a total aggregate investment of \$4.2 billion.

Item 6. Exhibits

<u>Exhibit No.</u>	<u>Description</u>
3.1	Amended and Restated Articles of Incorporation of the Registrant, as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated May 9, 2013, is incorporated herein by this reference.
3.2	Amended and Restated Bylaws of the Registrant, filed as Exhibit 3.1 to the Registrant's Current Report on Form 8-K dated August 13, 2014, is incorporated herein by this reference.
10.1 (a)	Form of Change of Control Agreement between O'Reilly Automotive, Inc. ("O'Reilly") and certain O'Reilly Executive Officers, filed herewith.
31.1	Certificate of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
31.2	Certificate of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, filed herewith.
32.1 *	Certificate of the Chief Executive Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
32.2 *	Certificate of the Chief Financial Officer pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, furnished herewith.
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase
(a)	Management contract or compensatory plan or agreement.
*	Furnished (and not filed) herewith pursuant to Item 601 (b)(32)(ii) of Regulation S-K.

SIGNATURES

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

O'REILLY AUTOMOTIVE, INC.

November 7, 2014

Date

/s/ Greg Henslee

Greg Henslee

President and Chief Executive Officer

(Principal Executive Officer)

November 7, 2014

Date

/s/ Thomas McFall

Thomas McFall

Executive Vice President of Finance and Chief Financial Officer

(Principal Financial and Accounting Officer)

INDEX TO EXHIBITS

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CHANGE OF CONTROL AGREEMENT

THIS AGREEMENT, dated December 12, 2001, is made by and between O'Reilly Automotive, Inc., a Missouri corporation (the "Company"), and each David O'Reilly, Greg Henslee, Ted F. Wise and Jeff Shaw (the "Executive").

WHEREAS, the Company considers it essential to the best interests of its stockholders to foster the continued employment of key management personnel;

WHEREAS, the Board recognizes that, as is the case with many publicly held corporations, the possibility of a Change in Control exists and that such possibility, and the uncertainty and questions which it may raise among management, may result in the departure or distraction of management personnel to the detriment of the Company and its stockholders; and

WHEREAS, the Board has determined that appropriate steps should be taken to reinforce and encourage the continued attention and dedication of members of the Company's management, including the Executive, to their assigned duties without distraction in the face of potentially disturbing circumstances arising from the possibility of a Change in Control;

NOW, THEREFORE, in consideration of the premises and the mutual covenants herein contained, the Company and the Executive hereby agree as follows:

1. Defined Terms. The definitions of capitalized terms used in this Agreement are provided in Section 15.
2. Term of Agreement. The Term of this Agreement shall commence on the date hereof and shall continue in effect until terminated by the Company; provided, however, that if a Change in Control shall have occurred during the Term, the Term shall expire no earlier than the thirty-sixth (36th) month beyond the month in which such Change in Control occurred.
3. Company's Covenants Summarized. In order to induce the Executive to remain in the employ of the Company and in consideration of the Executive's covenants in Section 4, the Company, under the conditions described herein, shall pay the Executive the Severance Payments and the other payments and benefits described herein. Except as provided in Section 10.1., no Severance Payments shall be payable under this Agreement unless there shall have been (or, pursuant to the second sentence of Section 6.1., there shall be deemed to have been) a termination of the Executive's employment with the Company following a Change in Control and during the Term. This Agreement shall not be construed as creating an express or implied contract of employment and, except as otherwise agreed in writing between the Executive and the Company, the Executive shall not have any right to be retained in the employ of the Company.
4. The Executive's Covenants. Subject to the terms and conditions of this Agreement, in the event of a Potential Change in Control, the Executive shall remain the employ of the Company until the earliest of (i) a date which is six (6) months from the date of such Potential Change in Control, (ii) the date of a Change in Control, (iii) the date of termination by the Executive of the Executive's employment for Good Reason or by reason of death, Disability or Retirement, or (iv) the termination by the Company of the Executive's employment for any reason.

5. Compensation Other Than Severance Payments; Equity.

- 5.1. If the Executive fails to perform the Executive's full-time duties with the Company following

a Change in Control as a result of incapacity due to physical or mental illness, during any period when the executive so fails to perform the Company shall pay the Base Salary to the Executive, together with all compensation and benefits payable to the Executive under the terms of any compensation or benefit plan, program or arrangement (other than the Company's disability plan, as applicable, but including any bonus or incentive plan) maintained by the Company during such period, until the Executive's employment is terminated by the Company for Disability.

5.2. If the Executive's employment shall be terminated for any reason following a Change in Control, the Company shall pay the Base Salary to the Executive through the Date of Termination, together with all compensation and benefits payable to the Executive through the Date of Termination under the terms of the Company's compensation and benefit plans, programs or arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the first occurrence of an event or circumstance constituting Good Reason.

5.3. If the Executive's employment shall be terminated for any reason following a Change in Control, the Company shall pay to the Executive the Executive's normal post-termination compensation and benefits as such payments become due. Such post-termination compensation and benefits shall be determined under, and paid in accordance with, the Company's retirement, insurance and other compensation or benefit plans, programs and arrangements as in effect immediately prior to the Date of Termination or, if more favorable to the Executive, as in effect immediately prior to the occurrence of the first event or circumstance constituting Good Reason.

5.4. Notwithstanding anything to the contrary contained in any equity plan or arrangement of the Company or any agreement between the Company and the Executive, upon the occurrence of a Change in Control, any outstanding stock option, restricted stock or other equity or equity-based award granted to the Executive shall become immediately vested and exercisable and shall (to the extent applicable) remain outstanding for its full term, notwithstanding any termination of the Executive's employment with the Company.

6. Severance Payments.

6.1. If the Executive's employment is terminated following a Change in Control other than, (a) by the Company for Cause, (b) by reason of death or Disability, or (c) by the Executive without Good Reason, then the Company shall pay the Executive the amounts, and provide the Executive the benefits, described in this Section 6.1. ("Severance Payments") and Section 6.2., in addition to any payments and benefits to which the Executive is entitled under Section 5. For purposes of this Agreement, the Executive's employment shall be deemed to have been terminated following a Change in Control and during the Term by the Company without Cause or by the Executive with Good Reason, if (i) the Executive's employment is terminated by the Company without Cause during a Potential Change in Control Period, or (ii) the Executive terminates his employment for Good Reason during a Potential Change in Control Period and, in either case, a Change in Control occurs before such Potential Change in Control Period lapses. Except as described in Section 10.1., the Executive shall not be entitled to benefits pursuant to this Section 6.1. unless a Change in Control shall have occurred.

(A) In lieu of any further salary payments to the Executive for periods subsequent to the Date of Termination and in lieu of any severance benefit otherwise payable to the Executive, the Company shall pay the Executive (i) a lump sum severance payment, in cash, equal to [two times for David O'Reilly, two times for Greg Henslee, two times for Ted F. Wise and one times for Jeff Shaw] the sum of (a) the Base Salary, and (b) any unpaid annual bonus earned by the Executive pursuant to any annual bonus or incentive plan maintained by the Company in respect of the fiscal year preceding the year in which the Date of Termination occurs (without giving effect to any event or circumstance constituting Good Reason) and (ii) a prorated portion of the Executive's target bonus compensation for the fiscal year in which the Date of Termination occurs (without giving effect to any event or circumstance constituting Good Reason) calculated by multiplying (A) the target annual bonus by (B) a fraction, the numerator of which is the number of days in the applicable fiscal year through the date of termination and the denominator of which is 365.

(B) For the eighteen (18) month period immediately following the Date of Termination, the Company shall arrange to provide the Executive, and his dependents, life, disability, medical and dental insurance benefits substantially similar to those provided to the Executive and his dependents immediately prior to the Date of Termination or, if more favorable to the Executive, those provided to the Executive and his dependents immediately prior to the first occurrence of an event or circumstance constituting Good Reason, at no greater cost to the Executive than the cost to the Executive immediately prior to such date or occurrence.

6.2. Gross Up.

(A) Whether or not the Executive becomes entitled to the Severance Payments, if any of the payments or benefits received or to be received by the Executive in connection with a Change in Control or the Executive's termination of employment (whether pursuant to the terms of this Agreement or any other plan, arrangement or agreement with the company, any Person whose actions result in a Change in Control or any Person affiliated with the Company or such Person) (all such payments and benefits, excluding the Gross-Up Payment, being hereinafter referred to as the "Total Payments") will be subject to the Excise Tax, the Company shall pay to the Executive an additional amount (the "Gross-Up Payment") such that the net amount retained by the Executive, after deduction of any Excise Tax on the Total Payments and any federal, state and local income and employment taxes and Excise Tax upon the Gross-Up Payment, shall be equal to the Total Payments.

(B) For purposes of determining whether any of the Total Payments will be subject to the Excise Tax and the amount of such Excise Tax, (i) all of the Total Payments shall be treated as "parachute payments" (within the meaning of section 280G(b)(2) of the Code) unless, in the opinion of tax counsel ("Tax Counsel") reasonably acceptable to the Executive and selected by the accounting firm which was, immediately prior to the Change in Control, the Company's independent auditor (the "Auditor"), such payments or benefits (in whole or in part) do not constitute parachute payments, including by reason of section 280G(b)(4)(A) of the Code, (ii) all "excess parachute payments" within the meaning of section 280G(b)(1) of the Code shall be treated as subject to the Excise Tax unless, in the opinion of Tax Counsel, such excess parachute payments (in whole or in part) represent reasonable compensation for services actually rendered (within the meaning of section 280G(b)(4)(B) of the Code) in excess of the Base Amount allocable to such reasonable compensation, or are otherwise not subject to the Excise Tax, and (iii) the value of any noncash benefits or any deferred payment or benefit shall be determined by the Auditor in accordance with the principles of sections 280G(d)(3) and (4) of the Code. For purposes of determining the amount of the Gross-Up Payment, the Executive shall be deemed to pay federal income tax at the highest marginal rate of federal income taxation in the calendar year in which the Gross-Up Payment is to be made and state and local income taxes at the highest marginal rate of taxation in the state and locality of the Executive's residence on the Date of Termination (or if there is no Date of Termination, then the date on which the Gross-Up Payment is calculated for purposes of this Section 6.2.), net of the maximum reduction in federal income taxes which could be obtained from deduction of such state and local taxes.

(C) In the event that the Excise Tax is finally determined to be less than the amount taken into account hereunder in calculating the Gross-Up Payment, the Executive shall repay to the Company, within five (5) business days following the time that the amount of such reduction in the Excise Tax is finally determined, the portion of the Gross-Up Payment attributable to such reduction (plus that portion of the Gross-Up Payment attributable to the Excise Tax and federal, state and local income and employment taxes imposed on the Gross-Up Payment being repaid by the Executive, to the extent that such repayment results in a reduction in the Excise Tax and a dollar-for-dollar reduction in the Executive's taxable income and wages for purposes of federal, state and local income and employment taxes, plus interest on the amount of such repayment at 120% of the rate provided in section 1274(b)(2)(B) of the Code. In the event that the Excise Tax is determined to exceed the amount taken into account hereunder in calculating the Gross-Up Payment (including by reason of any payment the existence or amount of which cannot be determined at the time of the Gross-Up Payment), the Company shall make an additional Gross-Up Payment in respect of such excess (plus any interest, penalties or additions payable by the Executive with respect to such excess) within five (5)

business days following the time that the amount of such excess is finally determined. The Executive and the Company shall each reasonably cooperate with the other in connection with any administrative or judicial proceedings concerning the existence or amount of liability for Excise Tax with respect to the Total Payments.

6.3. The payments provided in subsection (A), of Section 6.1. and in Section 6.2. shall be made not later than the fifth day following the Date of Termination (or if there is no Date of Termination, then the date on which the Gross-Up Payment is calculated for purposes of Section 6.2.), provided, however, that in the case of any payment made pursuant to the second sentence of Section 6.1., such payment shall be made not later than the fifth day following the Change in Control; provided further, however, that if the amounts of such payments cannot be finally determined on or before such day, the Company shall pay to the Executive on such day an estimate, as determined in good faith by the Company or, in the case of payments under Section 6.2., in accordance with Section 6.2., of the minimum amount of such payments to which the Executive is clearly entitled and shall pay the remainder of such payments (together with interest on the unpaid remainder (or on all such payments to the extent the Company fails to make such payments when due) at 120% of the rate provided in section 1274(b)(2)(B) of the Code) as soon as the amount thereof can be determined but in no event later than the thirtieth (30th) day after the Date of Termination. In the event that the amount of the estimated payments exceeds the amount subsequently determined to have been due, such excess shall constitute a loan by the Company to the Executive, payable on the fifth (5th) business day after demand by the Company (together with interest at 120% of the rate provided in section 1274(b)(2)(B) of the Code). At the time that payments are made under this Agreement, the Company shall provide the Executive with a written statement setting forth the manner in which such payments were calculated and the basis for such calculations include, without limitation, any opinions or other advice the Company has received from Tax Counsel, the Auditor or other advisors or consultants (and any such opinions or advice which are in writing shall be attached to the statement).

6.4. The Company shall pay to the Executive all legal fees and expenses incurred by the Executive in disputing in good faith any issue hereunder relating to the termination of the Executive's employment, in seeking in good faith to obtain or enforce any benefit or right provided by this Agreement or in connection with any tax audit or proceeding to the extent attributable to the application of section 4999 of the code to any payment or benefit provided hereunder. Such payments shall be made with five (5) business days after delivery of the Executive's written requests for payments accompanied with such evidence of fees and expenses incurred as the Company reasonably may require.

7. Termination Procedures of Compensation During Dispute.

7.1. Notice of Termination. After a Change in Control, any purported termination of the Executive's employment (other than by reason of death) shall be communicated by written Notice of Termination from one party hereto to the other party hereto in accordance with Section 10. For purposes of this Agreement, a "Notice of Termination" shall mean a notice which shall indicate the specific termination provision in this Agreement relied upon and shall set forth in reasonable detail the facts and circumstances claimed to provide a basis for termination of the Executive's employment under the provision so indicated. Further, a Notice of Termination for Cause is required to include a copy of a resolution duly adopted by the affirmative vote of not less than three-quarters (3/4) of the entire membership for the Board at a meeting of the Board which was called and held for the purpose of considering such termination (after reasonable notice to the Executive and an opportunity for the Executive, together with the Executive's counsel, to be heard before the Board) finding that, in the good faith opinion of the Board, the Executive was guilty of conduct set forth in clause (i) or (ii) of the definition of Cause herein, and specifying the particulars thereof in detail.

7.2. Date of Termination. "Date of Termination," with respect to any purported termination of the Executive's employment after a Change in Control, shall mean (i) if the Executive's employment is terminated for Disability, thirty (30) days after Notice of Termination is given (provided that the Executive shall not have returned to the full-time performance of the Executive's duties during such thirty (30) day period), and (ii) if the Executive's employment is terminated for any other reason, the date specified in the Notice of Termination (which, in the case of a termination by the Company, shall not be less than thirty (30) days (except in the case of a termination for Cause) and, in the case of termination by the Executive, shall not be less than fifteen (15) days

nor more than sixty (60) days, respectively, from the date such Notice of Termination is given).

7.3. Dispute Concerning Termination. If within fifteen (15) days after any Notice of Termination is given, or, if later, prior to the Date of Termination (as determined without regard to this Section 7.3.), the party receiving such Notice of Termination notifies the other party that a dispute exists concerning the termination, the Date of Termination shall be extended until the earlier of (i) the date on which the Term ends or (ii) the date on which the dispute is finally resolved, either by mutual written agreement of the parties or by a final judgment, order or decree of an arbitrator or a court of competent jurisdiction (which is not appealable or with respect to which the time for appeal therefrom has expired and no appeal has been perfected); provided, however, that the Date of Termination shall be extended by a notice of dispute given by the Executive only if such notice is given in good faith and the Executive pursues the resolution of such dispute with reasonable diligence.

7.4. Compensation During Dispute. If the Date of Termination is extended in accordance with Section 7.3., the Company shall continue to pay the Executive the full compensation in effect when the notice giving rise to the dispute was given (including, but not limited to, the Base Salary) and continue the Executive as a participant in all compensation, benefit and insurance plans in which the Executive was participating when the notice giving rise to the dispute was given, until the Date of Termination, as determined in accordance with Section 7.3. Amounts paid under this Section 7.4. are in addition to all other amounts due under this Agreement (other than those due under Section 5.2.) and shall not be offset against or reduce any other amounts due under this Agreement.

8. No Mitigation. If the Executive's employment with the Company terminates following a Change in Control, the Executive is not required to seek other employment or to attempt in any way to reduce any amounts payable to the Executive by the Company pursuant to Section 6. or Section 7.4. Further, the amount of any payment or benefit provided for in this Agreement shall not be reduced by any compensation earned by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive as the result of employment by another employer, by retirement benefits, by offset against any amount claimed to be owed by the Executive to the Company, or otherwise.

9. Executive Obligations.

9.1. For the Term of this Agreement the Executive will not do or say anything that reasonably may be expected to have the effect of diminishing or impairing the goodwill and good reputation of the Company and its officers, directors and products nor will the Executive intentionally disparage or injure the reputation of the Company by making any material negative statements about the Company's methods of doing business, the effectiveness of its business policies and the quality of its products or personnel.

9.2. The Executive agrees to keep the terms of this Agreement in strict confidence, except that the Executive may disclose the terms of this Agreement to family members and professional advisors who understand the confidentiality of such terms.

9.3. The Executive hereby agrees that during the Executive's employment by the Company and for a period of twelve months following termination of the Executive's employment during the Term of this Agreement either (i) by the Company other than for Cause, death or Disability or (ii) by the Executive for Good Reason or after the first anniversary date of the Effective Date for any reason or no reason, the Executive shall not act in any manner or capacity, directly or indirectly, in any individual or representative capacity, whether as principal, agent, partner, officer, director, employee, joint venturer, member of any business entity, consultant, advisor or investor (except that the Executive shall have the right hereunder to own up to 2% of one or more public companies having a class of equity securities registered with the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended) or otherwise, in or for any business entity or enterprise which competes with the Company in any geographic area served by the Company at the time of the Executive's termination and engages as its primary line of business in the sale of automotive parts or accessories to retail customers or to commercial auto repair outlets;

9.4. The Executive hereby agrees that during the Executive's employment by the Company and for a period of twelve months following the termination of the Executive's employment, the Executive shall not:

(A) without the prior written consent of the Company, divulge, disclose or make accessible to any other person, firm, partnership or company or other entity any Confidential Information which is not generally known by or available to the public or which is considered confidential by persons engaged in the business conducted by the Company.

(B) without the prior written consent of the Company solicit or hire away any person who is then an employee of the Company and was an employee of the Company at any time after the Effective Date and prior to termination of the Executive's employment.

9.5. The Executive also agrees that upon leaving the Company's employ he will not take with him, without the prior written consent of an officer authorized to act in the matter by the Board, any drawing, blueprint, business strategies, budgets, projections, nonpublic financial information, manuals, policies or other document of the Company, its subsidiaries, affiliates and divisions.

9.6. If the scope of any restriction contained in Section 9.3. or 9.4. hereof is too broad to permit enforcement of such restriction to its full extent, then such restriction shall be enforced to the maximum extent permitted by law, and the Executive hereby consents and agrees that such scope may be judicially modified accordingly in any proceedings brought to enforce such restrictions .

9.7. The Executive acknowledges and agrees that the Company's remedy at law for any breach of the Executive's obligations under this Section 9 (other than Section 9.3.) may be inadequate, and agrees and consents that temporary and/or permanent injunctive relief may be granted in any proceeding which may be brought to enforce any provision hereof (other than Section 9.3.), without the necessity of proof of actual damage. In the event of any breach of the provisions of Section 9.3. hereof, as liquidated damages and in lieu of any other damages, payments to or actions by the Company, the Executive shall pay to the Company an amount equal to the product of (i) any lump sum payment made to Executive under this Agreement divided by twelve multiplied by (ii) twelve minus the number of months (including as a whole month any portion thereof) since the Executive's Date of Termination.

10. Successors; Binding Agreement.

10.1. In addition to any obligations imposed by law upon any successor to the Company, the Company shall require any successor (whether direct or indirect, by purchase, merger, consolidation or otherwise) to all or substantially all of the business and/or assets of the Company to expressly assume and agree to perform this Agreement in the same manner and to the same extent that the Company would be required to perform it if no such succession had taken place. Failure of the Company to obtain such assumption and agreement prior to the effectiveness of any such succession shall be a breach of this Agreement and shall entitle the Executive to compensation from the Company in the same amount and on the same terms as the Executive would be entitled to hereunder if the Executive were to terminate the Executive's employment for Good Reason after a Change in Control and during the Term, except that, for purposes of implementing the foregoing, the date on which any succession becomes effective shall be deemed the Date of Termination.

10.2. This Agreement shall inure to the benefit of and be enforceable by the Executive's personal or legal representatives, executors, administrators, successors, heirs, distributees, devisees and legatees. If the Executive shall die while any amount would still be payable to the Executive hereunder (other than amounts which, by their terms, terminate upon the death of the Executive) if the Executive had continued to live, all such amounts, unless otherwise provided herein, shall be paid in accordance with the terms of this Agreement to the executors, personal representatives or administrators of the Executive's estate or trust.

11. Notices. For the purpose of this Agreement, notices and all other communications

provided for the Agreement shall be in writing and shall be deemed to have been duly given when delivered or mailed by United States registered mail, return receipt requested, postage prepaid, addressed, if to the Executive, to the address inserted below the Executive's signature on the final page hereof and, if to the Company, to the address set forth below, or to such other address as either party may have furnished to the other in writing in accordance herewith, except that notice of change of address shall be effective only upon actual receipt:

To the Company:

O'Reilly Automotive, Inc.
233 S. Patterson
Springfield, MO 65802

12. Miscellaneous. No provision of this Agreement may be modified, waived or discharged unless such waiver, modification or discharge is agreed to in writing and signed by the Executive and such officer as may be specifically designated by the Board. No waiver by either party hereto at any time of any breach by the other party hereto of, or of any lack of compliance with, any condition or provision of this Agreement to be performed by such other party shall be deemed a waiver of similar or dissimilar provisions or conditions at the same or at any prior or subsequent time. This Agreement supersedes any other agreements or representations, oral or otherwise, express or implied, with respect to the subject matter hereof which have been made by either party; provided, however, that this Agreement shall not supersede any agreement setting forth the terms and conditions of the Executive's employment with the Company unless and until the Executive's employment with the Company is terminated on or following a Change in Control and during the Term, by the Company other than for Cause or by the Executive for Good Reason. The validity, interpretation, construction and performance of this Agreement shall be governed by the laws of the State of Missouri. All references to sections of the Exchange Act or the Code shall be deemed also to refer to any successor provisions to such sections. Any payments provided for hereunder shall be paid net of any applicable withholding required under federal, state or local law and any additional withholding to which the Executive has agreed. The obligations of the Company and the Executive under this Agreement which by their nature may require either partial or total performance after the expiration of the Term (including, without limitation, those under Sections 6 and 7) shall survive such expiration.

13. Validity. The invalidity or unenforceability of any provision of this Agreement shall not affect the validity or enforceability of any other provision of this Agreement, which shall remain in full force and effect.

14. Counterparts. This Agreement may be executed in several counterparts, each of which shall be deemed to be an original but all of which together will constitute one and the same instrument.

15. Settlement of Disputes: Arbitration.

15.1. All claims by the Executive for benefits under this Agreement shall be directed to and determined by the Board and shall be in writing. Any denial by the Board of a claim for benefits under this Agreement shall be delivered to the Executive in writing and shall set forth the specific reasons for the denial and the specific provisions of this Agreement relied upon. The Board shall afford a reasonable opportunity to the Executive for a review of the decision denying a claim and shall further allow the Executive to appeal to the Board a decision of the Board within sixty (60) days after notification by the Board that the Executive's claim has been denied.

15.2. Any further dispute or controversy arising under or in connection with this Agreement shall be settled exclusively by arbitration in Springfield, Missouri in accordance with the rules of the American Arbitration Association then in effect; provided, however, that the evidentiary standards set forth in this Agreement shall apply. Judgment may be entered on the arbitrator's award in any court having jurisdiction. Notwithstanding any provision of this Agreement to the contrary, the Executive shall be entitled to seek specific

performance of the Executive's right to be paid until the Date of Termination during the pendency of any dispute or controversy arising under or in connection with this Agreement.

16. Definitions. For purposes of this Agreement, the following terms shall have the meanings indicated below:

16.1. "Affiliate" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

16.2. "Auditor" shall have the meaning set forth in Section 6.2.

16.3. "Base Amount" shall have the meaning set forth in section 280G(b)(3) of the Code.

16.4. "Base Salary" shall mean the annual base salary in effect for the Executive immediately prior to a Change in Control, as such salary may be increased from time to time during the Term (in which case such increased amount shall be the Base Salary for purposes hereof), but without giving effect to any reduction thereto.

16.5. "Beneficial Owner" shall have the meaning set forth in Rule 13d-3 under the Exchange Act.

16.6 "Board" shall mean the Board of Directors of the Company.

16.7. "Cause" for termination by the Company of the Executive's employment shall mean (i) the willful and continued failure by the Executive to substantially perform the Executive's duties with the Company (other than any such failure resulting from the Executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the Executive pursuant to Section 7.1.) that has not been cured within 30 days after a written demand for substantial performance is delivered to the Executive by the Board, which demand specifically identifies the manner in which the Board believes that the Executive has not substantially performed the Executive's duties, or (ii) the willful engaging by the Executive in conduct which results in demonstrable and material monetary harm to the Company or its subsidiaries. No act, or failure to act, on the Executive's part shall be deemed "willful" unless done, or omitted to be done, by the Executive not in good faith and without reasonable belief that the Executive's act, or failure to act, was in the best interest of the Company. No claim by the Company that Cause exists shall be given effect unless the Company establishes to the Board by clear and convincing evidence that Cause exists.

16.8. A "Change in Control" shall be deemed to have occurred if any of the events set forth in any one of the following paragraphs shall have occurred:

(A) any Person other than O'Reilly Automotive, Inc. is or becomes Beneficial Owner, directly or indirectly, of securities of the Company representing 40% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities, excluding any Person who becomes such a Beneficial Owner in connection with a transaction described in Section 16.8.(C)(i) or in a transaction involving the sale or transfer of O'Reilly Automotive, Inc. of O'Reilly Automotive, Inc. Securities representing 40% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities to such Person if, and only for so long as, such Person is an Exempt Transferee;

(B) the following individuals cease for any reason to constitute a majority of the number of directors then serving: individuals who, on the date hereof, constitute the Board and any new director (other than a director whose initial assumption of office is in connection with an actual or threatened election contest, including but not limited to a consent solicitation, relating to the election of directors of the Company) whose appointment or election by the Board or

nomination for election by the Company's stockholders was approved or recommended by a vote of at least two-thirds (2/3) of the directors then in office who either were directors on the date hereof or whose appointment, election or nomination for election was previously so approved or recommended;

(C) there is consummated a merger or consolidation of the Company or any direct or indirect subsidiary of the Company with any other corporation, or than (i) a merger or consolidation which would result in the voting securities of the Company outstanding immediately prior to such merger or consolidation continuing to represent (either by remaining outstanding or by being converted into voting securities of the surviving entity or any parent thereof) at least 60% of the combined voting power of the securities of the Company or such surviving entity or any parent thereof outstanding immediately after such merger or consolidation, or (ii) a merger or consolidation effected to implement a recapitalization of the Company (or similar transaction) in which no Person is or becomes the Beneficial Owner, directly or indirectly, of securities of the Company (not including the securities Beneficially Owned by such Person any securities acquired directly from the Company or its Affiliates) representing 40% or more of the combined voting power of the Company's then outstanding securities; or

(D) the stockholders of the Company approve a plan of complete liquidation or dissolution of the Company or there is consummated an agreement for the sale or disposition by the Company of all or substantially all of the Company's assets, other than a sale or disposition by the Company of all or substantially all of the Company's assets to an entity, at least 60% of the combined voting power of the voting securities of which are owned by stockholders of the Company in substantially the same proportions as their ownership of the Company immediately prior to such sale.

16.9. "Code" shall mean the Internal Revenue Code of 1986, as amended from time to time.

16.10. "Company" shall mean O'Reilly Automotive, Inc. and, except in determining under Section 16.8. whether or not any Change in Control of the Company has occurred, shall include any successor to its business and/or assets which assumes and agrees to perform this Agreement by operation of law, or otherwise.

16.11. "Confidential Information" shall mean any proprietary information of the Company, customers, and suppliers, including trade secrets, policies and procedures, and other business information.

16.12. "Control" shall have the meaning set forth in Rule 12b-2 promulgated under Section 12 of the Exchange Act.

16.13. "Date of Termination" shall have the meaning set forth in Section 7.2.

16.14. "Disability" shall be deemed the reason for the termination by the Company of the Executive's employment, if as a result of the Executive's incapacity due to physical or mental illness, the Executive shall have been absent from the full-time performance of the Executive's duties with the Company for a period of six (6) consecutive months, the company shall have given the Executive a Notice of Termination for Disability, and, within thirty (30) days after such Notice of Termination is given, the Executive shall not have returned to the full-time performance of the Executive's duties.

16.15. "Effective Date" shall mean the first date of which a Change of Control has occurred.

16.16. "Exchange Act" shall mean the Securities Exchange Act of 1934, as amended from time to time.

16.17. "Excise Tax" shall mean any excise tax imposed under section 4999 of the Code.

16.18. "Executive" shall mean the individual named in the first paragraph of this Agreement.

16.19. "Exempt Transferee" shall mean any merchant banking or similar investment firm which acquires O'Reilly Automotive, Inc. Securities from O'Reilly Automotive, Inc. in the ordinary course of its business and not with the purpose nor with the effect of changing or influencing the Control or management of the Company, nor in connection with or as a participant in any transaction having such purpose or effect.

16.20. "Good Reason" for termination by the Executive of the Executive's employment shall mean the occurrence (without the Executive's express written consent) after any Change in Control, or prior to a Change in Control under the circumstances described in the second sentence of Section 6.1. (treating all references in subsection (A) through (G) below to a "Change in Control" as references to a "Potential Change in Control"), of any one of the following acts by the Company, or failures by the Company to act, unless, in the case of any act or failure to act described in subsection (A), (E), (F) or (G) below, such act or failure to act is corrected prior to the Date of Termination specified in the Notice of Termination given in respect thereof:

(A) The assignment to the Executive of any duties inconsistent in any respect with the Executive's position (including status, offices, titles and reporting requirements), authority, duties or responsibilities immediately prior to the Change in Control; or the diminution or adverse alteration in any material adverse respect of such position, authority, duties or responsibilities, excluding for this purpose an isolated, insubstantial and inadvertent action not taken in bad faith and which is remedied by the Company promptly after receipt of notice thereof given by Executive;

(B) Any reduction in the Executive's rate of Base Salary or failure by the Company to pay the Executive salary in accordance with any agreement between the Executive and the Company, or any reduction in the Executive's total cash and stock compensation opportunities, including Base Salary and bonus, for any fiscal year to less than 100% of the total cash and stock compensation opportunities made available to him immediately preceding the Change in Control or failure by the Company to provide the Executive with total cash and stock compensation opportunities in accordance with any agreement between the Executive and the Company (for this purpose, such opportunities shall be deemed reduced if the objective standards by which the Executive's incentive compensation measured becomes more stringent, the target amounts of such incentive compensation are reduced, or the amount of such incentive compensation is reduced on a discretionary basis from the amount that would be payable solely by reference to the objectives); or

(C) the relocation of the Executive's principal place of employment to a location more than 40 miles from the Executive's principal place of employment immediately prior to the Change in Control or the Company's requiring the Executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the Executive's present business travel obligations;

(D) the failure by the Company to pay to the Executive any portion of the Executive's current compensation or to pay the Executive any portion of an installment of deferred compensation under any deferred compensation program of the Company, within seven (7) days of the date such compensation is due;

(E) the failure by the Company to continue in effect any compensation plan in which the Executive participates immediately prior to the Change in Control which is material to the Executive's total compensation or any substitute plans adopted prior to the Change in Control,

unless an equitable arrangement (embodied in an ongoing substitute or alternative plan) has been made with respect to such plan, or the failure by the Company to continue the Executive's participation therein (or in such substitute or alternative plan) on a basis not materially less favorable, both in terms of the amount or timing of payment of benefits provided and the level of the Executive's participation relative to other participants, as existed immediately prior to the Change in Control;

(F) the failure by the Company to continue to provide the Executive with benefits substantially similar to those enjoyed by the Executive under any of the Company's pension, savings, life insurance, medical, dental or disability plans in which the Executive was participating immediately prior to the change in Control or the taking of any other action by the Company which would directly or indirectly materially reduce any of such benefits or deprive the Executive of any material fringe benefit enjoyed the Executive at the time of the Change in Control, or the failure by the Company to provide the Executive with the number of paid vacation days to which the Executive is entitled on the basis of years of service with the Company in accordance with the Company's normal vacation policy in effect at the time of the Change in Control; or

(G) any purported termination of the Executive's employment which is not effected pursuant to a Notice of Termination satisfying the requirements of Section 7.1.; for purposes of this Agreement, no such purported termination shall be effective.

The Executive's right to terminate the Executive's employment for Good Reason shall not be affected by the Executive's incapacity due to physical or mental illness. The Executive's continued employment shall not constitute consent to, or a waiver of rights with respect to, any act or failure to act constituting Good Reason hereunder.

For purposes of any determination regarding the existence of Good Reason, any claim by the Executive that Good Reason exists shall be presumed to be correct unless the Company establishes to the Board by clear and convincing evidence that Good Reason does not exist.

16.21. "Gross-Up Payment" shall have the meaning set forth in Section 6.2.

16.22. "Notice of Termination" shall have the meaning set forth in Section 7.1.

16.23. "O'Reilly Automotive, Inc." shall mean collectively O'Reilly Automotive, Inc. and its wholly owned subsidiaries.

16.24. "O'Reilly Automotive, Inc. Securities" shall mean the securities of the Company owned by O'Reilly Automotive, Inc. as of December 12, 2001.

16.25. "Person" shall have the meaning given in Section 3(a)(9) of the Exchange Act, as modified and used in Sections 13(d) and 14(d) thereof, except that such term shall not include (i) the Company or any of its subsidiaries, (ii) a trustee or other fiduciary holding securities under an employee benefit plan of the Company or any of its Affiliates, (iii) an underwriter temporarily holding securities pursuant to an offering of such securities and (iv) a corporation owned, directly or indirectly, by the stockholders of the Company in substantially the same proportions as their ownership of stock of the Company.

16.26. "Potential Change in Control" shall be deemed to have occurred if the event set forth in any one of the following subsections shall have occurred:

(A) the Company enters into an agreement, the consummation of which would result in the occurrence of a Change in Control;

(B) the Company or any Person publicly announces an intention to take or to consider taking actions which, if consummated, would constitute a Change in Control;

(C) any Person becomes the Beneficial Owner, directly or indirectly, of securities of the Company representing 15% or more of either the then outstanding shares of common stock of the Company or the combined voting power of the Company's then outstanding securities, other than in a transaction involving the sale or transfer by O'Reilly Automotive, Inc. of O'Reilly Automotive, Inc. Securities representing 15% or more of the combined voting power of the Company's then outstanding securities to such Person if, and only for so long as, such Person is an Exempt Transferee; or

(D) the Board adopts a resolution to the effect that, for purposes of this Agreement, a Potential Change in Control has occurred.

16.27. "Potential Change in Control Period" shall commence upon the occurrence of a Potential Change in Control and shall lapse immediately following the first to occur of (i) a Change in Control or (ii) the one year anniversary of the occurrence of a Potential Change in Control.

16.28. "Retirement" shall be deemed the reason for the termination by the Executive of the Executive's employment if such employment is terminated in accordance with the Company's retirement policy, including early retirement, generally applicable to its salaried employees.

16.29. "Severance Payments" shall have the meaning set forth in Section 6.1.

16.30. "Tax Counsel" shall have the meaning set forth in Section 6.2.

16.31. "Term" shall mean the period of time described in Section 2 (including any extension, continuation or termination described therein).

16.32. "Total Payments" shall mean those payments so described in Section 6.2.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first
above written.

O'Reilly Automotive, Inc.

By: _____

Name: _____

Title: _____

EXECUTIVE

Address

(Please print carefully)

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Greg Henslee, certify that:

1. I have reviewed this 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 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; and
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 the 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: November 7, 2014

/s/ Greg Henslee

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

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

CERTIFICATIONS

I, Thomas McFall, certify that:

1. I have reviewed this 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 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; and
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 the 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: November 7, 2014

/s/ Thomas McFall

Thomas McFall
Executive Vice President of
Finance and Chief Financial Officer (Principal
Financial and Accounting Officer)

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

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 Report of O'Reilly Automotive, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014, 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, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Greg Henslee

Greg Henslee
Chief Executive Officer

November 7, 2014

This certification is made solely for purposes of 18 U.S.C. Section 1350, and not for any other purpose. This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES

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 Report of O'Reilly Automotive, Inc. (the "Company") on Form 10-Q for the period ended September 30, 2014, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Thomas McFall, 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, to the best of my knowledge:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

/s/ Thomas McFall

Thomas McFall
Chief Financial Officer

November 7, 2014

This certification is made solely for purposes of 18 U.S.C. Section 1350, and not for any other purpose. This certification accompanies the Report pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 and shall not, except to the extent required by the Sarbanes-Oxley Act of 2002, be deemed filed by the Company for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

A signed original of this written statement required by Section 906 of the Sarbanes-Oxley Act of 2002 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.