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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer
Non-accelerated filer Smaller reporting company
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

At February 18, 2019, an aggregate of 78,375,610 shares of common stock of the registrant was outstanding.

At June 30, 2018, the aggregate market value of the voting stock held by non-affiliates of the Company was \$16,890,003,772 based on the last price of the common stock reported by The NASDAQ Global Select Market.

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the definitive proxy statement for the 2019 Annual Meeting of Shareholders to be filed with the Securities and Exchange Commission within 120 days after December 31, 2018, are incorporated by reference into Part III.

O'REILLY AUTOMOTIVE, INC. AND SUBSIDIARIES
 FORM 10-K
 FOR THE YEAR ENDED DECEMBER 31, 2018

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Forward-Looking Statements

We claim the protection of the safe-harbor for forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. You can identify these statements by forward-looking words such as “estimate,” “may,” “could,” “will,” “believe,” “expect,” “would,” “consider,” “should,” “anticipate,” “project,” “plan,” “intend” or similar words. statements contained within this annual report that are not historical facts are forward-looking statements, such as statements discussing, among other things, expected growth, store development, integration and expansion strategy, business strategies, future revenues and future performance. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties and assumptions, including, but not limited to, the economy in general, inflation, tariffs, product demand, the market for auto parts, competition, weather, risks associated with the performance of acquired businesses, our ability to hire and retain qualified employees, consumer debt levels, our increased debt levels, credit ratings on public debt, governmental regulations, information security and cyber attacks, 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, 2018, 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.

PART I

Item 1. Business

GENERAL INFORMATION

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

At December 31, 2018, we operated 5,219 stores in 47 states. Our stores carry an extensive product line, including new and remanufactured automotive hard parts, such as alternators, batteries, brake system components, belts, chassis parts, driveline parts, engine parts, fuel pumps, hoses, starters, temperature control and water pumps; maintenance items, such as antifreeze, appearance products, engine additives, filters, fluids, lighting, oil and wiper blades; and accessories, such as floor mats, seat covers and truck accessories.

Our stores offer many enhanced services and programs to our customers, such as

- battery diagnostic testing;
- battery, wiper and bulb replacement;
- check engine light code extraction;
- custom hydraulic hoses;
- drum and rotor resurfacing;
- electrical and module testing;
- loaner tool program;
- machine shops;
- professional paint shop mixing and related materials; and

•used oil, oil filter and battery recycling.

See the “Risk Factors” section of Item 1A of this annual report on Form 10-K for a description of certain risks relevant to our business. These risk factors include, among others, deteriorating economic conditions, competition in the automotive aftermarket business, our sensitivity to regional economic and weather conditions, future growth assurance, our dependence upon key and other personnel, our relationships with key suppliers and availability of key products, our acquisition strategies, complications in our distribution centers (“DCs”), failure to achieve high levels of service and product quality, unanticipated fluctuations in our quarterly results, the volatility of the market price of our common stock, our increased debt levels, a downgrade in our credit ratings, data security, and environmental legislation and other regulations.

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OUR BUSINESS

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

Competitive Advantages

We believe our effective dual market strategy, superior customer service, technically proficient store personnel, strategic distribution network and experienced management team make up our key competitive advantages, which cannot be easily duplicated.

Proven Ability to Execute Our Dual Market Strategy:

For more than 35 years, we have established a track record of effectively serving, at a high level, both DIY and professional service provider customers. We believe our proven ability to effectively execute a dual market strategy is a unique competitive advantage. The execution of this strategy enables us to better compete by targeting a larger base of automotive aftermarket parts consumers, capitalizing on our existing retail and distribution infrastructure, operating profitably in both large markets and less densely populated geographic areas that typically attract fewer competitors, and enhancing service levels offered to DIY customers through the offering of a broad inventory and the extensive product knowledge required by professional service provider customers.

In 2018, we derived approximately 57% of our sales from our DIY customers and approximately 43% of our sales from our professional service provider customers. Historically, we have increased our sales to professional service provider customers at a faster pace than the increase in our sales to DIY customers due to the more fragmented nature of the professional service provider business, which offers a greater opportunity for consolidation. We believe we will continue to have a competitive advantage on the professional service provider portion of our business, due to our systems, knowledge and experience serving the professional service provider side of the automotive aftermarket, supported by our approximately 790 full-time sales staff dedicated solely to calling upon and servicing the professional service provider customer. We will also continue to expand and enhance the level of offerings focused on growing our DIY business and will continue to execute our proven dual market strategy in both existing and new markets.

Superior Customer Service:

We seek to provide our customers with an efficient and pleasant in-store experience by maintaining attractive stores in convenient locations with a wide selection of automotive products. We believe the satisfaction of DIY and professional service provider customers is substantially dependent upon our ability to provide, in a timely fashion, the specific automotive products needed to complete their repairs. Accordingly, each O'Reilly store carries, or has same or next day availability to, a broad selection of automotive products designed to cover a wide range of vehicle applications. We continuously refine the inventory levels and assortments carried in each of our stores and within our network, based in large part on the sales movement tracked by our inventory control system, market vehicle registration data, failure rates and management's assessment of the changes and trends in the marketplace. We have no material backorders for the products we sell.

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

- superior in-store service through highly-motivated, technically-proficient store personnel (“Professional Parts People”);

- an extensive selection and availability of products;
- many enhanced service programs, including battery and electrical testing, battery, wiper and bulb replacement and check engine light code extractions;
- attractive stores in convenient locations;
- competitive pricing, supported by a good, better, best product assortment designed to meet all of our customers' quality and value preferences; and
- a robust point-of-sale system integrated with our proprietary electronic catalog, which contains a wide variety of product images, schematics and technical specifications and equips our Team Members with highly effective tools to source products in our extensive supply network.

Technically Proficient Professional Parts People:

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

Strategic Regional Tiered Distribution Network:

We believe our commitment to a robust, regional, tiered distribution network provides superior replenishment and access to hard-to-find parts and enables us to optimize product availability and inventory levels throughout our store network. Our strategic, regional, tiered distribution network includes DCs and Hub stores. Our inventory management and distribution systems electronically link each of our stores to one or more DCs, which provides for efficient inventory control and management. We currently operate 27 regional DCs, which provide our stores with same-day or overnight access to an average of 156,000 stock keeping units (“SKUs”), many of which are hard-to-find items not typically stocked by other auto parts retailers. To augment our robust distribution network, we operate a total of 342 Hub stores that also provide delivery service and same-day access to an average of 66,000 SKUs from a Super Hub or 42,000 SKUs from a Hub to other stores within the surrounding area. We believe this timely access to a broad range of products is a key competitive advantage in satisfying customer demand and generating repeat business.

Experienced Management Team:

Our Company philosophy is to “promote from within” and the vast majority of our senior management, district managers and store managers have been promoted from within the Company. We augment this promote from within philosophy by pursuing strategic hires with a strong emphasis on automotive aftermarket experience. We have a strong management team comprised of 194 senior managers who average 20 years of service; 254 corporate managers who average 16 years of service; and 518 district managers who average 13 years of service. Our management team has demonstrated the consistent ability to successfully execute our business plan and growth strategy by generating 26 consecutive years of record revenues and earnings and positive comparable store sales results since becoming a public company in April of 1993.

Growth Strategy

Aggressively Open New Stores:

We intend to continue to consolidate the fragmented automotive aftermarket. During 2018, we opened 200 net, new stores, and in 2019, we plan to open approximately 200 to 210 net, new stores, which will increase our penetration in existing markets and allow for expansion into new, contiguous markets. The sites for these new stores have been identified, and to date, we have not experienced significant difficulties in locating suitable sites for construction of new stores or identifying suitable acquisition targets for conversion to O’Reilly stores. In addition, after the close of business on December 31, 2018, we acquired the 33 Bennett Auto Supply, Inc. stores that were not included in our 2018 store count and were not operated by the Company in 2018. We typically open new stores by

- (i) constructing a new facility or renovating an existing one on property we purchase or lease and stocking the new store with fixtures and inventory;
- (ii) acquiring an independently owned auto parts store, typically by the purchase of substantially all of the inventory and other assets (other than realty) of such store; or
- (iii) purchasing multi-store chains.

New store sites are strategically located in clusters within geographic areas that complement our distribution network in order to achieve economies of scale in management, advertising and distribution. Other key factors we consider in the site selection process include population density and growth patterns, demographic lifestyle segmentation, age and per capita income, vehicle traffic counts, vehicles in operation, number and type of existing automotive repair

facilities and competing auto parts stores within a predetermined radius.

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

Grow Sales in Existing Stores:

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

Selectively Pursue Strategic Acquisitions:

The automotive aftermarket industry is still highly fragmented, and we believe the ability of national auto parts chains, like O'Reilly, to operate more efficiently and effectively than smaller independent operators, will result in continued industry consolidation. Our intention is to continue to selectively pursue strategic acquisitions that will strengthen our position as a leading automotive aftermarket parts supplier in existing markets and provide a springboard for expansion into new markets.

Continually Enhance Store Design and Location:

Our current prototype store design features optimized square footage, high ceilings, convenient interior store layouts, in-store signage, bright lighting, convenient ingress, egress and parking, and dedicated counters to serve professional service provider customers, each designed to increase sales and operating efficiencies to enhance overall customer service. We continually update the location and condition of our store network through systematic renovation and relocation of our existing stores to enhance store performance. During 2018, we relocated 18 stores and performed minor to major updates or renovations to approximately 1,000 additional stores. We believe that our ability to consistently achieve growth in comparable store sales is due in part to our commitment to maintaining an attractive store network, which is strategically located to best serve our customers.

Enhance and Improve Customer Omnichannel Experience:

Regardless of how our customers begin their interaction, whether in-store, over the telephone or digitally, and complete their transaction, whether in-store or delivery to their home or business, our goal is to provide excellent customer service and a seamless experience. Our user-friendly websites, www.OReillyAuto.com and www.FirstCallOnline.com, allow our customers to search product and repair content, check the in-store availability of our products, and place orders for either delivery or in-store pickup. We continue to improve the functionality of our websites to provide our customers with a user-friendly and convenient shopping experience, as well as a robust product and repair content information resource, which will continue to enhance the O'Reilly Brand.

Team Members

As of January 31, 2019, we employed 79,174 Team Members (49,476 full-time Team Members and 29,698 part-time Team Members), of whom 67,369 were employed at our stores, 8,372 were employed at our DCs and 3,433 were employed at our corporate and regional offices. A union represents 48 stores (506 Team Members) in the Greater Bay Area in California and has for many years. In addition, approximately 62 Team Members who drive over-the-road trucks in two of our DCs are represented by labor unions. Except for these Team Members, our Team Members are not represented by labor unions. Our tradition for 62 years has been to treat all of our Team Members with honesty and respect and to commit significant resources to instill in them our "Live Green" culture, which emphasizes the importance of each Team Member's contribution to the success of O'Reilly. This focus on professionalism and respect has created an industry-leading team, and we consider our relations with our Team Members to be excellent.

Store Network

New Store Site Selection:

In selecting sites for new stores, we seek to strategically locate store sites in clusters within geographic areas in order to achieve economies of scale in management, advertising and distribution. Other key factors we consider in the site

selection process are

• population density;

• demographics, including age, ethnicity, life style and per capita income;

• market economic strength, retail draw and growth patterns;

• number, age and percent of makes and models of registered vehicles;

• the number, type and sales potential of existing automotive repair facilities;

• the number of auto parts stores and other competitors within a predetermined radius;

• physical location, traffic count, size, economics and presentation of the site;

• financial review of adjacent existing locations; and

• the type and size of store that should be developed.

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When entering new, more densely populated markets, we generally seek to initially open several stores within a short span of time in order to maximize the effect of initial promotional programs and achieve economies of scale. After opening this initial cluster of new stores, we begin penetrating the less densely populated surrounding areas. As these store clusters mature, we evaluate the need to open additional locations in the more densely populated markets where we believe opportunities exist to expand our market share or to improve the level of service provided in high volume areas. This strategy enables us to achieve additional distribution and advertising efficiencies in each market.

Store Locations and Size:

As a result of our dual market strategy, we are able to profitably operate in both large, densely populated markets and small, less densely populated areas that would not otherwise support a national chain selling primarily to the retail automotive aftermarket. Our stores, on average, carry approximately 23,000 SKUs and average approximately 7,400 total square feet in size. At December 31, 2018, we had a total of approximately 38 million square feet in our 5,219 stores. Our stores are served primarily by the nearest DC, which averages 156,000 SKUs, but also have same-day access to the broad selection of inventory available at one of our 342 Hub stores, which are comprised of 84 Super Hubs that average approximately 15,600 square feet and carry an average of 66,000 SKUs and 258 Hubs that average approximately 10,000 square feet and carry an average of 42,000 SKUs.

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

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The following table sets forth the geographic distribution and activity of our stores as of December 31, 2018 and 2017:

State	December 31, 2017		2018 Net, New Stores			December 31, 2018		Cumulative	
	Store Count	% of Total Store	Store Change	% of Total Store	Store Count	% of Total Store	Store Count	% of Total Store	
		Count		Change		Count			Count
Texas	690	13.7 %	16	8.0 %	706	13.5 %	13.5 %	%	
California	541	10.8 %	12	6.0 %	553	10.6 %	24.1 %	%	
Georgia	196	3.9 %	9	4.5 %	205	3.9 %	28.0 %	%	
Illinois	193	3.8 %	10	5.0 %	203	3.9 %	31.9 %	%	
Missouri	200	4.0 %	1	0.5 %	201	3.9 %	35.8 %	%	
Florida	180	3.6 %	20	10.0 %	200	3.8 %	39.6 %	%	
Ohio	180	3.6 %	16	8.0 %	196	3.8 %	43.4 %	%	
Tennessee	167	3.3 %	9	4.5 %	176	3.4 %	46.8 %	%	
North Carolina	162	3.2 %	11	5.5 %	173	3.3 %	50.1 %	%	
Michigan	162	3.2 %	6	3.0 %	168	3.2 %	53.3 %	%	
Washington	156	3.1 %	—	0.0 %	156	3.0 %	56.3 %	%	
Alabama	132	2.6 %	7	3.5 %	139	2.7 %	59.0 %	%	
Arizona	137	2.7 %	2	1.0 %	139	2.7 %	61.7 %	%	
Indiana	126	2.5 %	11	5.5 %	137	2.6 %	64.3 %	%	
Minnesota	122	2.4 %	3	1.5 %	125	2.4 %	66.7 %	%	
Louisiana	116	2.3 %	5	2.5 %	121	2.3 %	69.0 %	%	
Oklahoma	121	2.4 %	—	0.0 %	121	2.3 %	71.3 %	%	
Wisconsin	120	2.4 %	1	0.5 %	121	2.3 %	73.6 %	%	
Arkansas	110	2.2 %	2	1.0 %	112	2.1 %	75.7 %	%	
South Carolina	104	2.1 %	4	2.0 %	108	2.1 %	77.8 %	%	
Colorado	101	2.0 %	1	0.5 %	102	2.0 %	79.8 %	%	
Kentucky	88	1.8 %	7	3.5 %	95	1.7 %	81.5 %	%	
Kansas	84	1.7 %	1	0.5 %	85	1.6 %	83.1 %	%	
Mississippi	75	1.5 %	3	1.5 %	78	1.5 %	84.6 %	%	
Virginia	74	1.5 %	4	2.0 %	78	1.5 %	86.1 %	%	
Iowa	74	1.5 %	3	1.5 %	77	1.5 %	87.6 %	%	
Oregon	69	1.4 %	1	0.5 %	70	1.3 %	88.9 %	%	
Utah	61	1.2 %	3	1.5 %	64	1.2 %	90.1 %	%	
New Mexico	53	1.1 %	3	1.5 %	56	1.1 %	91.2 %	%	
Nevada	55	1.1 %	1	0.5 %	56	1.1 %	92.3 %	%	
Nebraska	43	1.0 %	2	1.0 %	45	0.9 %	93.2 %	%	
Idaho	42	0.9 %	2	1.0 %	44	0.8 %	94.0 %	%	
Massachusetts	32	0.6 %	7	3.5 %	39	0.7 %	94.7 %	%	
Maine	35	0.7 %	—	0.0 %	35	0.7 %	95.4 %	%	
New Hampshire	35	0.7 %	(3)	(1.5)%	32	0.6 %	96.0 %	%	
Montana	27	0.5 %	1	0.5 %	28	0.5 %	96.5 %	%	
Pennsylvania	17	0.3 %	7	3.5 %	24	0.5 %	97.0 %	%	
Vermont	24	0.5 %	—	0.0 %	24	0.5 %	97.5 %	%	
Wyoming	21	0.4 %	—	0.0 %	21	0.4 %	97.9 %	%	
Connecticut	12	0.2 %	8	4.0 %	20	0.4 %	98.3 %	%	
South Dakota	17	0.3 %	1	0.5 %	18	0.3 %	98.6 %	%	
Alaska	15	0.3 %	—	0.0 %	15	0.3 %	98.9 %	%	

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North Dakota	15	0.3	%	—	0.0	%	15	0.3	%	99.2	%
West Virginia	15	0.3	%	—	0.0	%	15	0.3	%	99.5	%
Hawaii	12	0.2	%	—	0.0	%	12	0.2	%	99.7	%
Rhode Island	5	0.1	%	3	1.5	%	8	0.2	%	99.9	%
New York	3	0.1	%	—	0.0	%	3	0.1	%	100.0	%
Total	5,019	100.0	%	200	100.0	%	5,219	100.0	%		

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Store Layout:

We utilize a computer-assisted store layout system to provide a uniform and consistent front room retail merchandise presentation and customize our hard-parts inventory assortment to meet the specific needs of each particular market area. Front room merchandise is arranged to provide easy customer access, maximum selling space and to prominently display high-turnover products and accessories to customers. To ensure the best customer experience possible, we have selectively implemented bilingual, in-store signage based on the demographics in each store's geographic area. Aisle displays and end caps are used to feature high-demand, seasonal merchandise, new items and advertised specials.

Store Automation:

To enhance store-level operations and provide consistently high levels of customer service, we operate exclusive store automation systems that deliver quick point-of-sale transaction processing times, reduce our customers' checkout time, ensure accuracy and provide our Professional Parts People with immediate access to our proprietary electronic parts catalog, part images, technical schematics and pricing information based on each individual customer's specific vehicle make, model and year. These systems track in-store inventory availability and, through connectivity with our DC and corporate systems, allow real-time access to inventory available in nearby stores and DCs throughout our network. Our systems also capture detailed sales information, which assists management in strategic planning, inventory control and distribution efficiency, and provide a mechanism to deliver ongoing Team Member training through our integrated digital learning platform.

Management Structure

Each of our stores is staffed with a store manager and one or more assistant managers, in addition to parts specialists, retail and/or installer service specialists and other positions required to meet the specific needs of each store. Each of our 518 district managers has general supervisory responsibility for an average of 10 stores, which provides our stores with a strong operational support.

Store and district managers complete a comprehensive training program to ensure each has a thorough understanding of customer service, leadership, inventory management and store profitability, as well as all other sales and operational aspects of our business model. Store and district managers are also required to complete a structured training program that is specific to their position, including attending a week-long manager development program at the corporate headquarters in Springfield, Missouri. Store and district managers also receive continuous training through online training, field workshops, regional meetings and our annual leadership conference.

We provide financial incentives to all store Team Members through incentive compensation programs. Under our incentive compensation programs, base salary is augmented by incentive compensation based on individual and store sales and profitability. In addition, each of our district managers participates in our stock option and bonus programs, and store managers participate in bonus programs based on their store's performance. We believe our incentive compensation programs significantly increase the motivation and overall performance of our store Team Members and enhance our ability to attract and retain qualified management and other personnel.

Professional Parts People

We believe our highly trained team of Professional Parts People is essential in providing superior customer service to both DIY and professional service provider customers. A significant portion of our business is from professional service provider customers; therefore, our Professional Parts People are required to be highly technically proficient in automotive products. In addition, we have found that the typical DIY customer often seeks assistance from Professional Parts People, particularly when purchasing hard parts. The ability of our Professional Parts People to provide such assistance to the DIY customer creates a favorable impression and is a significant factor in generating repeat DIY business.

We screen prospective Team Members to identify highly motivated individuals who either have experience with automotive parts or repairs, or automotive aptitude. New store Team Members go through a comprehensive orientation focused on the culture of our Company, as well as the requirements for their specific position. Additionally, during their first year of employment, our parts specialists go through extensive automotive systems and product knowledge training to ensure they are able to provide high levels of service to our customers. Once all of the required training has been satisfied, our parts specialists become eligible to take the O'Reilly Certified Parts Professional test. Passing the O'Reilly test helps prepare them to become certified by the National Institute for Automotive Service Excellence ("ASE").

All of our stores have the ability to service professional service provider customers. For this reason, select Team Members in each store complete extensive sales call training with a regional field sales manager. These Team Members then spend at least one day

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per week calling on existing and potential professional service provider customers. Additionally, each Team Member engaged in such sales activities participates in quarterly advanced training programs for sales and business development.

Distribution Systems

We believe that our tiered distribution model provides industry-leading parts availability and store in-stock positions, while lowering our inventory carrying costs by controlling the depth of our inventory. Moreover, we believe our ongoing, significant capital investments made in our DC network allow us to efficiently service new stores that are planned to open in contiguous market areas as well as servicing our existing store network. Our distribution expansion strategy complements our new store opening strategy by supporting newly established clusters of stores, and additional penetration into existing markets, in the regions surrounding each DC. As of December 31, 2018, we had a total growth capacity of more than 615 stores in our distribution center network, which will increase by approximately 275 stores with the completion of our Twinsburg, Ohio, DC in 2019. Further enhancing our distribution capabilities in 2020, we plan to relocate and merge our existing Nashville, Tennessee, and Knoxville, Tennessee, DCs into a larger facility located in Lebanon, Tennessee, providing a larger, more efficient facility to serve both markets, while also allowing us to convert the existing Knoxville, Tennessee, DC into a large Hub that will continue to provide same day parts availability in the attractive Knoxville market.

Distribution Centers:

As of December 31, 2018, we operated 27 DCs comprised of approximately 10.8 million operating square feet (see the "Properties" table in Item 2 of this annual report on Form 10-K for a detailed listing of DC operating square footages). Our DCs stock an average of 156,000 SKUs and most DCs are linked to and have the ability to access multiple other regional DCs' inventory. Our DCs provide five-night-a-week delivery, primarily via a Company-owned fleet, to all of our stores in the continental United States. In addition, stores within an individual DC's metropolitan area receive multiple daily deliveries from the DC's "city counter," many of which receive this service seven days per week. Our DCs provide weekend service to not only the stores they service via their city counters but also to strategic Hub locations, which redistribute products to surrounding stores. Our national Hub store network provides additional service throughout the week, and on weekends, to surrounding stores. With our planned DC expansion during 2019, we expect to end the year in 2019 operating 28 DCs comprised of approximately 11.2 million operating square feet.

As part of our continuing efforts to enhance our distribution network in 2019, we plan to

- continue to enhance our distribution network through the engineering, design, expansion or relocation of new or current DCs;
- continue to utilize routing software to continue to enhance logistics efficiencies;
- continue to implement labor management software to improve DC productivity and overall operating efficiency;
- continue to define and implement best practices in all DCs; and
- make proven, return-on-investment based capital enhancements to material handling equipment in DCs, including conveyor systems, picking modules, lift equipment and computer hardware.

Hub stores:

We currently operate a total of 342 strategically located Hub stores. In addition to serving DIY and professional service provider customers in their markets, Hub stores also provide delivery service to our other stores within the surrounding area and access to an expanded selection of SKUs on a same-day basis. Our Hub store network consists of 84 Super Hubs that average approximately 15,600 square feet and carry an average of 66,000 SKUs and 258 Hubs that average approximately 10,000 square feet and carry an average of 42,000 SKUs.

Products and Purchasing

Our stores offer DIY and professional service provider customers a wide selection of products for domestic and imported automobiles, vans and trucks. Our merchandise generally consists of nationally recognized, well-advertised, premium name brand products, such as AC Delco, Armor All, Bosch, Castrol, Dorman, Fel-Pro, Gates Rubber, Monroe, Moog, Pennzoil, Prestone, Quaker State, Standard, STP, Turtle Wax, Valvoline, Wagner, and Wix, and a wide selection of quality proprietary private label products, which span the entire good, better and best value spectrum, under our BestTest®, BrakeBest®, Import Direct®, MasterPro®, MicroGard®, Murray®, Omnispark®, O'Reilly Auto Parts®, Precision®, Power Torque®, Super Start®, and Ultima® brands. Our proprietary private label products are produced by nationally recognized manufacturers, meet or exceed original equipment manufacturer specifications and consist of house brands and nationally recognized proprietary brands, which we have acquired or developed over time. Our “good” proprietary brands provide a great combination of quality and value, a characteristic important to our DIY customers, while our “better” and “best” proprietary brands offer options for our more heavy-duty DIY customers, as well as our professional service provider customers, who often prefer higher quality products that can be relied upon to support and grow their businesses.

We have no long-term contracts with material purchase commitments with any of our suppliers, nor have we experienced difficulty in obtaining satisfactory alternative supply sources for automotive parts. We believe that alternative supply sources exist at competitive costs for substantially all of the automotive products that we sell. It is our policy to take advantage of payment and seasonal purchasing discounts offered by our suppliers and to utilize extended dating terms available from suppliers. We have entered into various programs and arrangements with certain suppliers that provided for extended dating and payment terms for inventory purchases. As a whole, we consider our relationships with our suppliers to be very good.

We purchase automotive products in substantial quantities from over 815 suppliers, the five largest of which accounted for approximately 24% of our total purchases in 2018. Our largest supplier in 2018 accounted for approximately 8% of our total purchases and the next four largest suppliers each accounted for approximately 3% to 5% of our total purchases.

Marketing

Marketing to the DIY Customer:

We use an integrated marketing program, which includes radio, in-store, digital and social media promotions, as well as sports and event sponsorships and direct mail and newspaper promotional distributions, to aggressively attract DIY customers. The marketing strategy we employ is highly effective and has led to a measurable increase in awareness of the O'Reilly Brand across our geographic footprint. We utilize a combination of brand, product and price messaging to drive retail traffic and purchases, which frequently coincide with key sales events. We also utilize a problem-resolution communication strategy, which encourages vehicle owners to perform regular maintenance on their vehicles, protecting their long-term automotive investment and establishing O'Reilly as their partner for auto parts needs.

To stimulate sales among racing enthusiasts, who we believe individually spend more on automotive products than the general public, we sponsored multiple nationally-televised races and over 700 grassroots, local and regional motorsports events throughout 45 states during 2018. We were the title sponsor of two National Association for Stock Car Racing (NASCAR) National series events, in 2018.

During the fall and winter months, we strategically sponsor National Collegiate Athletic Association ("NCAA") basketball. Our relationships with over 25 NCAA teams and tournaments have resulted in prominently displayed O'Reilly logos on TV-visible signs throughout the season.

We target Spanish-speaking auto parts customers through marketing efforts that include the use of Spanish language radio, print, and outdoor advertising, as well as sponsorships of local and regional festivals and events.

We invest in digital channels to expand the O'Reilly brand presence online and through mobile devices, as this continues to be an important point of contact with our customers. Search engine optimization and paid search strategies are used to drive traffic to our website, and popular social media platforms are used to provide excellent customer service through interaction and dialogue with our customers.

To show appreciation for our DIY customers for their continued business, we maintain our O'Reilly O'Rewards customer loyalty program. The program provides members with the opportunity to earn points through purchases and other special events and allows members to redeem those points for coupons, which provide discounts on future merchandise purchases in our stores. The programs allow us to reward our customers for their continued business, as well as enhance engagement with our customers to earn more of their business with targeted promotions tailored to their specific needs and purchasing patterns.

Marketing to the Professional Service Provider Customer:

We have approximately 790 full-time O'Reilly sales representatives strategically located across our market areas as part of our First Call program. Each sales representative is dedicated solely to calling upon, selling to and servicing our professional service provider customers. Targeted marketing materials such as flyers, quick reference guides and catalogs are produced and distributed on a regular basis to professional service providers, paint and body shops and fleet customers. Our industry-leading First Call program enables our sales representatives, district managers, and store managers to provide excellent customer service to each of our professional service provider customers by providing the products and services identified below:

- broad selection of merchandise at competitive prices;
- dedicated Professional Service Specialists in our stores;
- multiple, daily deliveries from our stores;
- same-day or overnight access to thousands of SKUs through seven days a week store inventory replenishments;
- separate service counter and phone line in our stores dedicated exclusively to service professional service provider customers;

trade credit for qualified accounts;

First Call Online, a dedicated proprietary Internet based catalog and ordering system designed specifically to connect professional service provider customers directly to our inventory system;

Mitchell 1 shop management systems;

training and seminars covering topics of interest, such as technical updates, safety and general business management;

access to a comprehensive inventory of products and equipment needed to operate and maintain their shop; and

Certified Auto Repair Center Program, a program that provides professional service provider customers with business tools they can utilize to profitably grow and market their shops.

Marketing to the Independently Owned Parts Store:

We also sell automotive products directly to independently owned parts stores (“jobber stores”) in certain market areas. These jobber stores are generally located in areas not directly serviced by an O’Reilly store. We administer a proprietary, dedicated and distinct marketing program specifically targeted to jobber stores called Parts City Auto Parts that currently provides automotive products to approximately 180 jobber stores, with total annual sales of approximately \$62 million. As a participant in this program, a jobber store, which meets certain financial and operational standards, is permitted to indicate its Parts City Auto Parts membership through the display of a trademarked logo owned by us. In return for a commitment to purchase automotive products from us, we provide computer software for business management, competitive pricing, advertising, marketing and sales assistance to Parts City Auto Parts affiliate stores.

Pricing

We believe that competitive pricing is essential to successfully operate in the automotive aftermarket business. Product pricing is generally established to compete with the pricing of competitors in the market area served by each store. Most products that we sell are priced based upon a combination of internal gross margin targets and competitive reviews, with additional savings offered on some items through special promotional pricing and volume discounts. Consistent with our low price guarantee, each of our stores will match any verifiable price on any in-stock, locally available product of the same or comparable quality offered by our competitors.

Customer Payments and Returns Policy

Our stores accept cash, checks, debit and credit cards. We also grant credit to many professional service provider customers who meet our pre-established credit requirements. Some of the factors considered in our pre-established credit requirements include customer creditworthiness, past transaction history with the customer and current economic and industry trends. No customer accounted for greater than one percent of our consolidated net sales, nor do we have any dependence on any single customer.

We accept product returns for new products, core products and warranty/defective products.

INDUSTRY ENVIRONMENT

The automotive aftermarket industry includes all products and services purchased for light and heavy-duty vehicles after the original sale. The total size of the automotive aftermarket is estimated to be approximately \$296 billion, according to The Auto Care Association. This market is made up of four segments: labor share of professional service provider sales, auto parts share of professional service provider sales, DIY sales and tire sales. O’Reilly’s addressable market within this industry is approximately \$93 billion, which includes the auto parts share of professional service provider sales at wholesale and DIY sales at retail. We do not sell tires or perform for-fee automotive repairs or installations.

Competition

The sale of automotive aftermarket items is highly competitive in many areas, including customer service, product availability, store location, brand recognition and price. We compete in both the DIY and professional service provider portions of the automotive aftermarket and are one of the largest specialty retailers within that market. We compete primarily with

- national retail and wholesale automotive parts chains (such as AutoZone, Inc., Advance Auto Parts, CARQUEST, NAPA and the Pep Boys - Manny, Moe and Jack, Inc.);
- regional retail and wholesale automotive parts chains;
- wholesalers or jobber stores (some of which are associated with national automotive parts distributors or associations such as NAPA, CARQUEST, Bumper to Bumper and Auto Value);
- automobile dealers; and

mass merchandisers and online retailers that carry automotive replacement parts, maintenance items and accessories (such as Wal-Mart Stores, Inc. and Amazon.com, Inc.).

We compete on the basis of customer service, which includes merchandise selection and availability, technical proficiency and helpfulness of store personnel, price, store layout, continually enhancing the omnichannel experience and convenient and accessible store locations. Our dual market strategy requires significant capital, such as the capital expenditures required for our distribution and store networks and working capital needed to maintain inventory levels necessary for providing products to both the DIY and professional service provider portions of the automotive aftermarket.

Inflation and Seasonality

We have been successful, in many cases, in reducing the effects of merchandise cost increases principally by taking advantage of supplier incentive programs, economies of scale resulting from increased volume of purchases and selective forward buying. To the extent our acquisition costs increase due to 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 our operations have been materially, adversely affected by inflation.

To some extent our business is seasonal, primarily as a result of the impact of weather conditions on customer buying patterns. Store sales, profits and inventory levels 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.

Regulations

We are subject to federal, state and local laws and governmental regulations relating to our business, including, but not limited to, those related to the handling, storage and disposal of hazardous substances, the recycling of batteries and used lubricants, and the ownership and operation of real property.

As part of our operations, we handle hazardous materials in the ordinary course of business and our customers may bring hazardous materials onto our property in connection with, for example, our oil and battery recycling programs. We currently provide a recycling program for batteries and the collection of used lubricants at certain stores as a service to our customers pursuant to agreements with third-party suppliers. The batteries and used lubricants are collected by our Team Members, deposited into supplier-provided containers and pallets, and then recycled by the third-party suppliers. In general, our agreements with such suppliers contain provisions that are designed to limit our potential liability under applicable environmental regulations for any damage or contamination, which may be caused by the batteries and lubricants to off-site properties (including as a result of waste disposal) and to our properties, when caused by the supplier.

Compliance with any such laws and regulations has not had a material adverse effect on our operations to date. However, we cannot give any assurance that we will not incur significant expenses in the future in order to comply with any such laws or regulations.

EXECUTIVE OFFICERS OF THE REGISTRANT

The following paragraphs discuss information about our executive officers:

Gregory D. Johnson, age 53, Chief Executive Officer and Co-President, has been an O'Reilly Team Member for 36 years, which includes continuous years of service with a company acquired by O'Reilly. Mr. Johnson's O'Reilly career began as a part-time Distribution Center Team Member and progressed through the roles of Retail Systems Manager, Warehouse Management Systems (WMS) Development Manager, Director of Distribution, Vice President of

Distribution Operations, Senior Vice President of Distribution Operations, and Executive Vice President of Supply Chain. Mr. Johnson has held the position of Co-President since February of 2017. Mr. Johnson was promoted to Chief Executive Officer and Co-President in May of 2018.

Jeff M. Shaw, age 56, Chief Operating Officer and Co-President, has been an O'Reilly Team Member for 30 years. Mr. Shaw's primary areas of responsibility are Store Operations, Sales, Distribution Operations, Real Estate, Jobber Sales and Acquisitions. Mr. Shaw's O'Reilly career began as a Parts Specialist and progressed through the roles of Store Manager, District Manager, Regional Manager, Vice President of the Southern Division, Vice President of Sales and Operations, Senior Vice President of Sales and Operations, and Executive Vice President of Store Operations and Sales. Mr. Shaw has held the position of Co-President since February of 2017. Mr. Shaw was promoted to Chief Operating Officer and Co-President in May of 2018.

Brad Beckham, age 40, Executive Vice President of Store Operations and Sales, has been an O'Reilly Team Member for 22 years. Mr. Beckham's primary areas of responsibility are Store Operations and Sales for O'Reilly's Store Operations. Mr. Beckham's

O'Reilly career began as a Parts Specialist and progressed through the roles of Store Manager, District Manager, Regional Manager, Divisional Vice President, Vice President of Eastern Store Operations and Sales, Senior Vice President of Eastern Store Operations and Sales, and Senior Vice President of Central Store Operations. Mr. Beckham has held the position of Executive Vice President of Store Operations and Sales since January of 2018.

Tom McFall, age 48, Executive Vice President and Chief Financial Officer, has been an O'Reilly Team Member for 12 years. Mr. McFall's primary areas of responsibility are Finance, Accounting, Information Technology, Legal, and Risk Management. Mr. McFall's career began with Ernst & Young LLP in Detroit, Michigan, where he achieved the position of Audit Manager, before accepting a position with Murray's Discount Auto Stores ("Murray's"). Mr. McFall served Murray's for eight years through the roles of Controller, Vice President of Finance, and Chief Financial Officer, with direct responsibility for finance, accounting, and distribution and logistics operations. After Murray's was acquired by CSK Auto Corporation ("CSK") in 2005, Mr. McFall held the position of Chief Financial Officer of Midwest Operation for CSK. In May of 2006, Mr. McFall joined O'Reilly as Senior Vice President of Finance and Chief Financial Officer. Mr. McFall has held the position of Executive Vice President and Chief Financial Officer since 2007.

Jonathan Andrews, age 51, Senior Vice President of Human Resources and Training, has been an O'Reilly Team Member for six years. Mr. Andrews's primary areas of responsibility are Human Resources and Training. Mr. Andrews has over 25 years of human resources experience. Mr. Andrews's career includes human resource positions with Cargill, Inc. and Tyson Foods, Inc. before accepting a position with AutoNation. Mr. Andrews served AutoNation for 10 years as Director of Human Resources and Senior Director of Human Resources. In 2012, Mr. Andrews joined O'Reilly as Vice President of Human Resources and progressed through the role of Vice President of Human Resources and Training. Mr. Andrews has held the position of Senior Vice President of Human Resources and Training since January of 2019.

Doug Bragg, age 49, Senior Vice President of Central Store Operations and Sales, has been an O'Reilly Team Member for 28 years. Mr. Bragg's primary areas of responsibility are Store Operations and Sales for O'Reilly Central Store Operations. Mr. Bragg's O'Reilly career began as a Distribution Center Team Member and progressed through the roles of Assistant Store Manager, Store Manager, District Manager, Regional Manager, and Divisional Vice President. Mr. Bragg has held the position of Senior Vice President of Central Store Operations since January of 2018.

Robert Dumas, age 45, Senior Vice President of Eastern Store Operations and Sales, has been an O'Reilly Team Member for 27 years, which includes continuous years of service with a company acquired by O'Reilly. Mr. Dumas's primary areas of responsibility are Store Operations and Sales for O'Reilly's Eastern Store Operations. Mr. Dumas's O'Reilly career began as a Parts Specialist and progressed through the roles of Installer Service Specialist, Night Manager, Associate Manager, Store Manager, District Manager, Regional Manager, and Divisional Vice President. Mr. Dumas has held the position of Senior Vice President of Eastern Store Operations and Sales since 2016.

Larry L. Ellis, age 63, Senior Vice President of Distribution Operations, has been an O'Reilly Team Member for 43 years, which includes continuous years of service with a company acquired by O'Reilly. Mr. Ellis's primary areas of responsibility are Distribution Operations and Logistics. Mr. Ellis's O'Reilly career began as a Distribution Center Team Member and progressed through the roles of Distribution Center Supervisor, Distribution Center Manager, Director of Distribution Operations, Vice President of Logistics, Vice President of Western Division Distribution Operations, and Vice President of Distribution Operations. Mr. Ellis has held the position of Senior Vice President of Distribution Operations since 2014.

Jeremy Fletcher, age 41, Senior Vice President of Finance and Controller, has been an O'Reilly Team Member for 13 years. Mr. Fletcher's primary area of responsibility is Finance. Mr. Fletcher's O'Reilly career began as the Financial Reporting and Budgeting Manager and progressed through the roles of Director of Finance, and Vice President of Finance and Controller. Prior to joining O'Reilly, Mr. Fletcher worked as a Certified Public Accountant with a public

accounting firm and in a financial reporting and planning role for a Fortune 1000 corporation. Mr. Fletcher has held the position of Senior Vice President of Finance and Controller since 2017.

Jeffrey L. Groves, age 53, Senior Vice President of Legal and General Counsel, has been an O'Reilly Team Member for 14 years. Mr. Groves's primary areas of responsibility are Corporate Governance, Regulatory Matters, and Internal Audit. Mr. Groves's O'Reilly career began as Director of Legal and Claim Services and progressed through the roles of Director of Legal and Claim Services and General Counsel and Vice President of Legal and Claim Services and General Counsel. Prior to joining O'Reilly, Mr. Groves worked in a private civil defense trial practice. Mr. Groves has held the position of Senior Vice President of Legal and General Counsel since 2016.

Brent Kirby, age 50, Senior Vice President of Omnichannel, has been an O'Reilly Team Member since July 2018. Mr. Kirby's primary areas of responsibility are Marketing, Advertising and Digital business areas while working cross functionally to deliver our Omnichannel strategy. Mr. Kirby has over 30 years of experience in the retail industry. Prior to joining O'Reilly, Mr. Kirby held the position of Chief Supply Chain Officer for Lowe's Companies, Inc. ("Lowe's"), with direct responsibility for leading the global supply

chain supporting Lowe's U.S.-based home improvement business. In this role, Mr. Kirby was responsible for team members across a diverse network of distribution centers, manufacturing facilities, direct-to-consumer parcel operations and last mile delivery operations. Mr. Kirby began his retail career as a hardware associate with Lowe's and progressed through various positions at the store, district and regional levels before being promoted to Senior Vice President of Store Operations and later Chief Omnichannel Officer. In July of 2018, Mr. Kirby joined O'Reilly as Senior Vice President of Omnichannel and has held this position since that time.

Scott Kraus, age 42, Senior Vice President of Real Estate and Expansion, has been an O'Reilly Team Member for 20 years. Mr. Kraus's primary areas of responsibility are Real Estate Expansion and Acquisitions. Mr. Kraus's O'Reilly career began as a Parts Specialist and progressed through the roles of Store Manager, District Manager, Regional Field Sales Manager, Regional Manager, Divisional Vice President, and Vice President of Real Estate. Mr. Kraus has held the position of Senior Vice President of Real Estate and Expansion since 2016.

Jeffrey A. Lauro, age 52, Senior Vice President of Information Technology, has been an O'Reilly Team Member since 2015. Mr. Lauro's primary area of responsibility is Information Technology. Mr. Lauro has over 30 years of information technology experience primarily in the retail industry. Prior to joining O'Reilly, Mr. Lauro held the position of Chief Information Officer for Payless ShoeSource ("Payless"), with direct responsibility for solution delivery, infrastructure and operations, and enterprise architecture. Prior to joining Payless, Mr. Lauro was the Vice President, Global Information Technology Service Delivery Director for The TJX Companies, Inc., with direct responsibility for global information technology service management, operations, implementation and disaster recovery. In 2015, Mr. Lauro joined O'Reilly as Senior Vice President of Information Technology and has held this position since that time.

Jason Tarrant, age 38, Senior Vice President of Western Store Operations and Sales, has been an O'Reilly Team Member for 17 years, which includes continuous years of service with a company acquired by O'Reilly. Mr. Tarrant's primary areas of responsibility are Store Operations and Sales for O'Reilly Western Store Operations. Mr. Tarrant's O'Reilly career began as a Parts Specialist, and progressed through the roles of Assistant Store Manager, Store Manager, District Manager, Regional Field Sales Manager, Regional Manager, and Divisional Vice President. Mr. Tarrant has held the position of Senior Vice President of Western Store Operations and Sales since January of 2018.

Darin Venosdel, age 48, Senior Vice President of Inventory Management, has been an O'Reilly Team Member for 21 years. Mr. Venosdel's primary areas of responsibility are Inventory Management, Purchasing, Logistics, and Store Design. Mr. Venosdel's O'Reilly career began as a Programmer/Analyst and progressed through the roles of Application Development Manager, Director of Application Development, Director of Inventory Management, and Vice President of Inventory Management. Mr. Venosdel has held the position of Senior Vice President of Inventory Management since January of 2018.

David Wilbanks, age 47, Senior Vice President of Merchandise, has been an O'Reilly Team Member for six years. Mr. Wilbanks's primary areas of responsibility are Merchandise and Pricing. Mr. Wilbanks has over 25 years of experience in the automotive aftermarket industry. Mr. Wilbanks's career began as a counter technician for an independent jobber and progressed to becoming an ASE Certified Master Technician for an automotive dealership, before accepting a position with AutoZone, Inc. ("AutoZone"). Mr. Wilbanks served AutoZone for twelve years as a financial analyst, Category Manager, and Director of Merchandise. In 2012, Mr. Wilbanks joined O'Reilly as Vice President of Merchandise and has held the position of Senior Vice President of Merchandise since 2016.

SERVICE MARKS AND TRADEMARKS

We have registered, acquired and/or been assigned the following service marks and trademarks in the United States: BESTEST®; BETTER PARTS. BETTER PRICES.®; BETTER PARTS, BETTER PRICES....EVERYDAY!®; BOND AUTO PARTS®; BRAKEBEST®; CERTIFIED AUTO REPAIR®; CUSTOMIZE YOUR RIDE®; CSK

PROSHOP®; DO IT RIGHT DEALS®; DO IT RIGHT REBATE®; FIRST CALL®; FROM OUR STORE TO YOUR DOOR®; IMPORT DIRECT®; MASTER PRO®; MASTER PRO REFINISHING®; MICROGARD®; MURRAY®; MURRAY'S AUTO PARTS®; MURRAY'S MASCOT® (Design only); O®; OMNISPARK®; O'REILLY®; O'REILLY AUTO COLOR PROFESSIONAL PAINT PEOPLE®; O'REILLY AUTO PARTS®; O'REILLY AUTO PARTS PROFESSIONAL PARTS PEOPLE®; O'REILLY AUTOMOTIVE®; O'REILLY O'REWARDS®; O'REILLY RACING®; O'REWARDS®; PARTNERSHIP NETWORK®; PARTS CITY®; PARTS CITY AUTO COLOR PROFESSIONAL PAINT PEOPLE®; PARTS CITY AUTO PARTS®; PARTS CITY TOOL BOX®; PARTS FOR YOUR CAR WHEREVER YOU ARE®; PARTS PAYOFF®; POWER TORQUE®; PRECISION®; PRECISION HUB ASSEMBLIES®; PRIORITY PARTS®; QUIETECH®; REAL WORLD TRAINING®; SERIOUS ABOUT YOUR CAR...SO ARE WE!®; SUPER START®; TOOLBOX®; ULTIMA®; and ULTIMA SELECT®. Some of the service marks and trademarks listed above may also have a design associated therewith. Each of the service marks and trademarks are in duration for as long as we continue to use and seek renewal of such marks. The above list includes only the trademarks and service marks that are currently and validly registered

with the United States Patent and Trademark Office. It does not include trademarks or service marks which may also be in use, but are not yet registered. We believe that our business is not otherwise dependent upon any patent, trademark, service mark or copyright.

Solely for convenience, our service marks and trademarks may appear in this report without the ® or ™ symbol, which is not intended to indicate that we will not assert, to the fullest extent under applicable law, our rights or the right to these service marks and trademarks.

AVAILABLE INFORMATION

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 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 by contacting Mark Merz, Vice President of Investor Relations, Financial Reporting and Planning, at 233 South Patterson Avenue, Springfield, Missouri, 65802.

Item 1A. Risk Factors

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

Our future performance is subject to a variety of risks and uncertainties. Although the risks described below are the risks that we believe are material, there may also be risks of which we are currently unaware, or that we currently regard as immaterial based upon the information available to us that later may prove to be material. Interested parties should be aware that the occurrence of the events described in these risk factors, elsewhere in this Form 10-K and in our other filings with the Securities and Exchange Commission could have a material adverse effect on our business, operating results and financial condition. Actual results, therefore, may materially differ from anticipated results described in our forward-looking statements.

Deteriorating economic conditions may adversely impact demand for our products, reduce access to credit and cause our customers and others, with which we do business, to suffer financial hardship, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Although demand for many of our products is primarily non-discretionary in nature and tend to be purchased by consumers out of necessity, rather than on an impulse basis, our sales are impacted by constraints on the economic health of our customers. The economic health of our customers is affected by many factors, including, among others, general business conditions, interest rates, inflation, consumer debt levels, the availability of consumer credit, currency exchange rates, taxation, fuel prices, unemployment levels and other matters that influence consumer confidence and spending. Many of these factors are outside of our control. Our customers' purchases, including purchases of our products, could decline during periods when income is lower, when prices increase in response to rising costs, or in periods of actual or perceived unfavorable economic conditions or political uncertainty. In addition, restrictions on access to telematics, diagnostic tools and repair information imposed by the original vehicle manufacturers or by governmental regulations may force vehicle owners to rely on dealers to perform maintenance and repairs. If any of these events occur, or if unfavorable economic conditions challenge the consumer environment, our business, results of operations, financial condition and cash flows could be adversely affected.

Overall demand for products sold in the automotive aftermarket is dependent upon many factors including the total number of vehicle miles driven in the U.S., the total number of registered vehicles in the U.S., the age and quality of these registered vehicles and the level of unemployment in the U.S. Adverse changes in these factors could lead to a decreased level of demand for our products, which could negatively impact our business, results of operations,

financial condition and cash flows.

In addition, economic conditions, including decreased access to credit, may result in financial difficulties leading to restructurings, bankruptcies, liquidations and other unfavorable events for our customers, suppliers, logistics and other service providers and financial institutions that are counterparties to our credit facilities. Furthermore, the ability of these third parties to overcome these difficulties may increase. If third parties, on whom we rely for merchandise, are unable to overcome difficulties resulting from the deterioration in economic conditions and provide us with the merchandise we need, or if counterparties to our credit facilities do not perform their obligations, our business, results of operations, financial condition and cash flows could be adversely affected.

The automotive aftermarket business is highly competitive, and we may have to risk our capital to remain competitive, all of which could adversely impact our business, results of operations, financial condition and cash flows.

Both the do-it-yourself (“DIY”) and professional service provider portions of our business are highly competitive, particularly in the more densely populated areas that we serve. Some of our competitors are larger than we are and have greater financial resources. In addition, some of our competitors are smaller than we are, but have a greater presence than we do in a particular market. Online and mobile platforms may allow customers to quickly compare prices and product assortments between us and a range of competitors, which

could result in pricing pressure. Some online competitors may have a lower cost structure than we do, as a result of our strategy of providing an exceptional in-store experience and superior parts availability supported by our extensive store network and robust, regional distribution footprint, which could also create pricing pressure. We may have to expend more resources and risk additional capital to remain competitive, and our results of operations, financial condition and cash flows could be adversely affected. For a list of our principal competitors, see the “Competition” section of Item 1 of this annual report on Form 10-K.

We are sensitive to regional economic and weather conditions that could impact our costs and sales. Our business is sensitive to national and regional economic and weather conditions, and natural disasters. Unusually inclement weather, such as significant rain, snow, sleet, freezing rain, flooding, seismic activity and hurricanes, has historically discouraged our customers from visiting our stores during the affected period and reduced our sales, particularly to DIY customers. Extreme weather conditions, such as extreme heat and extreme cold temperatures, may enhance demand for our products due to increased failure rates of our customers’ automotive parts, while temperate weather conditions may have a lesser impact on failure rates of automotive parts. In addition, our stores and distribution centers (“DCs”) located in coastal regions may be subject to increased insurance claims resulting from regional weather conditions and our results of operations, financial condition and cash flows could be adversely affected.

We cannot assure future growth will be achieved.

We believe that our ability to open additional, profitable stores at a high growth rate will be a significant factor in achieving our growth objectives for the future. Our ability to accomplish our growth objectives is dependent, in part, on matters beyond our control, such as weather conditions, zoning, and other issues related to new store site development, the availability of qualified management personnel and general business and economic conditions. We cannot be sure that our growth plans for 2019 and beyond will be achieved. Failure to achieve our growth objectives may negatively impact the trading price of our common stock. For a discussion of our growth strategies, see the “Growth Strategy” section of Item 1 of this annual report on Form 10-K.

In order to be successful, we will need to retain and motivate key employees.

Our success has been largely dependent on the efforts of certain key personnel. In order to be successful, we will need to retain and motivate executives and other key employees. Experienced management and technical personnel are in high demand and competition for their talents is intense. We must also continue to motivate employees and keep them focused on our strategies and goals. Our business, results of operations and cash flows could be materially adversely affected by the unexpected loss of the services of one or more of our key employees. We cannot be sure that we will be able to continue to attract qualified personnel, which could cause us to be less efficient and, as a result, may adversely impact our sales and profitability. For a discussion of our management, see the “Business” section of Item 1 of this annual report on Form 10-K.

A change in the relationship with any of our key suppliers, the unavailability of our key products at competitive prices or changes in trade policies could affect our financial health.

Our business depends on developing and maintaining close relationships with our suppliers and on our suppliers’ ability or willingness to sell quality products to us at favorable prices and terms. Many factors outside of our control may harm these relationships and the ability or willingness of these suppliers to sell us products on favorable terms. For example, financial or operational difficulties that our suppliers may face could increase the cost of the products we purchase from them or our ability to source products from them. In addition, the trend toward consolidation among automotive parts suppliers, as well as the off-shoring of manufacturing capacity to foreign countries, may disrupt or end our relationship with some suppliers and could lead to less competition and result in higher prices. We could also be negatively impacted by suppliers who might experience work stoppages, labor strikes or other interruptions to, or difficulties in the, manufacture or supply of the products we purchase from them. Changes in U.S. trade policies, practices, tariffs or taxes could affect our ability and our suppliers’ ability to source product at current volumes and/or prices.

Risks associated with future acquisitions may not lead to expected growth and could result in increased costs and inefficiencies.

We expect to continue to make acquisitions as an element of our growth strategy. Acquisitions involve certain risks that could cause our actual growth and profitability to differ from our expectations, examples of such risks include the following:

- We may not be able to continue to identify suitable acquisition targets or to acquire additional companies at favorable prices or on other favorable terms.

- Our management's attention may be distracted.

- We may fail to retain key personnel from acquired businesses.

- We may assume unanticipated legal liabilities and other problems.

- We may not be able to successfully integrate the operations (accounting and billing functions, for example) of businesses we acquire to realize economic, operational and other benefits.

- We may fail, or be unable to, discover liabilities of businesses that we acquire for which we or the subsequent owner or operator may be liable.

Business interruptions in our distribution centers or other facilities may affect our store hours, operability of our computer systems, and/or availability and distribution of merchandise, which may affect our business.

Weather, terrorist activities, war or other disasters, or the threat of them, may result in the closure of one or more of our DCs or other facilities, or may adversely affect our ability to deliver inventory to our stores on a nightly basis. This may affect our ability to timely provide products to our customers, resulting in lost sales or a potential loss of customer loyalty. Some of our merchandise is imported from other countries and these goods could become difficult or impossible to bring into the United States, and we may not be able to obtain such merchandise from other sources at similar prices. Such a disruption in revenue could potentially have a negative impact on our results of operations, financial condition and cash flows.

We rely extensively on our computer systems to manage inventory, process transactions and timely provide products to our customers. Our systems are subject to damage or interruption from power outages, telecommunications failures, computer viruses, security breaches or other catastrophic events. If our systems are damaged or fail to function properly, we may experience loss of critical data and interruptions or delays in our ability to manage inventories or process customer transactions. Such a disruption of our systems could negatively impact revenue and potentially have a negative impact on our results of operations, financial condition and cash flows.

Failure to achieve and maintain a high level of product and service quality may reduce our brand value and negatively impact our business.

We believe our Company has built an excellent reputation as a leading retailer in the automotive aftermarket industry. We believe our continued success depends, in part, on our ability to preserve, grow and leverage the value of our brand. Brand value is based, in large part, on perceptions of subjective qualities and even isolated incidents can erode trust and confidence, particularly if they result in adverse publicity, governmental investigations or litigation, which can negatively impact these perceptions and lead to adverse effects on our business or Team Members.

Risks related to us and unanticipated fluctuations in our quarterly operating results could affect our stock price. We believe that quarter-to-quarter comparisons of our financial results are not necessarily meaningful indicators of our future operating results and should not be relied on as an indication of future performance. If our quarterly operating results fail to meet the expectations of analysts, the trading price of our common stock could be negatively affected. We cannot be certain that our growth plans and business strategies will be successful or that they will successfully meet the expectations of these analysts. If we fail to adequately address any of these risks or difficulties, our stock price would likely suffer.

The market price of our common stock may be volatile and could expose us to securities class action litigation. The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions. The market price of our common stock may also be affected by our ability to meet analysts' expectations and failure to meet such expectations, even slightly, could have an adverse effect on the market price of our common stock.

In addition, stock market volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to the operating performance of these companies. Downturns in the stock market may cause the price of our common stock to decline. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against such companies. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Our increased debt levels could adversely affect our cash flow and prevent us from fulfilling our obligations. We have an unsecured revolving credit facility and unsecured senior notes, which could have important consequences to our financial health. For example, our level of indebtedness could, among other things,

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make it more difficult to satisfy our financial obligations, including those relating to the senior unsecured notes and our credit facility;

- increase our vulnerability to adverse economic and industry conditions;
- limit our flexibility in planning for, or reacting to, changes and opportunities in our industry, which may place us at a competitive disadvantage;
- require us to dedicate a substantial portion of our cash flows to service the principal and interest on the debt, reducing the funds available for other business purposes, such as working capital, capital expenditures or other cash requirements;
- limit our ability to incur additional debt with acceptable terms, if at all; and
- expose us to fluctuations in interest rates, including changes that may result from the implementation of new benchmark rates that replace LIBOR.

In addition, the terms of our financing obligations include restrictions, such as affirmative, negative and financial covenants, conditions on borrowing and subsidiary guarantees. A failure to comply with these restrictions could result in a default under our financing obligations

or could require us to obtain waivers from our lenders for failure to comply with these restrictions. The occurrence of a default that remains uncured or the inability to secure a necessary consent or waiver could have a material adverse effect on our business, financial condition, results of operations and cash flows.

A downgrade in our credit rating would impact our cost of capital and could impact the market value of our unsecured senior notes, as well as limit our access to attractive supplier financing programs.

Credit ratings are an important component of our cost of capital. These ratings are based upon, among other factors, our financial strength. Our current credit ratings provide us with the ability to borrow funds at favorable rates. A downgrade in our current credit rating from either rating agency could adversely affect our cost of capital by causing us to pay a higher interest rate on borrowed funds under our unsecured revolving credit facility and a higher facility fee on commitments under our unsecured revolving credit facility. A downgrade in our current credit rating could also adversely affect the market price and/or liquidity of our unsecured senior notes, preventing a holder from selling the unsecured senior notes at a favorable price, as well as adversely affect our ability to issue new notes in the future. In addition, a downgrade in our current credit rating could limit the financial institutions willing to commit funds to our supplier financing programs at attractive rates. Decreased participation in our supplier financing programs would lead to an increase in working capital needed to operate the business, adversely affecting our cash flows.

A breach of customer, supplier, Team Member or Company information could damage our reputation or result in substantial additional costs or possible litigation.

Our business involves the storage of information about our customers, suppliers, Team Members and the Company, some of which is entrusted to third-party service providers and vendors. We and our third-party service providers and vendors have taken reasonable and appropriate steps to protect this information; however, these security measures may be breached due to cyber-attacks, Team Member error, system compromises, fraud, hacking or other intentional or unintentional acts, which could result in unauthorized parties gaining access to such information. The methods used to obtain unauthorized access are constantly evolving, and may be difficult to anticipate or detect for long periods of time. If we experience a significant data security breach, we could be exposed to damage to our reputation, additional costs, lost sales or possible regulatory action. In addition, the regulatory environment related to information security and privacy is constantly evolving and compliance with those requirements could result in additional costs. There is no guarantee that the procedures that we and our third-party service providers and vendors have implemented to protect against unauthorized access to secured data are adequate to safeguard against all data security breaches, and such a breach could potentially have a negative impact on our results of operations, financial condition and cash flows.

Litigation, governmental proceedings, environmental legislation and regulations and employment legislation and regulations may affect our business, financial condition, results of operations and cash flows.

We are, and in the future may become, involved in lawsuits, regulatory inquiries, and governmental and other legal proceedings, arising out of the ordinary course of our business. The damages sought against us in some of these litigation proceedings may be material and may adversely affect our business, results of operations, financial condition and cash flows.

Environmental legislation and regulations, like the initiatives to limit greenhouse gas emissions and bills related to climate change, could adversely impact all industries. While it is uncertain whether these initiatives will become law, additional climate change related mandates could potentially be forthcoming and these matters, if enacted, could adversely impact our costs, by, among other things, increasing fuel prices.

Our business is subject to employment legislation and regulations, including requirements related to minimum wage. Our success depends, in part, on our ability to manage operating costs and identify opportunities to reduce costs. Our ability to meet labor needs, while controlling costs is subject to external factors, such as minimum wage legislation. A violation of, or change in, employment legislation and/or regulations could hinder our ability to control costs, which could have a material adverse effect on our business, results of operations, financial condition and cash flows.

The enactment of legislation implementing changes in the taxation of business activities, the adoption of other corporate tax reform policies, or changes in tax legislation or policies may affect our business, financial condition, results of operations and cash flows.

The Company is subject to taxation in the U.S. In December 2017, comprehensive tax legislation, commonly referred to as the U.S. Tax Cuts and Jobs Act (the "Tax Act"), was enacted and the changes included in the Tax Act are broad and complex. As tax laws and related regulations and interpretations change, our financial condition, results of operations and cash flows could be materially impacted.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

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

Distribution centers, stores, and other properties

As of December 31, 2018, we operated 27 regional distribution centers (“DC”s), of which eight were leased (2.8 million operating square footage) and 19 were owned (8.1 million operating square footage) for total DC operating square footage of 10.8 million square feet. The following table provides information regarding our DCs, returns facility and corporate offices as of December 31, 2018:

Location	Principal Use(s)	Operating Square Footage ⁽¹⁾	Nature of Occupancy	Lease Term Expiration
Aurora, CO	Distribution Center	321,242	Owned	
Belleville, MI	Distribution Center	333,262	Leased	2/28/2025
Billings, MT	Distribution Center	129,142	Leased	1/31/2031
Brooklyn Park, MN	Distribution Center	324,668	Owned	
Brownsburg, IN	Distribution Center	657,603	Owned	
Des Moines, IA	Distribution Center	253,886	Owned	
Devens, MA	Distribution Center	511,261	Owned	
Forest Park, GA	Distribution Center	492,350	Leased	10/31/2024
Greensboro, NC	Distribution Center	685,230	Owned	
Houston, TX	Distribution Center	532,615	Owned	
Kansas City, MO	Distribution Center	299,018	Owned	
Knoxville, TN	Distribution Center (to be relocated in 2020)	150,766	Owned	
Lakeland, FL	Distribution Center	569,419	Owned	
Lebanon, TN	Distribution Center (to open in 2020)	410,000	Owned	
Lubbock, TX	Distribution Center	276,896	Owned	
Moreno Valley, CA	Distribution Center	547,478	Owned	
Naperville, IL	Distribution Center	499,471	Owned	
Nashville, TN	Distribution Center (to be relocated in 2020)	315,977	Leased	12/31/2023
North Little Rock, AR	Distribution Center	122,969	Leased	3/31/2022
Oklahoma City, OK	Distribution Center	320,667	Owned	
Phoenix, AZ	Distribution Center	383,570	Leased	6/30/2025
Puyallup, WA	Distribution Center	533,790	Owned	
Salt Lake City, UT	Distribution Center	294,932	Owned	
Saraland, AL	Distribution Center	301,068	Leased	12/31/2022
Seagoville, TX	Distribution Center	442,000	Owned	
Selma, TX	Distribution Center	552,703	Owned	
Springfield, MO	Distribution Center	266,306	Owned	
Stockton, CA	Distribution Center	720,836	Leased	6/30/2035
Twinsburg, OH	Distribution Center (to open in 2019)	405,000	Owned	
Springfield, MO	Bulk Facility	35,200	Owned	
Springfield, MO	Return/Deconsolidation Facility, Corporate Offices	290,580	Owned	
Phoenix, AZ	Corporate Offices	12,327	Leased	11/30/2022
Springfield, MO	Corporate Offices	224,818	Owned	

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Springfield, MO	Corporate Offices	46,970	Leased	8/31/2024
Springfield, MO	Corporate Offices, Training and Technical Center	22,000	Owned	
		12,286,020		

(1) Includes floor and mezzanine operating square footage, excludes subleased square footage.

The leased distribution facilities typically require a fixed base rent, payment of certain tax, insurance and maintenance expenses and have an original term of, at a minimum, 20 years, subject to one five-year renewal at our option.

Of the 5,219 stores that we operated at December 31, 2018, 2,119 stores were owned, 3,026 stores were leased from unaffiliated parties and 74 stores were leased from entities that include one or more of our affiliated directors or members of their immediate family. Leases with unaffiliated parties generally provide for payment of a fixed base rent, payment of certain tax, insurance and maintenance expenses and an original term of, at a minimum, 10 years, subject to one or more renewals at our option. We have entered into separate master lease agreements with each of the affiliated entities for the occupancy of the stores covered thereby. Such master lease agreements with one of the seven affiliated entities have been modified to extend the term of the lease agreement for specific stores. The master lease agreements or modifications thereto expire on dates ranging from April 30, 2019, to September 30, 2031. We believe that the lease agreements with the affiliated entities are on terms comparable to those obtainable from third parties.

We believe that our present facilities are in good condition, are adequately insured and are adequate for the conduct of our current operations. The store servicing capability of our 27 existing DCs is approximately 5,835 stores, providing a growth capacity of more than 615 stores, which will increase by approximately 275 stores with the completion of our Twinsburg, Ohio, DC in 2019. We believe the growth capacity in our 27 existing DCs, along with the additional capacity of our new Twinsburg, Ohio, DC will provide us with the DC infrastructure needed for near-term expansion. However, as we expand our geographic footprint, we will continue to evaluate our existing distribution system infrastructure and will adjust our distribution system capacity as needed to support our future growth.

Item 3. Legal Proceedings

O'Reilly is currently involved in litigation incidental to the ordinary conduct of the Company's business. The Company accrues 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 accrues 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 accruals, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market For Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Common stock:

Shares of O’Reilly Automotive, Inc. (the “Company”) common stock are traded on The NASDAQ Global Select Market (“Nasdaq”) under the symbol “ORLY.” The Company’s common stock began trading on April 22, 1993; no cash dividends have been declared since that time, and the Company does not anticipate paying any cash dividends in the foreseeable future.

As of February 14, 2019, the Company had approximately 351,000 shareholders of common stock based on the number of holders of record and an estimate of individual participants represented by security position listings.

Sales of unregistered securities:

There were no sales of unregistered securities during the year ended December 31, 2018.

Issuer purchases of equity securities:

The following table identifies all repurchases during the fourth quarter ended December 31, 2018, of any of the Company’s securities registered under Section 12 of the Securities Exchange Act of 1934, as amended, by or on behalf of the Company or any affiliated purchaser (in thousands, except per share data):

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 that May Yet Be Purchased Under the Programs ⁽¹⁾
October 1, 2018, to October 31, 2018	277	\$338.34	277	\$ 370,701
November 1, 2018, to November 30, 2018	472	339.35	472	1,210,365
December 1, 2018, to December 31, 2018	617	338.84	617	\$ 1,001,436
Total as of December 31, 2018	1,366	\$338.92	1,366	

⁽¹⁾ Under the Company’s share repurchase program, as approved by its Board of Directors on January 11, 2011, 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 not to exceed a dollar limit authorized by the Board of Directors. The Company’s 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 7, 2018, and November 13, 2018, the Company’s Board of Directors each time approved a resolution to increase the authorization amount under the share repurchase program by an additional \$1.0 billion, resulting in a cumulative authorization amount of \$11.8 billion. Each additional authorization is effective for a three-year period, beginning on its respective announcement date. The authorization under the share repurchase program that currently has capacity is scheduled to expire on November 13, 2021. No other share repurchase programs existed during the twelve months ended December 31, 2018.

The Company repurchased a total of 6.1 million shares of its common stock under its publicly announced share repurchase program during the year ended December 31, 2018, at an average price per share of \$282.80, for a total investment of \$1.7 billion. Subsequent to the end of the year and through February 27, 2019, the Company repurchased an additional 0.8 million shares of its common stock, at an average price per share of \$342.95, for a total

investment of \$268.9 million. The Company has repurchased a total of 73.1 million shares of its common stock under its share repurchase program since the inception of the program in January of 2011 and through February 27, 2019, at an average price of \$150.73, for a total aggregate investment of \$11.0 billion.

Stock performance graph:

The graph below shows the cumulative total shareholder return assuming the investment of \$100, on December 31, 2013, and the reinvestment of dividends thereafter, if any, in the Company's common stock versus the Standard and Poor's S&P 500 Retail Index ("S&P 500 Retail Index") and the Standard and Poor's S&P 500 Index ("S&P 500").

Company/Index	December 31,					
	2013	2014	2015	2016	2017	2018
O'Reilly Automotive, Inc.	\$100	\$150	\$197	\$216	\$187	\$268
S&P 500 Retail Index	100	110	137	143	184	208
S&P 500	\$100	\$111	\$111	\$121	\$145	\$136

Item 6. Selected Financial Data

The table below compares O'Reilly Automotive, Inc.'s (the "Company") selected financial data over a ten-year period.

Years ended December 31, (In thousands, except per share, Team Members, stores and ratio data)	2018	2017	2016	2015	2014	2013	2012	2011	2010
INCOME STATEMENT DATA:									
Sales (\$)	9,536,428	8,977,726	8,593,096	7,966,674	7,216,081	6,649,237	6,182,184	5,788,816	5,397,520
Cost of goods sold, including warehouse and distribution expenses	4,496,462	4,257,043	4,084,085	3,804,031	3,507,180	3,280,236	3,084,766	2,951,467	2,776,530
Gross profit	5,039,966	4,720,683	4,509,011	4,162,643	3,708,901	3,369,001	3,097,418	2,837,349	2,620,990
Selling, general and administrative expenses	3,224,782	2,995,283	2,809,805	2,648,622	2,438,527	2,265,516	2,120,025	1,973,381	1,887,310
Former CSK officer clawback	—	—	—	—	—	—	—	(2,798)	—
Legacy CSK Department of Justice investigation charge	—	—	—	—	—	—	—	—	20,900
Operating income	1,815,184	1,725,400	1,699,206	1,514,021	1,270,374	1,103,485	977,393	866,766	712,776
Write-off of asset-based revolving credit agreement debt issuance costs	—	—	—	—	—	—	—	(21,626)	—
Termination of interest rate swap agreements	—	—	—	—	—	—	—	(4,237)	—
Gain on settlement of note receivable	—	—	—	—	—	—	—	—	11,639
Other income (expense), net	(121,097)	(87,596)	(62,015)	(53,655)	(48,192)	(44,543)	(35,872)	(25,130)	(35,042)
Total other income (expense)	(121,097)	(87,596)	(62,015)	(53,655)	(48,192)	(44,543)	(35,872)	(50,993)	(23,403)
Income before income taxes	1,694,087	1,637,804	1,637,191	1,460,366	1,222,182	1,058,942	941,521	815,773	689,373
Provision for income taxes	369,600	504,000	599,500	529,150	444,000	388,650	355,775	308,100	270,000

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(a)(b) Net income (\$)	1,324,487	1,133,804	1,037,691	931,216	778,182	670,292	585,746	507,673	419,373
(a)(b) Basic earnings per common share:									
Earnings per share – basic (\$)	16.27	12.82	10.87	9.32	7.46	6.14	4.83	3.77	3.02
Weighted-average common shares outstanding – basic	81,406	88,426	95,447	99,965	104,262	109,244	121,182	134,667	138,654
Earnings per common share -assuming dilution: (a)(b)									
Earnings per share – assuming dilution (\$)	16.10	12.67	10.73	9.17	7.34	6.03	4.75	3.71	2.95
Weighted-average common shares outstanding – assuming dilution	82,280	89,502	96,720	101,514	106,041	111,101	123,314	136,983	141,992
SELECTED OPERATING DATA:									
Number of Team Members at year end	78,882	75,552	74,580	71,621	67,569	61,909	53,063	49,324	46,858
Number of stores at year end (c)	5,219	5,019	4,829	4,571	4,366	4,166	3,976	3,740	3,570
Total store square footage at year end (d)	38,455	36,685	35,123	33,148	31,591	30,077	28,628	26,530	25,315
Sales per weighted-average store (e)(\$)	1,842	1,807	1,826	1,769	1,678	1,614	1,590	1,566	1,527
Sales per weighted-average square foot (d)(f)(\$)	251	248	251	244	232	224	224	221	216
Percentage increase in comparable store sales (g)	3.8	% 1.4	% 4.8	% 7.5	% 6.0	% 4.6	% 3.5	% 4.6	% 8.8

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Years ended December 31, (In thousands, except per share, Team Members, stores and ratio data)	2018	2017	2016	2015	2014	2013	2012	2011	2010	2009
SELECT BALANCE SHEET AND CASH FLOW DATA: Working capital (h)(\$)	(350,918)	(249,694)	(142,674)	(36,372)	252,082	430,832	478,093	1,028,330	1,029,861	940,000
Total assets (h)(\$)	7,980,789	7,571,885	7,404,189	6,676,684	6,532,083	6,057,895	5,741,241	5,494,174	5,031,950	4,740,000
Inventory turnover (i)	1.4	1.4	1.5	1.5	1.4	1.4	1.4	1.5	1.4	1.4
Accounts payable to inventory (j)	105.7	% 106.0	% 105.7	% 99.1	% 94.6	% 86.6	% 84.7	% 64.4	% 44.3	% 44.3
Current portion of long-term debt and short-term debt (\$)	—	—	—	—	25	67	222	662	1,431	1,431
Long-term debt, less current portion (h)(\$)	3,417,122	2,978,390	1,887,019	1,390,018	1,388,397	1,386,828	1,087,789	790,585	357,273	600,000
Shareholders' equity (\$) (a)	353,667	653,046	1,627,136	1,961,314	2,018,418	1,966,321	2,108,307	2,844,851	3,209,685	2,800,000
Cash provided by operating activities (k) (\$)	1,727,555	1,403,687	1,510,713	1,345,488	1,190,430	908,026	1,251,555	1,118,991	703,687	200,000
Capital expenditures (\$)	504,268	465,940	476,344	414,020	429,987	395,881	300,719	328,319	365,419	400,000
Free cash flow (k)(l)(\$)	1,188,584	889,059	978,375	868,390	760,443	512,145	950,836	790,672	338,268	0

(a)

During the year ended December 31, 2017, the Company adopted a new accounting standard that requires excess tax benefits related to share-based compensation payments to be recorded through the income statement. In compliance with the standard, the Company did not restate prior period amounts to conform to current period presentation. The Company recorded a cumulative effect adjustment to opening retained earnings, due to the adoption of the new accounting standard. See Note 1 “Summary of Significant Accounting Policies” to the Consolidated Financial Statements of the annual report on Form 10-K for the year ended December 31, 2017, for more information.

(b) Following the enactment of the U.S. Tax Cuts and Jobs Act in December of 2017, the Company revalued its deferred income tax liabilities, which resulted in a one-time benefit to the Company’s Consolidated Statement of Income for the year ended December 31, 2018 and 2017. See Note 13 “Income Taxes” to the Consolidated Financial Statements of this annual report on Form 10-K for more information.

(c) In 2008, 2012 and 2016, the Company acquired CSK Auto Corporation (“CSK”), materially all assets of VIP Parts, Tires & Service (“VIP”) and Bond Auto Parts (“Bond”), respectively. The 2008 CSK acquisition added 1,342 stores, the 2012 VIP acquisition added 56 stores and the 2016 Bond acquisition added 48 stores to the O’Reilly store count. After the close of business on December 31, 2018, the Company acquired substantially all of the non-real estate assets of Bennett Auto Supply, Inc., including 33 stores that were not included in the 2018 store count and were not operated by the Company in 2018. Financial results for these acquired companies have been included in the Company’s consolidated financial statements from the dates of the acquisitions forward.

(d) Total square footage includes normal selling, office, stockroom and receiving space.

(e) Sales per weighted-average store are weighted to consider the approximate dates of store openings, acquisitions or closures.

(f) Sales per weighted-average square foot are weighted to consider the approximate dates of store openings, acquisitions, expansions or closures.

(g) Comparable store sales are calculated based on the change in sales of stores open at least one year and excludes sales of specialty machinery, sales to independent parts stores, sales to Team Members, sales from Leap Day during the years ended December 31, 2016 and 2012, and sales during the one to two week period certain CSK branded stores were closed for conversion. Online sales, resulting from ship-to-home orders and pick-up-in-store orders, for stores open at least one year, are included in the comparable store sales calculation.

(h) Certain prior period amounts have been reclassified to conform to current period presentation, due to the Company’s adoption of new accounting standards during the fourth quarter ended December 31, 2015. See Note 1 “Summary of Significant Accounting Policies” to the Consolidated Financial Statements of the annual report on Form 10-K for the year ended December 31, 2015.

(i) Inventory turnover is calculated as cost of goods sold for the last 12 months divided by average inventory. Average inventory is calculated as the average of inventory for the trailing four quarters used in determining the denominator.

(j) Accounts payable to inventory is calculated as accounts payable divided by inventory.

(k) Certain prior period amounts have been reclassified to conform to current period presentation, due to the Company’s adoption of a new accounting standard during the first quarter ended March 31, 2017. See Note 1 “Summary of Significant Accounting Policies” to the Consolidated Financial Statements of the annual report on Form 10-K for the year ended December 31, 2017, for more information.

(l) Free cash flow is calculated as net cash provided by operating activities less capital expenditures and excess tax benefit from share-based compensation payments for the period.

Item 7. 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;
- key events and recent developments within our company;
- our results of operations for the years ended December 31, 2018, 2017 and 2016;
- our liquidity and capital resources;
- any contractual obligations, to which we are committed;
- any off-balance sheet arrangements we utilize;
- our critical accounting estimates;
- the inflation and seasonality of our business;
- our quarterly results for the years ended December 31, 2018, and 2017; and
- recent accounting pronouncements that may affect our Company.

The review of Management’s Discussion and Analysis should be made in conjunction with our consolidated financial statements, related notes and other financial information, forward-looking statements and other risk factors included elsewhere in this annual 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 “estimate,” “may,” “could,” “will,” “believe,” “expect,” “would,” “consider,” “should,” “anticipate,” “project,” “plan,” “intend” or similar words. statements contained within this annual report that are not historical facts are forward-looking statements, such as statements discussing, among other things, expected growth, store development, integration and expansion strategy, business strategies, future revenues and future performance. These forward-looking statements are based on estimates, projections, beliefs and assumptions and are not guarantees of future events and results. Such statements are subject to risks, uncertainties and assumptions, including, but not limited to, the economy in general, inflation, tariffs, product demand, the market for auto parts, competition, weather, risks associated with the performance of acquired businesses, our ability to hire and retain qualified employees, consumer debt levels, our increased debt levels, credit ratings on public debt, governmental regulations, information security and cyber attacks, 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, 2018, 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 profit 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, including 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. As of December 31, 2018, we operated 5,219 stores in 47 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. We have ongoing initiatives aimed at tailorin

g our product offering to adjust to customers' changing preferences, and we also have initiatives focused on marketing and training to educate customers on the advantages of ongoing vehicle maintenance, as well as "purchasing up" on the value spectrum.

We believe the key drivers of current and future demand for 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. In total, vehicles in the U.S. are driven approximately three trillion miles per year, resulting in ongoing wear and tear and a corresponding continued demand for the repair and maintenance products necessary to keep these vehicles in operation. According to the Department of Transportation, the number of total miles driven in the U.S. increased 0.3%, 1.2% and 2.4% in 2018, 2017 and 2016, respectively, and we expect to continue to see modest improvements in total miles driven in the U.S., supported by an increasing number of registered vehicles on the road, resulting in 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 Auto Care Association, the total number of registered vehicles increased 8.5% from 2007 to 2017, bringing the number of light vehicles on the road to 270 million by the end of 2017. For the year ended December 31, 2018, the seasonally adjusted annual rate of light vehicle sales in the U.S. ("SAAR") was approximately 17.5 million, contributing to the continued growth in the total number of registered vehicles on the road. In the past decade, vehicle scrappage rates have remained relatively stable, ranging from 4.2% to 5.7% annually. As a result, over the past decade, the average age of the U.S. vehicle population has increased, growing 21.9%, from 9.6 years in 2007 to 11.7 years in 2017. 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 vehicles on the road increases, a larger percentage of miles are being driven by vehicles that 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. 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 uncertainty surrounding the overall economic health of the U.S. have a negative impact on consumer confidence and the level of consumer discretionary spending. Long-term trends of high unemployment have historically impeded 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. As of December 31, 2017, the U.S. unemployment rate was 4.1%, and as of December 31, 2018, the U.S. unemployment rate decreased to 3.9%. We believe total employment should remain at healthy levels supporting the trend of modest growth in total miles driven in the U.S. and the 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.

KEY EVENTS AND RECENT DEVELOPMENTS

Several key events have had or may have a significant impact on our operations and are identified below:

Under the Company's share repurchase program, as approved by our Board of Directors in January of 2011, 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. Our 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 7, 2018, and November 13, 2018, our Board of Directors each time approved a resolution to increase the authorization amount under our share repurchase program by an additional \$1.00 billion, resulting in a cumulative authorization amount of \$11.75 billion. Each additional authorization is effective for a three-year period, beginning on its respective announcement date. As of February 27, 2019, we had repurchased approximately 73.1 million shares of our common stock at an aggregate cost of \$11.02 billion under this program.

On May 17, 2018, we issued \$500 million aggregate principal amount of unsecured 4.350% Senior Notes due 2028 (“4.350% Senior Notes due 2028”) at a price to the public of 99.732% of their face value with UMB Bank, N.A. as trustee. Interest on the 4.350% Senior Notes due 2028 is payable on June 1 and December 1 of each year, which began on December 1, 2018, and is computed on the basis of a 360-day year.

After the close of business on December 31, 2018, we completed an asset purchase of Bennett Auto Supply, Inc. (“Bennett”), a privately held automotive parts supplier. The asset purchase included 33 stores that were not included in the Company’s 2018 store count and were not operated by the Company in 2018, and a warehouse located in southern Florida.

RESULTS OF OPERATIONS

The following table includes income statement data as a percentage of sales for the years ended December 31, 2018, 2017 and 2016:

	For the Year Ended		
	December 31,		
	2018	2017	2016
Sales	100.0 %	100.0 %	100.0 %
Cost of goods sold, including warehouse and distribution expenses	47.2	47.4	47.5
Gross profit	52.8	52.6	52.5
Selling, general and administrative expenses	33.8	33.4	32.7
Operating income	19.0	19.2	19.8
Interest expense	(1.3)	(1.0)	(0.8)
Interest income	—	—	0.1
Income before income taxes ⁽¹⁾	17.8	18.2	19.1
Provision for income taxes	3.9	5.6	7.0
Net income	13.9 %	12.6 %	12.1 %

⁽¹⁾ Each percentage of sales amount is computed independently and may not compute to presented totals.

2018 Compared to 2017

Sales:

Sales for the year ended December 31, 2018, increased \$559 million, or 6%, to \$9.54 billion from \$8.98 billion for the same period in 2017. Comparable store sales for stores open at least one year increased 3.8% and 1.4% for the years ended December 31, 2018 and 2017, respectively. Comparable store sales are calculated based on the change in sales for stores open at least one year and exclude sales of specialty machinery, sales to independent parts stores and sales to Team Members. Online sales, resulting from ship-to-home orders and pickup in-store orders, for stores open at least one year, are included in the comparable store sales calculation.

The following table presents the components of the increase in sales for the year ended December 31, 2018 (in millions):

	Increase in Sales for the Year Ended December 31, 2018, Compared to the Same Period in 2017
Store sales:	
Comparable store sales	\$ 336
Non-comparable store sales:	

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Sales for stores opened throughout 2017, excluding stores open at least one year that are included in comparable store sales	101
Sales for stores opened throughout 2018	120
Decline in sales for stores that have closed	(7)
Non-store sales:	
Includes sales of machinery and sales to independent parts stores and Team Members	9
Total increase in sales	\$ 559

We believe the increased sales achieved by our stores were the result of store growth, the high levels of customer service provided by our well-trained and technically proficient Team Members, superior inventory availability, including same day and over-night access to inventory in our regional distribution centers, enhanced services and programs offered in our stores, a broad selection of product offerings 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 increase for the year ended December 31, 2018, was driven by an increase in average ticket values for both DIY and professional service provider customers and positive transaction counts for professional service provider customers, offset by negative transaction counts for DIY customers. The improvement in average ticket values was the result of the increasing complexity and cost of replacement parts necessary to maintain the current population of better-engineered and more technically advanced vehicles and same SKU inflation. These better-engineered, more technically advanced vehicles require less frequent repairs, as the component parts are more durable and last for longer periods of time. This decrease in repair frequency creates pressure on customer transaction counts; however, when repairs are needed, the cost of replacement parts is, on average, greater, which is a benefit to average ticket values. During the year ended December 31, 2018, DIY transaction counts also continued to be pressured by increased gas prices and other inflationary impacts, resulting in an increased deferral of vehicle maintenance and repairs over the short term.

We opened 200 net, new stores during the year ended December 31, 2018, compared to opening 190 net, new stores during the year ended December 31, 2017. As of December 31, 2018, we operated 5,219 stores in 47 states compared to 5,019 stores in 47 states at December 31, 2017. After the close of business on December 31, 2018, we acquired the 33 Bennett stores that were not included in our 2018 store count and were not operated by the Company in 2018. We anticipate new store growth will be 200 to 210 net, new store openings in 2019 and will net an additional 20 stores, as we will merge 13 of the acquired 33 Bennett stores into existing O'Reilly stores during 2019.

Gross profit:

Gross profit for the year ended December 31, 2018, increased 7% to \$5.04 billion (or 52.8% of sales) from \$4.72 billion (or 52.6% of sales) for the same period in 2017. The increase in gross profit dollars for the year ended December 31, 2018, was primarily the result of sales from new stores and the increase in comparable store sales at existing stores. The increase in gross profit as a percentage of sales for the year ended December 31, 2018, was primarily due to a non-cash last-in, first-out ("LIFO") charge in 2017, partially offset by an increase in distribution expenses. The increase in distribution expenses was primarily due to wage pressure and increased transportation costs, as compared to 2017. During the year ended December 31, 2018, we did not realize net acquisition cost decreases, and as a result, we did not record a LIFO charge. During the year ended December 31, 2017, our LIFO costs were written down by approximately \$22 million to reflect replacement cost.

Selling, general and administrative expenses:

Selling, general and administrative expenses ("SG&A") for the year ended December 31, 2018, increased 8% to \$3.22 billion (or 33.8% of sales) from \$3.00 billion (or 33.4% of sales) for the same period in 2017. The increase in total SG&A dollars for the year ended December 31, 2018, was primarily the result of additional Team Members, facilities and vehicles to support our increased sales and store count, the planned allocation of a portion of the tax savings realized as a result of the U.S. Tax Cuts and Jobs Act, enacted in December 2017 (the "Tax Act") and unfavorable comparison to a 2017 benefit of \$9.1 million from the reduction in our legal accrual following the expiration of the statute of limitations related to a legacy claim. The increase in SG&A as a percentage of sales for the year ended December 31, 2018, was primarily due to our tax savings allocation initiatives and the 2017 legal accrual benefit.

Operating income:

As a result of the impacts discussed above, operating income for the year ended December 31, 2018, increased 5% to \$1.82 billion (or 19.0% of sales) from \$1.73 billion (or 19.2% of sales) for the same period in 2017.

Other income and expense:

Total other expense for the year ended December 31, 2018, increased 38% to \$121 million (or 1.3% of sales), from \$88 million (or 1.0% of sales) for the same period in 2017. The increase in total other expense for the year ended December 31, 2018, was primarily the result of increased interest expense on higher average outstanding borrowings.

Income taxes:

Our provision for income taxes for the year ended December 31, 2018, decreased 27% to \$370 million (21.8% effective tax rate) from \$504 million (30.8% effective tax rate) for the same period in 2017. The decreases in our provision for income taxes and our effective tax rate for the year ended December 31, 2018, were primarily the result of the lower federal corporate tax rate set forth by the Tax Act, partially offset by a \$53 million benefit in 2017 from the required revaluation of our deferred income tax liabilities based on the lower federal corporate tax rate set forth by the Tax Act and lower excess tax benefits from share-based compensation in 2018, as compared 2017. During the year ended December 31, 2018 and 2017, excess tax benefits from share-based compensation were approximately \$35 million and \$49 million, respectively.

Net income:

As a result of the impacts discussed above, net income for the year ended December 31, 2018, increased 17% to \$1.32 billion (or 13.9% of sales), from \$1.13 billion (or 12.6% of sales) for the same period in 2017.

Earnings per share:

Our diluted earnings per common share for the year ended December 31, 2018, increased 27% to \$16.10 on 82 million shares from \$12.67 on 90 million shares for the same period in 2017. Due to the revaluation of our deferred income tax liabilities in 2017, our diluted earnings per common share for the year ended December 31, 2017, included a one-time benefit of \$0.59.

2017 Compared to 2016

Sales:

Sales for the year ended December 31, 2017, increased \$385 million, or 4%, to \$8.98 billion from \$8.59 billion for the same period in 2016. Comparable store sales for stores open at least one year increased 1.4% and 4.8% for the years ended December 31, 2017 and 2016, 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, sales to Team Members and sales from Leap Day during the year ended December 31, 2016. Online sales, resulting from ship-to-home orders and pickup in-store orders, for stores open at least one year, are included in the comparable store sales calculation.

The following table presents the components of the increase in sales for the year ended December 31, 2017 (in millions):

	Increase in Sales for the Year Ended December 31, 2017, Compared to the Same Period in 2016
Store sales:	
Comparable store sales, including sales from the 48 acquired Bond stores	\$ 182
Non-comparable store sales:	
Sales for stores opened throughout 2016, excluding stores open at least one year that are included in comparable store sales	126
Sales for stores opened throughout 2017	108
Sales from Leap Day in 2016	(25)
Decline in sales for stores that have closed	(5)
Non-store sales:	
Includes sales of machinery and sales to independent parts stores and Team Members	(1)
Total increase in sales	\$ 385

We believe the increased sales achieved by our stores were the result of store growth, sales from the 48 acquired Bond Auto Parts (“Bond”) stores, the high levels of customer service provided by our well-trained and technically proficient Team Members, superior inventory availability, including same day and over-night access to inventory in our regional distribution centers, enhanced services and programs offered in our 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 increase for the year ended December 31, 2017, was driven by increases in average ticket values for both DIY and professional service provider customers, partially offset by negative customer transaction counts from both our DIY and professional service provider customers. The improvement in average ticket values was the result of the increasing complexity and cost of replacement parts necessary to maintain the current population of better engineered and more technically advanced vehicles. These better engineered, more technically advanced vehicles require less frequent repairs, as the component parts are more durable and last for longer periods of time. When repairs are needed, the cost of replacement parts is, on average, greater, which is a benefit to average ticket values; however, the decrease in repair frequency creates pressure on customer transaction counts. In addition, customer transaction counts for the year ended December 31, 2017, were negatively impacted by softer industry demand, resulting, in part, from the unseasonably mild winter weather at the onset of 2017 and a cool, wet summer in many of our markets. The mild winter weather did not stress vehicle components to the degree more typical harsh winter weather would, which resulted in a lower level of automobile parts breakage and associated demand for our products. The cool, wet summer in many of our markets resulted in a lower level of demand, as the absence of typical seasonally high temperatures resulted in fewer heat related product repairs.

We opened 190 net, new stores during the year ended December 31, 2017, compared to opening 210 net, new stores and acquiring 48 Bond stores during the year ended December 31, 2016. As of December 31, 2017, we operated 5,019 stores in 47 states compared to 4,829 stores in 47 states at December 31, 2016.

Gross profit:

Gross profit for the year ended December 31, 2017, increased 5% to \$4.72 billion (or 52.6% of sales) from \$4.51 billion (or 52.5% of sales) for the same period in 2016. The increase in gross profit dollars for the year ended December 31, 2017, was primarily a result of sales from new stores, the increase in comparable store sales at existing stores and sales from the 48 acquired Bond stores, partially offset by gross profit dollars generated from one additional day due to Leap Day for the same period one year prior. The increase in gross profit as a percentage of sales for the year ended December 31, 2017, was primarily due to a smaller non-cash LIFO impact, partially offset by a lower merchandise margin and higher inventory shrinkage. The smaller LIFO impact is the result of fewer product acquisition cost improvements during the year ended December 31, 2017, compared 2016. Our policy is to not write up inventory in excess of replacement cost, and accordingly, we are effectively valuing our inventory at replacement cost. For the year ended December 31, 2017 and 2016, our LIFO inventory costs were written down by approximately \$22 million and \$49 million, respectively, to reflect replacement cost. The lower merchandise margin was primarily the result of merchandise mix, driven by the unfavorable weather conditions during 2017. The higher inventory shrinkage was primarily cyclical in nature, following a period of lower than average shrinkage trends.

Selling, general and administrative expenses:

SG&A for the year ended December 31, 2017, increased 7% to \$3.00 billion (or 33.4% of sales) from \$2.81 billion (or 32.7% of sales) for the same period in 2016. The increase in total SG&A dollars for the year ended December 31, 2017, was primarily the result of additional Team Members, facilities and vehicles to support our increased sales and store count, partially offset by a \$9.1 million benefit from the reduction in our legal accrual following the expiration of the statute of limitations related to a legacy claim and incremental SG&A expenses incurred from one additional day due to Leap Day for the same period one year prior. The increase in SG&A as a percentage of sales for the year ended December 31, 2017, was primarily due to deleverage of store operating costs on soft comparable store sales during the year ended December 31, 2017.

Operating income:

As a result of the impacts discussed above, operating income for the year ended December 31, 2017, increased 2% to \$1.73 billion (or 19.2% of sales) from \$1.70 billion (or 19.8% of sales) for the same period in 2016.

Other income and expense:

Total other expense for the year ended December 31, 2017, increased 41% to \$88 million (or 1.0% of sales), from \$62 million (or 0.7% of sales) for the same period in 2016. The increase in total other expense for the year ended December 31, 2017, was primarily the result of increased interest expense on higher average outstanding borrowings and increased amortization of debt issuance costs.

Income taxes:

Our provision for income taxes for the year ended December 31, 2017, decreased 16% to \$504 million (30.8% effective tax rate) from \$600 million (36.6% effective tax rate) for the same period in 2016. The decrease in our provision for income taxes for the year ended December 31, 2017, was the result of a one-time \$53 million benefit to the provision for income taxes related to the required revaluation of our deferred income tax liabilities based on the lower federal corporate income tax rate set forth by the Tax Act and excess tax benefits from share-based compensation, which provided a benefit of \$49 million to the provision for income taxes. The decrease in our effective tax rate for the year ended December 31, 2017, was primarily due to the required revaluation of our deferred income tax liabilities, which provided a one-time benefit of 325 basis points to the effective tax rate for the year ended December 31, 2017, and excess tax benefits from share-based compensation, which provided a benefit of 297 basis points to the effective tax rate for the year ended December 31, 2017.

Net income:

As a result of the impacts discussed above, net income for the year ended December 31, 2017, increased 9% to \$1.13 billion (or 12.6% of sales), from \$1.04 billion (or 12.1% of sales) for the same period in 2016.

Earnings per share:

Our diluted earnings per common share for the year ended December 31, 2017, increased 18% to \$12.67 on 90 million shares from \$10.73 on 97 million shares for the same period in 2016. Due to the required revaluation of our deferred income tax liabilities, our diluted earnings per common share for the year ended December 31, 2017, included a one-time benefit of \$0.59. Due to the adoption of ASU 2016-09, our diluted earnings per common share for the year ended December 31, 2017, included a benefit of \$0.50.

LIQUIDITY AND CAPITAL RESOURCES

Our long-term business strategy requires capital to open new stores, fund strategic acquisitions, expand distribution infrastructure, operate and maintain our 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.

Liquidity and related ratios:

The following table highlights our liquidity and related ratios as of December 31, 2018 and 2017 (dollars in millions):

Liquidity and Related Ratios	December 31,		Percentage	
	2018	2017	Change	
Current assets	\$3,543	\$3,398	4.3	%
Current liabilities	3,894	3,647	6.8	%
Working capital ⁽¹⁾	(351)	(250)	(40.4)	%
Total debt	3,417	2,978	14.7	%
Total equity	\$354	\$653	(45.8)	%
Debt to equity ⁽²⁾	9.66:1	4.56:1	111.8	%

⁽¹⁾ Working capital is calculated as current assets less current liabilities.

⁽²⁾ Debt to equity is calculated as total debt divided by total equity.

Current assets increased 4%, current liabilities increased 7%, total debt increased 15% and total equity decreased 46% from 2017 to 2018. The increase in current assets was primarily due to the increase in inventory, resulting from the opening of 200 net, new stores in 2018. The increase in current liabilities was primarily due to the increase in accounts payable, resulting from inventory growth related to new store openings. Our accounts payable to inventory ratio was 105.7% as of December 31, 2018, as compared to 106.0% in the prior year. The increase in total debt was attributable to the issuance of \$500 million of 4.350% Senior Notes due 2028 and borrowings of \$287 million on our revolving credit facility at December 31, 2018. The decrease in total equity resulted from the impact of share repurchase activity, under our share repurchase program, on retained deficit and additional paid-in-capital, partially offset by a decrease in retained deficit from net income for the year ended December 31, 2018.

The following table identifies cash provided by/(used in) our operating, investing and financing activities for the years ended December 31, 2018, 2017 and 2016 (in thousands):

Liquidity:	For the Year Ended		
	December 31,		
	2018	2017	2016
Total cash provided by/(used in):			
Operating activities ⁽¹⁾	\$1,727,555	\$1,403,687	\$1,510,713
Investing activities	(534,302)	(464,223)	(529,096)
Financing activities ⁽¹⁾	(1,208,286)	(1,039,714)	(951,320)
Net (decrease) increase in cash and cash equivalents	\$(15,033)	\$(100,250)	\$30,297
Capital expenditures	\$504,268	\$465,940	\$476,344
Free cash flow ⁽²⁾	1,188,584	889,059	978,375

Prior period amount has been reclassified to conform to current period presentation, due to the Company's adoption of a new accounting standard during the first quarter ended March 31, 2017. See Note 1 "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the annual report on Form 10-K for the year ended December 31, 2017.

⁽²⁾ Calculated as net cash provided by operating activities, less capital expenditures and excess tax benefit from share-based compensation payments for the period.

Operating activities:

The increase in net cash provided by operating activities in 2018 compared to 2017 was primarily due to increased operating income, reduced cash taxes paid, due to the Tax Act, and a reduction of accounts receivable, due to the business day timing of year-end 2018, as compared to 2017.

The decrease in net cash provided by operating activities in 2017 compared to 2016 was primarily due to a smaller decrease in our net inventory investment, partially offset by an increase in net income. Our accounts payable to inventory ratio was 106.0%, 105.7% and 99.1% as of December 31, 2017, 2016 and 2015, respectively. The smaller increase in our accounts payable to inventory ratio in 2017

was primarily attributable to fewer new suppliers entering our supplier financing programs in 2017 and a smaller decrease in net inventory, due to a softer sales environment, as compared to 2016.

Investing activities:

The increase in net cash used in investing activities in 2018 compared to 2017 was primarily the result of an increase in capital expenditures in 2018 and an increase in other investing activities. Total capital expenditures were \$504 million and \$466 million in 2018 and 2017, respectively, and the increase was primarily related to the timing of property acquisitions, closings, construction costs for new stores and the mix of owned versus leased stores opened during 2018, as compared to 2017. The increase in other investing activities was primarily due to more acquisition related expenditures in 2018, as compared to 2017.

The decrease in net cash used in investing activities in 2017 compared to 2016 was primarily the result of a decrease in other investing activities and a decrease in capital expenditures in 2017. The decrease in other investing activities was primarily due to less acquisition related expenditures in 2017, as compared to 2016. Total capital expenditures were \$466 million and \$476 million in 2017 and 2016, respectively, and the decrease was primarily related to the timing of property acquisitions, closings, construction costs for new stores and the mix of owned versus leased stores opened during 2017, as compared to 2016.

We opened 200, 190, and 210 net, new stores in 2018, 2017 and 2016, respectively, and acquired 48 Bond stores in 2016. After the close of business on December 31, 2018, we acquired the 33 Bennett stores that were not included in our 2018 store count and were not operated by the Company in 2018. We plan to open 200 to 210 net, new stores in 2019. The current costs associated with the opening of a new store, including the cost of land acquisition, building improvements, fixtures, vehicles, net inventory investment and computer equipment, are estimated to average approximately \$1.6 million to \$1.8 million; however, such costs may be significantly reduced where we lease, rather than purchase, the store site.

Financing activities:

The increase in net cash used in financing activities in 2018 compared to 2017 was primarily attributable to a lower level of net borrowings during 2018, as compared to 2017, partially offset by a lower level of repurchases of our common stock in 2018, as compared to 2017.

The increase in net cash used in financing activities in 2017 compared to 2016 was primarily attributable to a greater impact from the repurchases of our common stock under our share repurchase program during 2017, as compared to 2016, partially offset by a higher level of net borrowings during 2017, as compared to 2016.

Unsecured revolving credit facility:

On April 5, 2017, the Company entered into a credit agreement (the "Credit Agreement"). The Credit Agreement provides for a five-year \$1.20 billion unsecured revolving credit facility (the "Revolving Credit Facility") arranged by JPMorgan Chase Bank, N.A., which is scheduled to mature in April 2022. 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. 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 \$600 million, provided that the aggregate amount of the commitments does not exceed \$1.80 billion at any time.

As of December 31, 2018 and 2017, we had outstanding letters of credit, primarily to support obligations related to workers' compensation, general liability and other insurance policies, in the amounts of \$35 million and \$37 million, respectively, reducing the aggregate availability under the Credit Agreement by those amounts. As of December 31, 2018 and 2017, we had outstanding borrowings under the Revolving Credit Facility in the amounts of \$287 million and \$346 million, respectively.

Senior Notes:

On May 17, 2018, we issued \$500 million aggregate principal amount of unsecured 4.350% Senior Notes due 2028 (“4.350% Senior Notes due 2028”) at a price to the public of 99.732% of their face value with UMB Bank, N.A. (“UMB”) as trustee. Interest on the 4.350% Senior Notes due 2028 is payable on June 1 and December 1 of each year, which began on December 1, 2018, and is computed on the basis of a 360-day year.

The Company have issued a cumulative \$3.15 billion aggregate principal amount of unsecured senior notes, which are due between 2021 and 2028, with UMB as trustee. Interest on the senior notes, ranging from 3.550% to 4.875%, is payable semi-annually and is computed on the basis of a 360-day year. None of our subsidiaries is a guarantor under our senior notes.

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, create certain liens on assets to secure certain debt and enter into certain sale and leaseback transactions, and limit our ability to merge or consolidate with another company or transfer all or substantially all of our property, in each case as set forth in the indentures. These covenants are, however, subject to a number of important limitations and exceptions. As of December 31, 2018, we were in compliance with the covenants applicable to our senior notes.

The Credit Agreement contains certain covenants, including limitations on indebtedness, a minimum consolidated fixed charge coverage ratio of 2.50:1.00 and a maximum consolidated leverage ratio of 3.50:1.00. The consolidated fixed charge coverage ratio includes a calculation of earnings before interest, taxes, depreciation, amortization, rent and non-cash share-based compensation expense to fixed charges. Fixed charges include interest expense, capitalized interest and rent expense. The consolidated leverage ratio includes a calculation of adjusted debt to earnings before interest, taxes, depreciation, amortization, rent and non-cash share-based compensation expense. Adjusted debt includes outstanding debt, outstanding stand-by letters of credit and similar instruments, five-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 commitments, 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 5.38 times and 5.72 times as of December 31, 2018 and 2017, respectively, and a consolidated leverage ratio of 2.10 times and 1.98 times as of December 31, 2018 and 2017, respectively, remaining in compliance with all covenants related to the borrowing arrangements.

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 years ended December 31, 2018 and 2017 (dollars in thousands):

	For the Year Ended	
	December 31,	
	2018	2017
GAAP net income	\$1,324,487	\$1,133,804
Add: Interest expense	122,129	91,349
Rent expense	317,283	298,614
Provision for income taxes	369,600	504,000
Depreciation expense	255,866	232,674
Amortization expense	3,071	1,171
Non-cash share-based compensation	20,176	19,401
Non-GAAP EBITDAR	\$2,412,612	\$2,281,013
Interest expense	\$122,129	\$91,349
Capitalized interest	9,092	8,548
Rent expense	317,283	298,614
Total fixed charges	\$448,504	\$398,511
Consolidated fixed charge coverage ratio	5.38	5.72
GAAP debt	\$3,417,122	\$2,978,390
Add: Stand-by letters of credit	35,148	36,843
Discount on senior notes	4,294	3,721
Debt issuance costs	15,584	13,889
Five-times rent expense	1,586,415	1,493,070
Non-GAAP adjusted debt	\$5,058,563	\$4,525,913
Consolidated leverage ratio	2.10	1.98

The table below outlines the calculation of Free cash flow and reconciles Free cash flow to Net cash provided by operating activities, the most directly comparable GAAP financial measure, for the years ended December 31, 2018, 2017 and 2016 (in thousands):

	For the Year Ended		
	December 31,		
	2018	2017	2016
Cash provided by operating activities ⁽¹⁾	\$1,727,555	\$1,403,687	\$1,510,713
Less: Capital expenditures	504,268	465,940	476,344
Excess tax benefit from share-based compensation	34,703	48,688	55,994
Free cash flow	\$1,188,584	\$889,059	\$978,375

Prior period amount has been reclassified to conform to current period presentation, due to the Company's adoption ⁽¹⁾ of a new accounting standard during the first quarter ended March 31, 2017. See Note 1 "Summary of Significant Accounting Policies" to the Consolidated Financial Statements of the annual report on Form 10-K for the year ended December 31, 2017.

Free cash flow, the consolidated fixed charge coverage ratio and the 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 the 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:

In January of 2011, our Board of Directors approved a share repurchase program. Under the program, 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. Our 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 7, 2018, and November 13, 2018, our Board of Directors each time approved a resolution to increase the authorization amount under our share repurchase program by an additional \$1.00 billion, resulting in a cumulative authorization amount of \$11.75 billion. Each additional authorization is effective for a three-year period, beginning on its respective announcement date.

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 Year Ended	
	December 31,	
	2018	2017
Shares repurchased	6,061	9,301
Average price per share	\$282.80	\$233.57
Total investment	\$1,713,953	\$2,172,437

As of December 31, 2018, we had \$1.00 billion remaining under our share repurchase program. Subsequent to the end of the year and through February 27, 2019, we repurchased an additional 0.8 million shares of our common stock under our share repurchase program, at an average price of \$342.95, for a total investment of \$269 million. We have repurchased a total of 73 million shares of our common stock under our share repurchase program since the inception of the program in January of 2011 and through February 27, 2019, at an average price of \$150.73 for a total aggregate

investment of \$11.02 billion. As of February 27, 2019, we had approximately \$0.7 billion remaining under our share repurchase program.

CONTRACTUAL OBLIGATIONS

Our contractual obligations as of December 31, 2018, included commitments for short and long-term debt arrangements, interest payments related to long-term debt, future payments under non-cancelable lease arrangements, self-insurance reserves, purchase obligations for construction contract commitments and other long-term liabilities, which are identified in the table below and are fully disclosed in Note 6 “Leasing,” Note 10 “Share-Based Compensation and Benefit Plans” and Note 11 “Commitments” to the Consolidated Financial Statements. We expect to fund these commitments primarily with operating cash flows expected to be generated in the normal course of business or through borrowings under our Revolving Credit Facility.

Deferred income taxes, as well as commitments with various suppliers for the purchase of inventory, are not reflected in the table below due to the absence of scheduled maturities, the nature of the account or the commitment's cancellation terms. Due to the absence of scheduled maturities, the timing of certain of these payments cannot be determined, except for amounts estimated to be payable in 2019, which are included in "Current liabilities" on our Consolidated Balance Sheets.

We record a reserve for potential liabilities related to uncertain tax positions, including estimated interest and penalties, which are fully disclosed in Note 13 "Income Taxes" to the Consolidated Financial Statements. These estimates are not included in the table below because the timing related to the ultimate resolution or settlement of these positions cannot be determined. As of December 31, 2018, we recorded a net liability of \$39 million related to these uncertain tax positions on our Consolidated Balance Sheets, all of which was included in "Other liabilities."

We record a reserve for the projected obligation related to future payments under the Company's nonqualified deferred compensation plan, which is fully disclosed in Note 10 "Share-Based Compensation and Benefit Plans" to the Consolidated Financial Statements. This estimate is not included in the table below because the timing related to the ultimate payment cannot be determined. As of December 31, 2018, we recorded a liability of \$25 million related to this uncertain liability on our Consolidated Balance Sheets, all of which was included in "Other liabilities."

The following table identifies the estimated payments of the Company's contractual obligations as of December 31, 2018 (in thousands):

Contractual Obligations	Payments Due By Period				
	Total	Before 1 Year	Years 1 and 2	Years 3 and 4	Years 5 and Over
Long-term debt principal and interest payments ⁽¹⁾	\$4,273,542	\$141,414	\$1,077,183	\$1,056,936	\$1,998,009
Future minimum lease payments under operating leases ⁽²⁾	2,429,044	309,743	557,091	447,607	1,114,603
Self-insurance reserves ⁽³⁾	157,538	77,012	48,864	19,255	12,407
Construction commitments	177,664	177,664	—	—	—
Total contractual cash obligations	\$7,037,788	\$705,833	\$1,683,138	\$1,523,798	\$3,125,019

Our Revolving Credit Facility, which has a maximum aggregate commitment of \$1.20 billion and matures in April 2022, bears interest (other than swing line loans), at our option, at either the Alternate Base Rate or Adjusted LIBO Rate (both as defined in the Credit Agreement) plus a margin, that will vary from 0.000% to 0.250% in the case of loans bearing interest at the Alternate Base Rate and 0.680% to 1.250% in the case of loans bearing interest at the Adjusted LIBO Rate, in each case based upon the better of the ratings assigned to our debt by Moody's Investor Service, Inc. and Standard & Poor's Rating Services, subject to limited exceptions. Swing line loans made under the

(1) Revolving Credit Facility bear interest at the Alternate Base Rate plus the applicable margin described above. In addition, we pay a facility fee on the aggregate amount of the commitments in an amount equal to a percentage of such commitments, varying from 0.070% to 0.250% per annum based upon the better of the ratings assigned to our debt by Moody's Investor Service, Inc. and Standard & Poor's Rating Services, subject to limited exceptions. Based on our current credit ratings, our margin for Alternate Base Rate loans was 0.000%, our margin for Eurodollar Revolving Loans was 0.900% and our facility fee was 0.100%. As of December 31, 2018, we had outstanding borrowings in the amount of \$287 million under our Revolving Credit Facility.

(2) The minimum lease payments above do not include certain tax, insurance and maintenance costs, which are also required contractual obligations under our operating leases but are generally not fixed and can fluctuate from year to year. These expenses historically average approximately 20% of the corresponding lease payments. See Note 6 "Leasing" to the Consolidated Financial Statements for further information on our operating leases.

(3) We use various self-insurance mechanisms to provide for potential liabilities from workers' compensation, vehicle and general liability, and employee health care benefits. The self-insurance reserves above are at the undiscounted obligation amount. The self-insurance reserves liabilities are recorded on our Consolidated Balance Sheets at our estimate of their net present value and do not have scheduled maturities; however, we can estimate the timing of

future payments based upon historical patterns. See Note 11 “Commitments” to the Consolidated Financial Statements for further information on our self-insurance reserves.

OFF-BALANCE SHEET ARRANGEMENTS

Off-balance sheet arrangements are transactions, agreements, or other contractual arrangements with an unconsolidated entity, for which we have an obligation to the entity that is not recorded in our consolidated financial statements. We historically utilized various off-balance sheet financial instruments, including sale-leaseback and synthetic lease transactions, but we have not entered into any such transactions for over 10 years and do not plan to utilize off-balance sheet arrangements in the future to fund our working capital requirements, operations or growth plans.

We issue stand-by letters of credit provided by a \$200 million sub-limit under the Revolving Credit Facility that reduce our available borrowings under the Revolving Credit Facility. Those letters of credit are issued primarily to satisfy the requirements of workers’ compensation, general liability and other insurance policies. Substantially all of the outstanding letters of credit have a one-year term

from the date of issuance. Letters of credit totaling \$35 million and \$37 million were outstanding at December 31, 2018 and 2017, respectively.

Other than in connection with executing operating leases, we do not have any off-balance sheet financing that has, or is reasonably likely to have, a material, current or future effect on our financial condition, cash flows, results of operations, liquidity, capital expenditures or capital resources. See “Contractual Obligations” section of Item 7 of this annual report on Form 10-K and Note 6 “Leasing” to the Consolidated Financial Statements for further information on our operating leases.

CRITICAL ACCOUNTING POLICIES AND 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 consolidated financial statements are prepared. Management believes that the following policies are critical due to the inherent uncertainty of these matters and the complex and subjective judgments required in establishing these estimates. Management continues to review these critical accounting policies and estimates to ensure that the consolidated financial statements are presented fairly in accordance with GAAP. However, actual results could differ from our assumptions and estimates and such differences could be material.

Inventory Obsolescence and Shrink:

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

We also record a reserve to reduce the carrying value of our perpetual inventory to account for quantities in our perpetual records above the actual existing quantities on hand caused by unrecorded shrink. We estimate this reserve based on the results of our extensive and frequent cycle counting programs and periodic, full physical inventories. To the extent that our estimates do not accurately reflect the actual unrecorded inventory shrinkage, we could potentially experience a material impact to our inventory balances. We have historically been able to provide a timely and accurate measurement of shrink and have not experienced material adjustments to our estimates. If the shrink reserve changed 10% from the estimate that we recorded based on our historical experience at December 31, 2018, the financial impact would have been approximately \$1 million or less than 0.1% of pretax income for the year ended December 31, 2018.

Valuation of Long-Lived Assets and Goodwill:

We evaluate the carrying value of long-lived assets for impairment whenever events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. As part of the evaluation, we review performance at the store level to identify any stores with current period operating losses that should be considered for impairment. A potential impairment has occurred if the projected future undiscounted cash flows realized from the

best possible use of the asset are less than the carrying value of the asset. The estimate of cash flows includes management's assumptions of cash inflows and outflows directly resulting from the use of that asset in operations. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount of the asset exceeds the fair value of the assets. Our impairment analyses contain estimates due to the inherently judgmental nature of forecasting long-term estimated cash flows and determining the ultimate useful lives and fair values of the assets. Actual results could differ from these estimates, which could materially impact our impairment assessment.

We review goodwill for impairment annually during the fourth quarter, or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. We have never recorded an impairment to goodwill. The process of evaluating goodwill for impairment involves the determination of the fair value of our Company using the market approach. Inherent in such fair value determinations are certain judgments and estimates, including estimates that incorporate assumptions marketplace participants would use in making their estimates of fair value. In the future, if events or market conditions affect the estimated fair value to the extent that an asset is impaired, we will adjust the carrying value of these assets in the period in which the impairment occurs; however, we do not believe there has been any change of events or circumstances that would indicate that a reevaluation of goodwill is required as of December 31, 2018, nor do we believe goodwill is at risk of failing impairment testing. If the price of O'Reilly's stock, which was a

primary input used to determine our market capitalization during step one of goodwill impairment testing, changed by 10% from the value used during testing, the results and our conclusions would not have changed and no further steps would have been required.

Supplier Concessions:

We receive concessions from our suppliers through a variety of programs and arrangements, including co-operative advertising, allowances for warranties, merchandise allowances and volume purchase rebates. Co-operative advertising allowances that are incremental to our advertising program, specific to a product or event and identifiable for accounting purposes are reported as a reduction of advertising expense in the period in which the advertising occurred. All other material supplier concessions are recognized as a reduction to the cost of sales. Amounts receivable from suppliers also include amounts due to us relating to supplier purchases and product returns. Management regularly reviews amounts receivable from suppliers and assesses the need for a reserve for uncollectible amounts based on our evaluation of our suppliers' financial position and corresponding ability to meet their financial obligations. Based on our historical results and current assessment, we have not recorded a reserve for uncollectible amounts in our consolidated financial statements, and we do not believe there is a reasonable likelihood that our ability to collect these amounts will differ from our expectations. The eventual ability of our suppliers to pay us the obliged amounts could differ from our assumptions and estimates, and we may be exposed to losses or gains that could be material.

Warranty Reserves:

We offer warranties on certain merchandise we sell with warranty periods ranging from 30 days to limited lifetime warranties. The risk of loss arising from warranty claims is typically the obligation of our suppliers. Certain suppliers provide upfront allowances to us in lieu of accepting the obligation for warranty claims. For this merchandise, when sold, we bear the risk of loss associated with the cost of warranty claims. Differences between supplier allowances received in lieu of warranty obligations and estimated warranty expense are recorded as an adjustment to the cost of sales. Estimated warranty costs, which are recorded as obligations at the time of sale, are based on the historical failure rate of each individual product line. Our historical experience has been that failure rates are relatively consistent over time and that the ultimate cost of warranty claims has been driven by volume of units sold as opposed to fluctuations in failure rates or the variation of the cost of individual claims. If warranty reserves were changed 10% from our estimated reserves at December 31, 2018, the financial impact would have been approximately \$5 million or 0.3% of pretax income for the year ended December 31, 2018.

Self-Insurance Reserves:

We use a combination of insurance and self-insurance mechanisms to provide for potential liabilities from workers' compensation, general liability, vehicle liability, property loss, and Team Member health care benefits. With the exception of certain Team Member health care benefit liabilities, employment related claims and litigation, certain commercial litigation and certain regulatory matters, we obtain third-party insurance coverage to limit our exposure for any individual workers' compensation, general liability, vehicle liability or property loss claim. When estimating our self-insurance liabilities, we consider a number of factors, including historical claims experience and trend-lines, projected medical and legal inflation, growth patterns and exposure forecasts. The assumptions made by management as they relate to each of these factors represent our judgment as to the most probable cumulative impact of each factor to our future obligations. Our calculation of self-insurance liabilities requires management to apply judgment to estimate the ultimate cost to settle reported claims and claims incurred but not yet reported as of the balance sheet date, and the application of alternative assumptions could result in a different estimate of these liabilities. Actual claim activity or development may vary from our assumptions and estimates, which may result in material losses or gains. As we obtain additional information that affects the assumptions and estimates we used to recognize liabilities for claims incurred in prior accounting periods, we adjust our self-insurance liabilities to reflect the revised estimates based on this additional information. These liabilities are recorded at our estimate of their net present value, using a credit-adjusted discount rate. These liabilities do not have scheduled maturities, but we can estimate the timing of future payments based upon historical patterns. We could apply alternative assumptions regarding the timing of

payments or the applicable discount rate that could result in materially different estimates of the net present value of the liabilities. If self-insurance reserves were changed 10% from our estimated reserves at December 31, 2018, the financial impact would have been approximately \$15 million or 0.9% of pretax income for the year ended December 31, 2018.

Legal Reserves:

We maintain reserves for expenses associated with litigation, for which O'Reilly is currently involved. We are currently involved in litigation incidental to the ordinary conduct of our business. Management, with the assistance of outside legal counsel, must make estimates of potential legal obligations and possible liabilities arising from such litigation and records reserves for these expenditures. If legal reserves were changed 10% from our estimated reserves at December 31, 2018, the financial impact would have been approximately \$1 million or 0.1% of pretax income for the year ended December 31, 2018.

Taxes:

We operate within multiple taxing jurisdictions and are subject to audit in these jurisdictions. These audits can involve complex issues, which may require an extended period of time to resolve. We regularly review our potential tax liabilities for tax years subject to audit. The amount of such liabilities is based on various factors, such as differing interpretations of tax regulations by the responsible tax

authority, experience with previous tax audits and applicable tax law rulings. Changes in our tax liability may occur in the future as our assessments change based on the progress of tax examinations in various jurisdictions and/or changes in tax regulations. In management's opinion, adequate provisions for income taxes have been made for all years presented. The estimates of our potential tax liabilities contain uncertainties because management must use judgment to estimate the exposures associated with our various tax positions and actual results could differ from our estimates. Alternatively, we could have applied assumptions regarding the eventual outcome of the resolution of open tax positions that could differ from our current estimates but would still be reasonable given the nature of a particular position. While our estimates are subject to the uncertainty noted in the preceding discussion, our initial estimates of our potential tax liabilities have historically not been materially different from actual results, except in instances where we have reversed liabilities that were recorded for periods that were subsequently closed with the applicable taxing authority.

INFLATION AND SEASONALITY

For the last three fiscal years, we have generally been successful in reducing the effects of merchandise cost increases principally by taking advantage of supplier incentive programs, economies of scale resulting from increased volume of purchases and selective forward buying. To the extent our acquisition cost increased due to 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.

QUARTERLY RESULTS

The following tables set forth certain quarterly unaudited operating data for fiscal years ended December 31, 2018 and 2017. The unaudited quarterly information includes all adjustments, which management considers necessary for a fair presentation of the information shown (in thousands, except per share and comparable store sales data):

	Fiscal 2018			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Comparable store sales	3.4	% 4.6	% 3.9	% 3.3
Sales	\$2,282,681	\$2,456,073	\$2,482,717	\$2,314,957
Gross profit	1,201,258	1,288,638	1,315,755	1,234,315
Operating income	422,846	479,150	485,148	428,040
Net income	304,906	353,073	366,151	300,357
Earnings per share – basic ⁽¹⁾	\$3.65	\$4.32	\$4.54	\$3.76
Earnings per share – assuming dilution ⁽¹⁾	\$3.61	\$4.28	\$4.50	\$3.72
	Fiscal 2017			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Comparable store sales	0.8	% 1.7	% 1.8	% 1.3
Sales	\$2,156,259	\$2,290,829	\$2,339,830	\$2,190,808
Gross profit	1,131,147	1,200,062	1,230,294	1,159,180
Operating income	403,157	457,445	461,963	402,835
Net income	264,934	282,821	283,734	302,315
Earnings per share – basic ⁽¹⁾	\$2.88	\$3.14	\$3.26	\$3.56
Earnings per share – assuming dilution ⁽¹⁾	\$2.83	\$3.10	\$3.22	\$3.52

- (1) Earnings per share amounts are computed independently for each quarter and annual period. The quarterly earnings per share amounts may not sum to equal the full-year earnings per share amount.

The unaudited operating data presented above should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report, and the other financial information included therein.

RECENT ACCOUNTING PRONOUNCEMENTS

In May of 2014, the Financial Accounting Standards Board (the “FASB”) issued Accounting Standard Update (“ASU”) No. 2014-09, “Revenue from Contracts with Customers (Topic 606),” now codified in the Accounting Standards Codification (“Topic 606”). Under Topic 606, 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. Topic 606 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. We adopted this guidance using the modified retrospective transition method with our first quarter ended March 31, 2018. Results of the year ended December 31, 2018, were presented under Topic 606, while amounts in prior periods were not adjusted and continue to be reported under the accounting standard in effect for the prior periods. The adoption of Topic 606 did not have a material impact on our business process, internal controls, systems, consolidated financial condition, results of operations or cash flows; as such, a cumulative effective adjustment was not recorded to opening retained earnings.

In February of 2016, the FASB issued ASU No. 2016-02, “Leases (Topic 842)” (“ASU 2016-02”). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July of 2018, the FASB issued ASU No. 2018-11, “Leases (Topic 842): Targeted Improvement” (“ASU 2018-11”), to provide an additional, optional transition method for adopting ASU 2016-02, which allows for an entity to choose to apply the new lease standard at adoption date and recognize a cumulative-effective adjustment to the opening balance of retained earnings in the period of adoption, while comparative periods presented will continue to be in accordance with current U.S. GAAP Topic 840. For public companies, Topic 842 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. We established a task force, composed of multiple functional groups inside of the Company, which has substantially completed its objective of reviewing the critical components of the standard and implementing changes to systems and controls necessary to support the adoption of the new standard beginning with our first quarter ending March 31, 2019. We will adopt this guidance using the additional, optional transition method, the package of transitional practical expedients relating to the identification, classification and initial direct costs of leases commencing before the effective date of Topic 842, and the transitional practical expedient for the treatment of existing land easements; however, we will not elect the hindsight transitional practical expedient. We will make an accounting policy election to not apply recognition requirements of the guidance to short-term leases. The adoption of the new guidance will have a material impact on the total assets and liabilities reported on our consolidated balance sheet, and we estimate net right-of-use assets and lease liability to be approximately \$1.9 billion and \$2.0 billion, respectively, as of January 1, 2019. The difference between these amounts is primarily due to the accrual for straight-line expense. These estimates are based on our current lease portfolio and changes to the lease portfolio, including the total number of leases, lease commencement and end dates and lease termination expectations, as well as changes in anticipated lease discount rates, could impact these estimates. We expect to make an adjustment to opening “Retained Deficit” on the Consolidated Balance Sheet of approximately \$1.4 million related to the adoption of this new guidance. The adoption of this new guidance will not have a material impact on our results of operations, cash flows, liquidity or our covenant compliance under our existing credit agreement.

In March of 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). Under ASU 2016-09, several aspects of the accounting for share-based payment transactions, including tax consequence, classification of awards as equity or liabilities, and classification on the statement of cash flows, were changed. We adopted this guidance with our first quarter ending March 31, 2017. Upon adoption of ASU 2016-09, we elected to change our accounting policy to account for forfeitures as they occur; this change was applied using the modified retrospective transition method with

a cumulative effect adjustment of \$0.3 million to opening “Retained earnings” on the accompanying Consolidated Balance Sheet as of December 31, 2017. We applied the amendments related to the presentation of tax withholdings on the statement of cash flows using the retrospective transition method, which resulted in \$0.6 million of tax withholdings being reclassified from “Net cash provided by operating activities” to “Net cash used in financing activities” on the accompanying Consolidated Statement of Cash Flows for the year ended December 31, 2016. We elected to apply the amendments related to the presentation of excess tax benefits on the statement of cash flows using the retrospective transition method, which resulted in \$56.0 million of excess tax benefits related to share-based compensation being reclassified from “Net cash used in financing activities” to “Net cash provided by operating activities” in the accompanying Consolidated Statement of Cash Flows for the year ended December 31, 2016. ASU 2016-09 amendments related to accounting for excess tax benefits in the income statement were adopted prospectively, resulting in the reduction of \$34.7 million and \$48.7 million in “Provision for income taxes” in the accompanying Consolidated Statements of Income for the years ended December 31, 2018, and 2017, respectively.

In June of 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Under ASU 2016-13, businesses and other organizations are required to present

financial assets, measured at amortized costs basis, at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis, such as trade receivables. The measurement of expected credit loss will be based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. For public companies, ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. We will adopt this guidance beginning with our first quarter ending March 31, 2020. The application of this new guidance is not expected to have a material impact on our consolidated financial condition, results of operations or cash flows.

In January of 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 eliminates the second step in the previous process for goodwill impairment testing; instead, the test is now a one-step process that calls for goodwill impairment loss to be measured as the excess of the reporting unit’s carrying amount over its fair value. For public companies, ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires prospective adoption, with early adoption after January 1, 2017. We will adopt this guidance beginning with our first quarter ending March 31, 2019. The application of this new guidance is not expected to have a material impact on our consolidated financial condition, results of operations or cash flows.

In August of 2018, the FASB issued ASU No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period, and allows for either retrospective or prospective adoption, with early adoption permitted. We early adopted this guidance with our third quarter ended September 30, 2018, using the prospective adoption method. We did not capitalize any implementation costs incurred in cloud computing arrangements that are service contracts subsequent to adoption, and therefore, the adoption of this new guidance did not impact our consolidated financial condition, results of operations or cash flows during the period. We do not expect that the application of this new guidance will have a material impact on our consolidated financial condition, results of operations or cash flows.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

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.

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 an Alternative Base Rate or Adjusted LIBO Rate, as defined in the credit agreement governing the Revolving Credit Facility. As of December 31, 2018, we had outstanding borrowings under our Revolving Credit Facility in the amount of \$287 million, at the weighted-average variable interest rate of 4.560%. At this borrowing level, a 0.50% increase in interest rates would have had an unfavorable annual impact on our pre-tax earnings and cash flows in the amount of \$1.4 million.

We had outstanding fixed rate debt of \$3.15 billion and \$2.65 billion as of December 31, 2018 and 2017, respectively. The fair value of our fixed rate debt was estimated at \$3.12 billion and \$2.73 billion as of December 31, 2018 and 2017, respectively, which was determined by reference to quoted market prices.

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 December 31, 2018, our cash and cash equivalents totaled \$31 million.

Item 8. Financial Statements and Supplementary Data

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of O'Reilly Automotive, Inc. and Subsidiaries (the "Company"), under the supervision and with the participation of the Company's principal executive officer and principal financial officer and effected by the Company's Board of Directors, is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13(a)-15(f) or 15(d)-15(f) under the Securities Exchange Act of 1934, as amended. The Company's internal control system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with accounting principles generally accepted in the United States.

Internal control over financial reporting includes all policies and procedures that pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with accounting principles generally accepted in the United States of America, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on the financial statements.

Management recognizes that all internal control systems, no matter how well designed, have inherent limitations. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to risk. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Under the supervision and with the participation of the Company's principal executive officer and principal financial officer, management assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2018. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") in Internal Control - Integrated Framework (2013 framework). Based on this assessment, management believes that as of December 31, 2018, the Company's internal control over financial reporting is effective based on those criteria.

Ernst & Young LLP, Independent Registered Public Accounting Firm, has audited the Company's consolidated financial statements and has issued an attestation report on the effectiveness of the Company's internal control over financial reporting, as stated in their report, which is included herein.

/s/Gregory D. Johnson	/s/Thomas McFall
Gregory D. Johnson	Thomas McFall
Chief Executive Officer and	Executive Vice President and
Co-President	Chief Financial Officer
February 27, 2019	February 27, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on Internal Control Over Financial Reporting

We have audited O'Reilly Automotive, Inc. and subsidiaries' internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the "COSO criteria"). In our opinion, O'Reilly Automotive, Inc. and subsidiaries (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the consolidated balance sheets of the Company as of December 31, 2018 and 2017, the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) and our report dated February 27, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

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

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Kansas City, Missouri
February 27, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of O'Reilly Automotive, Inc. and Subsidiaries (the "Company") as of December 31, 2018 and 2017, the related consolidated statements of income, shareholders' equity and cash flows for each of the three years in the period ended December 31, 2018, and the related notes and financial statement schedule listed in the Index at Item 15(a) (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company at December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) ("PCAOB"), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 27, 2019, expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company's auditor since 1992.
Kansas City, Missouri
February 27, 2019

Consolidated Balance Sheets
(In thousands, except share data)

	December 31,	
	2018	2017
Assets		
Current assets:		
Cash and cash equivalents	\$31,315	\$46,348
Accounts receivable, less allowance for doubtful accounts \$13,238 in 2018 and \$12,717 in 2017	192,026	216,251
Amounts receivable from suppliers	78,155	76,236
Inventory	3,193,344	3,009,800
Other current assets	48,262	49,037
Total current assets	3,543,102	3,397,672
Property and equipment, at cost	5,645,552	5,191,135
Less: accumulated depreciation and amortization	2,058,550	1,847,329
Net property and equipment	3,587,002	3,343,806
Goodwill	807,260	789,058
Other assets, net	43,425	41,349
Total assets	\$7,980,789	\$7,571,885
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$3,376,403	\$3,190,029
Self-insurance reserves	77,012	71,695
Accrued payroll	86,520	77,147
Accrued benefits and withholdings	89,082	69,308
Income taxes payable	11,013	—
Other current liabilities	253,990	239,187
Total current liabilities	3,894,020	3,647,366
Long-term debt	3,417,122	2,978,390
Deferred income taxes	105,566	85,406
Other liabilities	210,414	207,677
Shareholders' equity:		
Preferred stock, \$0.01 par value:		
Authorized shares - 5,000,000		
Issued and outstanding shares - none	—	—
Common stock, \$0.01 par value:		
Authorized shares - 245,000,000		
Issued and outstanding shares - 79,043,919 as of December 31, 2018, and 84,302,187 as of December 31, 2017	790	843
Additional paid-in capital	1,262,063	1,265,043
Retained deficit	(909,186)	(612,840)
Total shareholders' equity	353,667	653,046

Total liabilities and shareholders' equity	\$7,980,789	\$7,571,885
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See accompanying Notes to consolidated financial statements.

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Consolidated Statements of Income
(In thousands, except per share data)

	For the Year Ended		
	December 31,		
	2018	2017	2016
Sales	\$9,536,428	\$8,977,726	\$8,593,096
Cost of goods sold, including warehouse and distribution expenses	4,496,462	4,257,043	4,084,085
Gross profit	5,039,966	4,720,683	4,509,011
Selling, general and administrative expenses	3,224,782	2,995,283	2,809,805
Operating income	1,815,184	1,725,400	1,699,206
Other income (expense):			
Interest expense	(122,129)	(91,349)	(70,931)
Interest income	2,521	2,347	4,224
Other, net	(1,489)	1,406	4,692
Total other expense	(121,097)	(87,596)	(62,015)
Income before income taxes	1,694,087	1,637,804	1,637,191
Provision for income taxes	369,600	504,000	599,500
Net income	\$1,324,487	\$1,133,804	\$1,037,691
Earnings per share-basic:			
Earnings per share	\$16.27	\$12.82	\$10.87
Weighted-average common shares outstanding – basic	81,406	88,426	95,447
Earnings per share-assuming dilution:			
Earnings per share	\$16.10	\$12.67	\$10.73
Weighted-average common shares outstanding – assuming dilution	82,280	89,502	96,720

See accompanying Notes to consolidated financial statements.

Consolidated Statements of Shareholders' Equity
(In thousands)

	Common Stock Shares	Par Value	Additional Paid-In Capital	Retained Earnings (Deficit)	Total
Balance at December 31, 2015	97,737	\$977	\$1,281,497	\$678,840	\$1,961,314
Net income	—	—	—	1,037,691	1,037,691
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	56	1	12,613	—	12,614
Net issuance of common stock upon exercise of stock options	757	8	47,386	—	47,394
Excess tax benefit from share-based compensation	—	—	55,994	—	55,994
Share based compensation	—	—	17,566	—	17,566
Share repurchases, including fees	(5,698)	(57)	(78,349)	(1,427,031)	(1,505,437)
Balance at December 31, 2016	92,852	\$929	\$1,336,707	\$289,500	\$1,627,136
Cumulative effective adjustment from adoption of ASU 2016-09	—	—	434	(266)	168
Net income	—	—	—	1,133,804	1,133,804
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	66	—	13,466	—	13,466
Net issuance of common stock upon exercise of stock options	685	7	33,222	—	33,229
Share based compensation	—	—	17,773	—	17,773
Share repurchases, including fees	(9,301)	(93)	(136,559)	(2,035,878)	(2,172,530)
Balance at December 31, 2017	84,302	\$843	\$1,265,043	\$(612,840)	\$653,046
Net income	—	—	—	1,324,487	1,324,487
Issuance of common stock under employee benefit plans, net of forfeitures and shares withheld to cover taxes	58	—	14,173	—	14,173
Net issuance of common stock upon exercise of stock options	745	8	57,160	—	57,168
Share based compensation	—	—	18,806	—	18,806
Share repurchases, including fees	(6,061)	(61)	(93,119)	(1,620,833)	(1,714,013)
Balance at December 31, 2018	79,044	\$790	\$1,262,063	\$(909,186)	\$353,667

See accompanying Notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(In thousands)

	For the Year Ended		
	December 31,		
	2018	2017	2016
Operating activities:			
Net income	\$1,324,487	\$1,133,804	\$1,037,691
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization of property, equipment and intangibles	258,937	233,845	217,866
Amortization of debt discount and issuance costs	3,470	2,871	2,451
Deferred income taxes	20,160	(4,593)	10,394
Share-based compensation programs	20,176	19,401	18,859
Other	9,895	11,790	6,434
Changes in operating assets and liabilities:			
Accounts receivable	18,138	(27,742)	(38,548)
Inventory	(163,367)	(231,802)	(119,270)
Accounts payable	177,676	253,265	322,427
Income taxes payable	22,903	14,220	26,880
Accrued payroll	9,373	5,430	12,616
Accrued benefits and withholdings	28,022	3,042	(256)
Other	(2,315)	(9,844)	13,169
Net cash provided by operating activities	1,727,555	1,403,687	1,510,713
Investing activities:			
Purchases of property and equipment	(504,268)	(465,940)	(476,344)
Proceeds from sale of property and equipment	4,784	4,464	5,119
Payments received on notes receivable	—	—	1,047
Other	(34,818)	(2,747)	(58,918)
Net cash used in investing activities	(534,302)	(464,223)	(529,096)
Financing activities:			
Proceeds from borrowings on revolving credit facility	2,414,000	3,101,000	—
Payments on revolving credit facility	(2,473,000)	(2,755,000)	—
Proceeds from the issuance of long-term debt	498,660	748,800	499,160
Payment of debt issuance costs	(3,923)	(7,590)	(4,125)
Repurchases of common stock	(1,714,013)	(2,172,530)	(1,505,437)
Net proceeds from issuance of common stock	72,146	45,762	59,634
Other	(2,156)	(156)	(552)
Net cash used in financing activities	(1,208,286)	(1,039,714)	(951,320)
Net (decrease) increase in cash and cash equivalents	(15,033)	(100,250)	30,297
Cash and cash equivalents at beginning of the year	46,348	146,598	116,301
Cash and cash equivalents at end of the year	\$31,315	\$46,348	\$146,598
Supplemental disclosures of cash flow information:			
Income taxes paid	\$311,376	\$496,728	\$569,677
Interest paid, net of capitalized interest	117,938	77,766	63,648

See accompanying Notes to consolidated financial statements.

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Notes to Consolidated Financial Statements

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of business:

O'Reilly Automotive, Inc. and its subsidiaries, collectively, "O'Reilly" or the "Company," is a specialty retailer and supplier of automotive aftermarket parts. The Company's stores carry an extensive product line, including new and remanufactured automotive hard parts, maintenance items and various automotive accessories. As of December 31, 2018, the Company owned and operated 5,219 stores in 47 states, servicing both do-it-yourself ("DIY") and the professional service provider customers. After the close of business on December 31, 2018, the Company acquired substantially all of the non-real estate assets of Bennett Auto Supply, Inc. and its affiliates, including 33 stores that were not included in the 2018 store count and were not operated by the Company in 2018. The Company's robust distribution system provides stores with same-day or overnight access to an extensive inventory of hard-to-find items not typically stocked in the stores of other auto parts retailers.

Segment reporting:

The Company is managed and operated by a single management team reporting to the chief operating decision maker. O'Reilly stores have similar characteristics, including the nature of the products and services, the type and class of customers and the methods used to distribute products and provide service to its customers and, as a whole, make up a single operating segment. The Company does not prepare discrete financial information with respect to product lines, types of customers or geographic locations and as such has one reportable segment.

Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All inter-company balances and transactions have been eliminated in consolidation.

Use of estimates:

The preparation of the consolidated financial statements, in conformity with United States generally accepted accounting principles ("GAAP"), requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results could materially differ from those estimates.

Cash equivalents:

Cash equivalents include investments with maturities of 90 days or less on the date of purchase.

Accounts receivable:

The Company maintains allowances for doubtful accounts for estimated losses resulting from the inability of the Company's customers to make required payments. The Company considers the following factors when determining if collection is reasonably assured: customer creditworthiness, past transaction history with the customer, current economic and industry trends and changes in customer payment terms. Allowances for doubtful accounts are determined based on historical experience and an evaluation of the current composition of accounts receivable. Amounts due to the Company from its Team Members are included in "Accounts receivable" on the accompanying Consolidated Balance Sheets. These amounts consist primarily of purchases of merchandise on Team Member accounts. Accounts receivable due from Team Members was approximately \$1.1 million and \$0.9 million as of December 31, 2018 and 2017, respectively.

The Company grants credit to certain customers who meet the Company's pre-established credit requirements. Concentrations of credit risk with respect to these receivables are limited because the Company's customer base consists of a large number of small customers, spreading the credit risk across a broad base. The Company also controls this credit risk through credit approvals, credit limits and accounts receivable and credit monitoring

procedures. Generally, the Company does not require security when credit is granted to customers. Credit losses are provided for in the Company's consolidated financial statements and have consistently been within management's expectations.

Amounts receivable from suppliers:

The Company receives concessions from its suppliers through a variety of programs and arrangements, including allowances for new stores and warranties, volume purchase rebates and co-operative advertising. Co-operative advertising allowances that are incremental to the Company's advertising program, specific to a product or event and identifiable for accounting purposes are reported as a reduction of advertising expense in the period in which the advertising occurred. All other supplier concessions are recognized as a reduction to the cost of sales. Amounts receivable from suppliers also include amounts due to the Company for changeover merchandise and product returns. The Company regularly reviews supplier receivables for collectability and assesses the need for a reserve for uncollectable amounts based on an evaluation of the Company's suppliers' financial positions and corresponding abilities to meet financial obligations. Management does not believe there is a reasonable likelihood that the Company will be unable to collect the amounts receivable from suppliers and the Company did not record a reserve for uncollectable amounts from suppliers in the consolidated financial statements as of December 31, 2018 or 2017.

Inventory:

Inventory, which consists of automotive hard parts, maintenance items, accessories and tools, is stated at the lower of cost or market. Inventory also includes capitalized costs related to procurement, warehousing and distribution centers (“DC”s). Cost has been determined using the last-in, first-out (“LIFO”) method, which more accurately matches costs with related revenues. Over time, as the Company’s merchandise inventory purchases have increased, the Company negotiated improved acquisition costs from its suppliers and the corresponding price deflation exhausted the Company’s LIFO reserve balance. The Company’s policy is to not write up the value of its inventory in excess of its replacement cost, and accordingly, the Company’s merchandise inventory has been effectively recorded at replacement cost since December 31, 2013. The replacement cost of inventory was \$3.20 billion and \$3.01 billion as of December 31, 2018 and 2017, respectively. LIFO costs exceeded replacement costs by \$107.3 million and \$157.3 million at December 31, 2018 and 2017, respectively.

Fair value of financial instruments:

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.

See Note 2 for further information concerning the Company’s financial and non-financial assets and liabilities measured at fair value on a recurring and non-recurring basis.

Property and equipment:

Property and equipment are carried at cost. Depreciation is calculated using the straight-line method, generally over the estimated useful lives of the assets. Leasehold improvements are amortized over the lesser of the lease term or the estimated economic life of the assets. The lease term includes renewal options determined by management at lease inception, for which failure to execute renewal options would result in a substantial economic penalty to the Company. Maintenance and repairs are charged to expense as incurred. Upon retirement or sale, the cost and accumulated depreciation are eliminated and the gain or loss, if any, is recognized in the Company’s Consolidated Statements of Income. The Company reviews long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be fully recoverable. See Note 3 for further information concerning the Company’s property and equipment.

Goodwill and other intangibles:

The accompanying Consolidated Balance Sheets at December 31, 2018 and 2017, include goodwill and other intangible assets recorded as the result of acquisitions. The Company reviews goodwill for impairment annually during the fourth quarter, or when events or changes in circumstances indicate the carrying value of these assets might exceed their current fair values. During 2018 and 2017, the goodwill impairment test included a quantitative assessment, which compared the fair value of the reporting unit to its carrying amount, including goodwill. The Company operates as a single reporting unit, and the Company determined that its fair value exceeded its carrying value, including goodwill, as of December 31, 2018 and 2017; as such, no goodwill impairment adjustment was required as of December 31, 2018 and 2017. Finite-lived intangibles are carried at cost and amortization is calculated using the straight-line method, generally over the estimated useful lives of the intangibles. See Note 4 for further information concerning the Company’s goodwill and other intangibles.

Impairment of long-lived assets:

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. When such an event occurs, the Company compares the sum of the undiscounted expected future cash flows of the asset (asset group) with the carrying amounts of the asset. If the undiscounted expected future cash flows are less than the carrying value of the assets, the Company measures the amount of impairment loss as the amount, by which the carrying amount of the assets exceeds the fair value of the assets. The Company has not historically recorded any material impairment charges to its long-lived assets. The Company recorded a charge of \$11.4 million related to its long-lived assets during the year ended December 31, 2018, primarily due to the disposal of a software project that was no longer expected to provide a long-term benefit.

Valuation of investments:

The Company has an unsecured obligation to pay, in the future, the value of deferred compensation and a Company match relating to employee participation in the Company's nonqualified deferred compensation plan (the "Deferred Compensation Plan"). The future obligation is adjusted to reflect the performance, whether positive or negative, of selected investment measurement options, chosen by

each participant. The Company invests in various marketable securities with the intention of selling these securities to fulfill its future obligations under the Deferred Compensation Plan. The investments in this plan were stated at fair value based on quoted market prices, were accounted for as trading securities and were included in “Other assets, net” on the accompanying Consolidated Balance Sheets as of December 31, 2018 and 2017. See Note 2 for further information concerning the fair value measurements of the Company’s marketable securities. See Note 10 for further information concerning the Company’s benefit plans.

Self-insurance reserves:

The Company uses a combination of insurance and self-insurance mechanisms to provide for potential liabilities for Team Member health care benefits, workers’ compensation, vehicle liability, general liability and property loss. With the exception of certain Team Member health care benefit liabilities, employment related claims and litigation, certain commercial litigation and certain regulatory matters, the Company obtains third-party insurance coverage to limit its exposure. The Company estimates its self-insurance liabilities by considering a number of factors, including historical claims experience and trend-lines, projected medical and legal inflation, growth patterns and exposure forecasts. Certain of these liabilities were recorded at an estimate of their net present value, using a credit-adjusted discount rate.

The following table identifies the components of the Company’s self-insurance reserves as of December 31, 2018 and 2017 (in thousands):

	December 31,	
	2018	2017
Self-insurance reserves (undiscounted)	\$157,538	\$147,664
Self-insurance reserves (discounted)	146,718	137,970

The current portion of the Company’s discounted self-insurance reserves totaled \$77.0 million and \$71.7 million as of December 31, 2018 and 2017, respectively, which was included in “Self-insurance reserves” on the accompanying Consolidate Balance Sheets as of December 31, 2018 and 2017. The remainder was included in “Other liabilities” on the accompanying Consolidated Balance Sheets as of December 31, 2018 and 2017.

Warranties:

The Company offers 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 suppliers. Certain suppliers 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 supplier 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, which are recorded as obligations at the time of sale, 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. See Note 7 for further information concerning the Company’s aggregate product warranty liabilities.

Litigation accruals:

O’Reilly is currently involved in litigation incidental to the ordinary conduct of the Company’s business. The Company accrues 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 accrues 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 accruals, will have a material adverse effect on its consolidated financial position, results of operations or cash flows in a particular quarter or annual period.

Share repurchases:

In January of 2011, the Company's Board of Directors approved a share repurchase program. Under the program, 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. All shares repurchased under the share repurchase program are retired and recorded under the par value method on the accompanying Consolidated Balance Sheets. See Note 8 for further information concerning the Company's share repurchase program.

Revenue recognition:

The Company's primary source of revenue is derived from the sale of automotive aftermarket parts and merchandise to its customers. Revenue is recognized when performance obligations under the terms of a contract with a customer are satisfied, in an amount representing the consideration the Company expects to receive in exchange for transferring goods to the customer. Generally, the Company's performance obligations are satisfied when the customer takes possession of the merchandise, which normally occurs immediately at the point of sale or through same day delivery of the merchandise. All sales are recorded net of estimated returns allowances, discounts and

taxes. The company does not recognize revenue related to product warranties, as these are considered assurance warranty obligations. See the new recent accounting pronouncements section for information regarding the adoption implementation of Accounting Standard Update No. 2014-09, “Revenue from Contracts with Customers (Topic 606).”

Over-the-counter retail sales to do-it-yourself (“DIY”) customers are recorded when the customer takes possession of the merchandise. Internet retail sales, included in sales to DIY customers, are recorded when the merchandise is shipped or when the customer picks up the merchandise at a store. Sales to professional service provider customers, also referred to as “commercial sales,” are recorded upon same-day delivery of the merchandise to the customer, generally at the customer’s place of business. Other sales and sales adjustments primarily includes sales to Team Members, wholesale sales to other retailers (“jobber sales”), equipment sales, discounts, rebates, deferred revenue adjustments relating to the Company’s retail loyalty program and adjustments to estimated sales returns allowances. Sales to Team Members are recorded when the Team Member takes possession of the merchandise. Jobber sales are recorded upon shipment of the merchandise from a regional distribution center with same-day delivery to the jobber customer’s location.

The Company maintains a retail loyalty program named O’Reilly O’Rewards, which represents a performance obligation. The Company records a deferred revenue liability, based on a breakage adjusted, estimated redemption rate, and a corresponding reduction in revenue in periods when loyalty points are earned by members. The Company recognizes revenue and a corresponding reduction to the deferred revenue liability in periods when loyalty program issued coupons are redeemed by members, generally within a period of three months from issuance, or when unredeemed points expire, generally within 12 months after the date they were earned, which satisfies the Company’s performance obligation. See Note 9 for further information concerning the Company’s revenue.

Cost of goods sold and selling, general and administrative expenses:

The following table illustrates the primary costs classified in each major expense category:

Cost of goods sold, including warehouse and distribution expenses	Selling, general and administrative expenses
Total cost of merchandise sold, including:	Payroll and benefit costs for store and corporate Team Members
Freight expenses associated with acquiring merchandise and with moving merchandise inventories from the Company’s distribution centers to the stores	Occupancy costs of store and corporate facilities
Defective merchandise and warranty costs	Depreciation and amortization related to store and corporate assets
Supplier allowances and incentives, including:	Vehicle expenses for store delivery services
Allowances that are not reimbursements for specific, incremental and identifiable costs	Self-insurance costs
Cash discounts on payments to suppliers	Closed store expenses
Costs associated with the Company’s supply chain, including:	Other administrative costs, including:
Payroll and benefit costs	Accounting, legal and other professional services
Warehouse occupancy costs	Bad debt, banking and credit card fees
Transportation costs	Supplies
Depreciation	Travel
Inventory shrinkage	Advertising costs

Operating leases:

The Company recognizes rent expense on a straight-line basis over the lease terms of its stores, DCs and corporate offices. Generally, the lease term for stores and corporate offices is the base lease term and the lease term for DCs includes the base lease term plus certain renewal option periods, for which renewal is reasonably assured and failure

to exercise the renewal option would result in a significant economic penalty. The Company's policy is to amortize leasehold improvements associated with the Company's operating leases over the lesser of the lease term or the estimated economic life of those assets. See Note 6 for further information concerning the Company's operating leases.

Advertising expenses:

Advertising expense consists primarily of expenses related to the Company's integrated marketing program, which includes radio, in-store, digital and social media promotions, as well as sports and event sponsorships and direct mail and newspaper promotional distribution. The Company expenses advertising costs as incurred. The Company also participates in cooperative advertising arrangements with certain of its suppliers. Advertising expense, net of cooperative advertising allowances from suppliers that were incremental to the advertising program, specific to the product or event and identifiable for accounting purposes, total \$81.4 million, \$83.7 million and \$83.0 million for the years ended December 31, 2018, 2017 and 2016, respectively, which were included in "Selling, general and administrative expenses" on the accompanying Consolidated Statements of Income.

Share-based compensation and benefit plans:

The Company sponsors employee share-based benefit plans and employee and director share-based compensation plans. The Company recognizes compensation expense over the requisite service period for its share-based plans based on the fair value of the awards on the date of the grant, award or issuance. Share-based plans include stock option awards issued under the Company's employee incentive plans and director stock plan, stock issued through the Company's employee stock purchase plan and restricted stock awarded to employees and directors through other compensation plans. See Note 10 for further information concerning the Company's share-based compensation and plans.

Pre-opening expenses:

Costs associated with the opening of new stores, which consist primarily of payroll and occupancy costs, are charged to "Selling, general and administrative expenses" on the accompanying Consolidated Statements of Income as incurred. Costs associated with the opening of new distribution centers, which consist primarily of payroll and occupancy costs, are included in "Cost of goods sold, including warehouse and distribution expenses" on the accompanying Consolidated Statements of Income as incurred.

Interest expense:

The Company capitalizes interest costs as a component of construction in progress, based on the weighted-average interest rates incurred on its long-term borrowings. Total interest costs capitalized for the years ended December 31, 2018, 2017 and 2016, were \$9.1 million, \$8.5 million and \$7.9 million, respectively, which were included in "Interest expense" on the accompanying Consolidated Statements of Income.

In conjunction with the issuance or amendment of long-term debt instruments, the Company incurs various costs, including debt registration fees, accounting and legal fees and underwriter and book runner fees. Debt issuance costs related to the Company's long-term unsecured senior notes are recorded as a reduction of the principal amount of the corresponding unsecured senior notes. Debt issuance costs related to the Company's unsecured revolving credit facility are recorded as an asset. These debt issuance costs have been deferred and are being amortized over the term of the corresponding debt instrument and the amortization expense is included in "Interest expense" on the accompanying Consolidated Statements of Income. Deferred debt issuance costs totaled \$17.1 million and \$15.9 million, net of accumulated amortization, as of December 31, 2018 and 2017, respectively, of which \$1.5 million and \$2.0 million were included in "Other assets, net" as of December 31, 2018 and 2017, respectively, with the remainder included in "Long-term debt" on the accompanying Consolidated Balance Sheets.

The Company issued its long-term unsecured senior notes at a discount. The original issuance discounts on the senior notes are recorded as a reduction of the principal amount of the corresponding senior notes and are accreted over the term of the applicable senior note, with the accretion expense included in "Interest expense" on the accompanying Consolidated Statements of Income. Original issuance discounts, net of accretion, totaled \$4.3 million and \$3.7 million as of December 31, 2018 and 2017, respectively.

See Note 5 for further information concerning debt issuance costs and original issuance discounts associated with the Company's issuances of long-term debt instruments.

Income taxes:

The Company accounts for income taxes using the liability method, which requires the recognition of deferred tax assets and liabilities for the expected future tax consequences of events that have been included in the financial statements. Under this method, deferred tax assets and liabilities are determined based on differences between the GAAP basis and tax basis of assets and liabilities using enacted tax rules and rates currently scheduled to be in effect for the year in which the differences are expected to reverse. Tax carry forwards are also recognized in deferred tax assets and liabilities under this method. The effect of a change in tax rates on deferred tax assets and liabilities is

recognized in income in the period of the enactment date. The Company would record a valuation allowance against deferred tax assets to the extent it is more likely than not the amount will not be realized, based upon evidence available at the time of the determination and any change in the valuation allowance is recorded in the period of a change in such determination. The Company did not establish a valuation allowance for deferred tax assets as of December 31, 2018 and 2017, as it was considered more likely than not that deferred tax assets were realizable through a combination of future taxable income, the realization of deferred tax liabilities and tax planning strategies.

The Company invests in certain tax credit funds that promote renewable energy. These investments generate a return primarily through the realization of federal tax credits and other tax benefits. The Company accounts for its renewable energy investments using the deferral method. Under this method, realized investment tax credits are recognized as a reduction of the renewable energy investments.

The Company regularly reviews its potential tax liabilities for tax years subject to audit. The amount of such liabilities is based on various factors, such as differing interpretations of tax regulations by the responsible tax authority, experience with previous tax audits and applicable tax law rulings. In management's opinion, adequate provisions for income taxes have been made for all years presented. The estimates of the Company's potential tax liabilities contain uncertainties because management must use judgment to estimate the exposures

associated with the Company's various tax positions and actual results could differ from estimates. See Note 13 for further information concerning the Company's income taxes.

Earnings per share:

Basic earnings per share is calculated by dividing net income by the weighted-average number of common shares outstanding during the fiscal period. Diluted earnings per share is calculated by dividing the weighted-average number of common shares outstanding plus the common stock equivalents associated with the potential impact of dilutive stock options. Certain common stock equivalents that could potentially dilute basic earnings per share in the future were not included in the fully diluted computation because they would have been antidilutive. Generally, stock options are antidilutive and excluded from the earnings per share calculation when the exercise price exceeds the market price of the common shares. See Note 14 for further information concerning the Company's common stock equivalents.

New accounting pronouncements:

In May of 2014, the Financial Accounting Standards Board (the "FASB") issued Accounting Standard Update ("ASU") No. 2014-09, "Revenue from Contracts with Customers (Topic 606)," now codified in the Accounting Standards Codification ("Topic 606"). Under Topic 606, 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. Topic 606 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. The Company adopted this guidance using the modified retrospective transition method with its first quarter ended March 31, 2018. Results of the year ended December 31, 2018, were presented under Topic 606, while amounts in prior periods were not adjusted and continue to be reported under the accounting standard in effect for the prior periods. The adoption of Topic 606 did not have a material impact on the Company's business process, internal controls, systems, consolidated financial condition, results of operations or cash flows; as such, a cumulative effective adjustment was not recorded to opening retained earnings.

In February of 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)" ("ASU 2016-02"). Under ASU 2016-02, an entity will be required to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. ASU 2016-02 offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. In July of 2018, the FASB issued ASU No. 2018-11, "Leases (Topic 842): Targeted Improvement" ("ASU 2018-11"), to provide an additional, optional transition method for adopting ASU 2016-02, which allows for an entity to choose to apply the new lease standard at adoption date and recognize a cumulative-effective adjustment to the opening balance of retained earnings in the period of adoption, while comparative periods presented will continue to be in accordance with current U.S. GAAP Topic 840. For public companies, Topic 842 is effective for annual reporting periods beginning after December 15, 2018, including interim periods within that reporting period. The Company established a task force, composed of multiple functional groups inside of the Company, which has substantially completed its objective of reviewing the critical components of the standard and implementing changes to systems and controls necessary to support the adoption of the new standard beginning with its first quarter ending March 31, 2019. The Company will adopt this guidance using the additional, optional transition method, the package of transitional practical expedients relating to the identification, classification and initial direct costs of leases commencing before the effective date of Topic 842, and the transitional practical expedient for the treatment of existing land easements; however, the Company will not elect the hindsight transitional practical expedient. The Company will make an accounting policy election to not apply recognition requirements of the guidance to short-term leases. The adoption of the new guidance will have a material impact on the total assets and liabilities reported on the Company's consolidated balance sheet, and the Company estimates net right-of-use assets and lease liabilities to be approximately \$1.9 billion and \$2.0 billion, respectively, as of January 1, 2019. The difference between these amounts is primarily due to the accrual for straight-line rent expense. These estimates are based on the Company's current lease

portfolio and changes to the lease portfolio, including the total number of leases, lease commencement and end dates and lease termination expectations, as well as changes in anticipated lease discount rates, could impact these estimates. The Company expects to make an adjustment to opening “Retained Deficit” on the Consolidated Balance Sheet of approximately \$1.4 million related to the adoption of this new guidance. The adoption of this new guidance will not have a material impact on the Company’s results of operations, cash flows, liquidity or the Company’s covenant compliance under its existing credit agreement.

In March of 2016, the FASB issued ASU No. 2016-09, “Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting” (“ASU 2016-09”). Under ASU 2016-09, several aspects of the accounting for share-based payment transactions, including tax consequence, classification of awards as equity or liabilities, and classification on the statement of cash flows, were changed. The Company adopted this guidance with its first quarter ending March 31, 2017. Upon adoption of ASU 2016-09, the Company elected to change its accounting policy to account for forfeitures as they occur; this change was applied using the modified retrospective transition method with a cumulative effect adjustment of \$0.3 million to opening “Retained earnings” on the accompanying Consolidated Balance Sheet as of December 31, 2017. The Company applied the amendments related to the presentation of tax withholdings on the statement of cash flows using the retrospective transition method, which resulted in \$0.6 million of tax withholdings being reclassified from “Net cash provided by operating activities” to “Net cash used in financing activities” on the accompanying Consolidated Statement of Cash Flows for the year ended December 31, 2016. The Company elected to apply the amendments related

to the presentation of excess tax benefits on the statement of cash flows using the retrospective transition method, which resulted in \$56.0 million of excess tax benefits related to share-based compensation being reclassified from “Net cash used in financing activities” to “Net cash provided by operating activities” in the accompanying Consolidated Statement of Cash Flows for the year ended December 31, 2016. ASU 2016-09 amendments related to accounting for excess tax benefits in the income statement were adopted prospectively, resulting in the reduction of \$34.7 million and \$48.7 million in “Provision for income taxes” in the accompanying Consolidated Statements of Income for the years ended December 31, 2018, and 2017, respectively.

In June of 2016, the FASB issued ASU No. 2016-13, “Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments” (“ASU 2016-13”). Under ASU 2016-13, businesses and other organizations are required to present financial assets, measured at amortized costs basis, at the net amount expected to be collected. The allowance for credit losses is a valuation account that is deducted from the amortized cost basis, such as trade receivables. The measurement of expected credit loss will be based on historical experience, current conditions, and reasonable and supportable forecasts that affect the collectibility of the reported amount. For public companies, ASU 2016-13 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires a modified retrospective adoption, with early adoption permitted. The Company will adopt this guidance beginning with its first quarter ending March 31, 2020. The application of this new guidance is not expected to have a material impact on the Company’s consolidated financial condition, results of operations or cash flows.

In January of 2017, the FASB issued ASU No. 2017-04, “Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment” (“ASU 2017-04”). ASU 2017-04 eliminates the second step in the previous process for goodwill impairment testing; instead, the test is now a one-step process that calls for goodwill impairment loss to be measured as the excess of the reporting unit’s carrying amount over its fair value. For public companies, ASU 2017-04 is effective for annual reporting periods beginning after December 15, 2019, including interim periods within that reporting period, and requires prospective adoption, with early adoption after January 1, 2017. The Company will adopt this guidance beginning with its first quarter ending March 31, 2019. The application of this new guidance is not expected to have a material impact on the Company’s consolidated financial condition, results of operations or cash flows.

In August of 2018, the FASB issued ASU No. 2018-15, “Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40): Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract” (“ASU 2018-15”). ASU 2018-15 aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. ASU 2018-15 is effective for annual reporting periods beginning after December 15, 2019, and interim periods within that reporting period, and allows for either retrospective or prospective adoption, with early adoption permitted. The Company early adopted this guidance with its third quarter ended September 30, 2018, using the prospective adoption method. The Company did not capitalize any implementation costs incurred in cloud computing arrangements that are service contracts subsequent to adoption, and therefore, the adoption of this new guidance did not impact the Company’s consolidated financial condition, results of operations or cash flows during the period. The Company does not expect that the application of this new guidance will have a material impact on the Company’s consolidated financial condition, results of operations or cash flows.

NOTE 2 – FAIR VALUE MEASUREMENTS

Financial assets and liabilities measured at fair value on a recurring basis:

The Company’s marketable securities were accounted for as trading securities and the carrying amount of its marketable securities were included in “Other assets, net” on the accompanying Consolidated Balance Sheets as of December 31, 2018 and 2017. The Company recorded a decrease in fair value related to its marketable securities in

the amount of \$1.7 million for the year ended December 31, 2018, and an increase in the amount of \$3.6 million for the year ended December 31, 2017, which were included in “Other income (expense)” on the accompanying Consolidated Statements of Income.

The tables below identify the estimated fair value of the Company's marketable securities, determined by reference to quoted market prices (Level 1), as of December 31, 2018 and 2017 (in thousands):

December 31, 2018				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	\$25,493	\$—	\$—	\$25,493

December 31, 2017				
	Quoted Prices in Active Markets for Identical Instruments (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Total
Marketable securities	\$25,706	\$—	\$—	\$25,706

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 December 31, 2018 and 2017, 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 and unsecured revolving credit facility borrowings are included in "Long-term debt" on the accompanying Consolidated Balance Sheets as of December 31, 2018 and 2017.

The table below identifies the estimated fair value of the Company's senior notes, using the market approach. The fair values as of December 31, 2018 and 2017, were determined by reference to quoted market prices of the same or similar instruments (Level 2) (in thousands):

	December 31, 2018		December 31, 2017	
	Carrying Amount	Estimated Fair Value	Carrying Amount	Estimated Fair Value
Senior Notes	\$3,130,122	\$3,116,046	\$2,632,390	\$2,728,167

The carrying amount of the Company's unsecured revolving credit facility approximates fair value, as borrowings under the facility bear variable interest at current market rates. See Note 5 for further information concerning the Company's senior notes and unsecured revolving credit facility.

The accompanying Consolidated Balance Sheets include other financial instruments, including cash and cash equivalents, accounts receivable, amounts receivable from suppliers 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 – PROPERTY AND EQUIPMENT

The following table identifies the types and balances of property and equipment included in “Property and equipment, at cost” on the accompanying Consolidated Balance Sheets as of December 31, 2018 and 2017, and includes the estimated useful lives for its types of property and equipment (in thousands, except original useful lives):

	Original Useful Lives	December 31, 2018	December 31, 2017
Land		\$ 745,050	\$ 695,669
Buildings and building improvements	15 – 39 years	2,147,969	1,968,079
Leasehold improvements	3 – 25 years	686,058	626,714
Furniture, fixtures and equipment	3 – 20 years	1,350,808	1,250,690
Vehicles	5 – 10 years	424,421	392,130
Construction in progress		291,246	257,853
Total property and equipment		5,645,552	5,191,135
Less: accumulated depreciation and amortization		2,058,550	1,847,329
Net property and equipment		\$ 3,587,002	\$ 3,343,806

The Company recorded depreciation and amortization expense related to property and equipment in the amounts of \$246.0 million, \$232.7 million and \$217.0 million for the years ended December 31, 2018, 2017 and 2016, respectively, which were primarily included in “Selling, general and administrative expenses” on the accompanying Consolidated Statements of Income.

The Company recorded a charge of \$11.4 million related to property and equipment for the year ended December 31, 2018, primarily due to the disposal of a software project that was no longer expected to provide a long-term benefit, which was included in “Selling, general and administrative expenses” on the accompanying Consolidated Statements of Income.

NOTE 4 – GOODWILL AND OTHER INTANGIBLES

Goodwill:

Goodwill is reviewed for impairment annually during the fourth quarter, or more frequently if events or changes in business conditions indicate that impairment may exist. Goodwill is not amortizable for financial statement purposes. The Company did not record any goodwill impairment during the years ended December 31, 2018 or 2017.

The carrying amount of the Company’s goodwill was included in “Goodwill” on the accompanying Consolidate Balance Sheets as of December 31, 2018 and 2017. During the year ended December 31, 2018 and 2017, the Company recorded an increase in goodwill of \$18.2 million and \$3.7 million, respectively, resulting from small acquisitions.

The following table identifies the changes in goodwill for the years ended December 31, 2018 and 2017 (in thousands):

	2018	2017
Goodwill, balance at January 1,	\$789,058	\$785,399
Change in goodwill	18,202	3,659
Goodwill, balance at December 31,	\$807,260	\$789,058

As of December 31, 2018 and 2017, other than goodwill, the Company did not have any indefinite-lived intangible assets.

Intangibles other than goodwill:

The following table identifies the components of the Company’s amortizable intangibles as of December 31, 2018 and 2017 (in thousands):

	Cost of Amortizable Intangibles		Accumulated Amortization (Expense) Benefit		Net Amortizable Intangibles	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Amortizable intangible assets:						
Favorable leases	\$18,930	\$22,500	\$(12,564)	\$(14,495)	\$6,366	\$8,005
Non-compete agreements	2,757	1,851	(679)	(464)	2,078	1,387
Total amortizable intangible assets	\$21,687	\$24,351	\$(13,243)	\$(14,959)	\$8,444	\$9,392
Unfavorable leases	\$10,180	\$14,470	\$8,486	\$11,853	\$1,694	\$2,617

During the years ended December 31, 2018 and 2017, the Company recorded non-compete agreement assets in conjunction with small acquisitions in the amounts of \$0.9 million and \$0.2 million, respectively.

The Company recorded favorable lease assets in conjunction with a previous acquisition; these favorable lease assets represent the values of operating leases acquired with favorable terms. These favorable leases had an estimated weighted-average remaining useful life of approximately 8.4 years as of December 31, 2018. For the years ended December 31, 2018, 2017 and 2016