

# Genuine Parts Company

2006 Annual Report



Year	Net Sales	Income Before Income Taxes	Income Taxes	Net Income	Shareholders' Equity End of Year
1928	\$ 75,129	\$ -2,570	\$ -	\$ -2,570	\$ 38,756
1929	227,978	8,027	599	7,428	49,837
1930	339,732	15,666	1,158	14,508	60,591
1931	402,463	21,516	1,857	19,659	78,097
1932	482,525	16,839	2,787	14,052	90,187
1933	629,751	34,614	6,160	28,454	109,025
1934	904,580	52,115	10,159	41,956	149,176
1935	1,035,477	38,503	7,140	31,363	171,238
1936	1,299,185	70,234	13,187	57,047	185,119
1937	1,520,199	72,622	17,647	54,975	240,140
1938	1,858,252	78,305	18,185	60,120	358,621
1939	3,180,241	136,902	27,320	109,582	476,750
1940	3,928,342	176,301	50,505	125,796	623,521
1941	6,109,724	348,690	149,020	199,670	738,536
1942	6,592,707	337,252	204,234	133,018	859,449
1943	8,205,316	430,634	260,084	170,550	1,032,182
1944	10,084,893	489,547	310,082	179,465	1,202,955
1945	11,355,633	532,944	323,302	209,642	1,415,974
1946	19,237,291	1,621,541	650,060	971,481	2,379,001
1947	18,531,472	1,088,967	429,045	659,922	3,029,334
1948	20,729,280	1,176,590	438,498	738,092	4,005,910
1949	19,845,875	1,067,096	420,175	646,921	4,372,831
1950	24,447,042	1,454,832	636,275	818,557	4,966,086
1951	26,244,669	1,168,405	601,386	567,019	5,325,561
1952	28,468,962	1,416,235	744,330	671,905	5,647,553
1953	29,731,105	1,408,213	736,190	672,023	6,022,077
1954	30,744,504	1,642,148	864,331	777,817	6,449,894
1955	34,073,288	1,921,777	1,020,148	901,629	7,001,523
1956	41,325,377	2,473,384	1,309,667	1,163,717	7,815,241
1957	48,140,313	3,328,598	1,752,800	1,575,798	8,969,272
1958	56,504,293	4,251,175	2,261,582	1,989,593	10,807,320
1959	71,581,580	6,001,005	3,165,042	2,835,963	13,285,215
1960	75,010,726	5,661,551	2,988,000	2,673,551	14,967,697
1961	80,533,146	6,491,113	3,481,000	3,010,113	17,142,687
1962	90,248,450	7,107,524	3,795,000	3,312,524	19,213,273
1963	96,651,445	7,210,807	3,850,000	3,360,807	21,189,880
1964	120,313,692	9,324,827	4,620,000	4,704,827	29,268,289
1965	171,545,228	12,262,510	5,890,000	6,372,510	45,565,926
1966	175,132,785	12,409,363	6,030,000	6,379,363	47,308,163
1967	204,893,008	14,918,758	7,272,000	7,491,411	55,679,256
1968	245,443,798	19,330,334	10,362,000	8,794,941	63,649,275
1969	303,455,677	24,228,557	13,240,000	10,778,467	77,437,679
1970	340,036,395	28,163,228	14,600,000	13,290,852	85,290,945
1971	387,138,252	33,897,667	16,966,000	16,535,006	95,476,147
1972	450,500,768	36,104,767	18,200,000	17,567,931	108,053,465
1973	501,189,438	42,088,098	21,280,000	20,341,677	121,548,638
1974	572,833,282	50,234,298	25,408,000	24,005,057	137,156,965
1975	678,353,280	63,552,088	32,650,000	29,981,108	163,092,941
1976	846,192,692	79,321,897	40,538,000	37,763,166	206,861,402
1977	942,958,756	88,365,511	44,918,000	42,243,015	233,641,292
1978	1,148,632,000	105,070,000	53,429,000	50,263,000	275,127,000
1979	1,337,468,000	121,953,000	58,808,000	61,715,000	320,706,000
1980	1,431,713,000	133,996,000	64,545,000	67,833,000	359,889,000
1981	1,584,642,000	154,271,000	74,471,000	77,543,000	410,689,000
1982	1,936,524,000	193,560,000	92,552,000	100,167,000	581,915,000
1983	2,068,231,000	200,822,000	97,188,000	103,634,000	636,218,000
1984	2,303,594,000	234,713,000	115,046,000	119,667,000	701,113,000
1985	2,332,544,000	245,203,000	118,962,000	126,241,000	729,231,000
1986	2,394,072,000	240,565,000	119,013,000	121,552,000	758,493,000
1987	2,606,246,000	262,068,000	113,776,000	148,292,000	760,256,000
1988	2,941,963,000	290,445,000	109,072,000	181,373,000	863,159,000
1989	3,161,198,000	321,877,000	122,389,000	199,488,000	971,764,000
1990	3,319,394,000	333,219,000	126,623,000	206,596,000	1,033,100,000
1991	3,434,642,000	335,027,000	127,350,000	207,677,000	1,126,718,000
1992	3,668,814,000	353,998,000	134,210,000	219,788,000	1,235,366,000
1993	4,384,294,000	425,829,000	166,961,000	257,813,000	1,445,263,000
1994	4,858,415,000	474,868,000	186,320,000	288,548,000	1,526,165,000
1995	5,261,904,000	510,794,000	201,626,000	309,168,000	1,650,882,000
1996	5,697,592,000	545,233,000	215,157,000	330,076,000	1,732,054,000
1997	5,981,224,000	565,600,000	223,203,000	342,397,000	1,859,468,000
1998	6,587,576,000	589,117,000	233,323,000	355,794,000	2,053,332,000
1999	7,950,822,000	628,067,000	250,445,000	377,622,000	2,177,517,000
2000	8,369,857,000	646,750,000	261,427,000	385,323,000	2,260,806,000
2001	8,220,668,000	603,813,000*	242,289,000*	361,524,000*	2,345,123,000
2002	8,258,927,000	605,736,000	238,236,000	367,500,000**	2,130,009,000
2003	8,449,300,000	571,743,000	218,101,000	353,642,000**	2,312,283,000
2004	9,097,267,000	635,919,000	240,367,000	395,552,000	2,544,377,000
2005	9,783,050,000	709,064,000	271,630,000	437,434,000	2,693,957,000
2006	10,457,942,000	770,916,000	295,511,000	475,405,000	2,549,991,000

Financial information as reported in the Company's annual reports (includes discontinued operations)

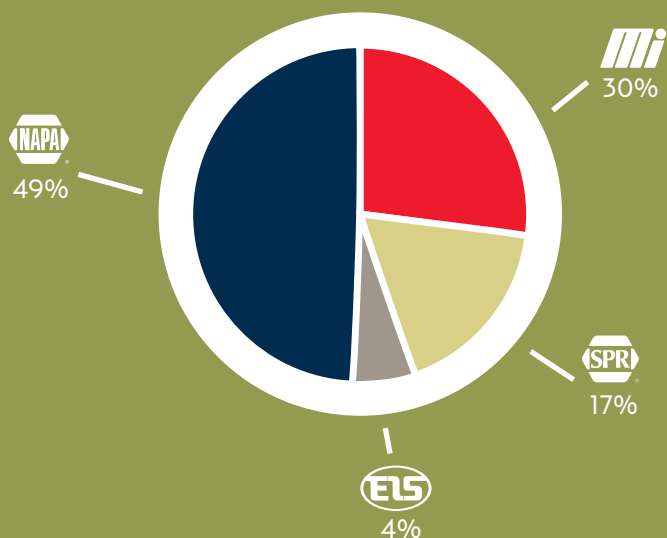
\*Excludes facility consolidation and impairment charges \*\*Excludes cumulative effect adjustment

Genuine Parts Company, founded in 1928, is a service organization engaged in the distribution of automotive replacement parts, industrial replacement parts, office products and electrical/electronic materials. The Company serves numerous customers from more than 2,000 operations and has approximately 32,000 employees.

## Financial Highlights

	2006	Increase	2005	Increase	2004
Net Sales	<b>\$ 10,457,942,000</b>	7%	\$ 9,783,050,000	8%	\$ 9,097,267,000
Income Before Income Taxes	<b>770,916,000</b>	9%	709,064,000	12%	635,919,000
Income Taxes	<b>295,511,000</b>	9%	271,630,000	13%	240,367,000
Net Income	<b>475,405,000</b>	9%	437,434,000	11%	395,552,000
Current Ratio	<b>3.2</b>	-	3.0	-	3.2
Shareholders' Equity	<b>2,549,991,000</b>	-5%	2,693,957,000	6%	2,544,377,000
Rate Earned on Shareholders' Equity at the Beginning of the Year	<b>17.6%</b>	-	17.2%	-	17.1%
Average Common Shares Outstanding- Assuming Dilution	<b>172,486,000</b>	-	175,007,000	-	175,660,000
Per Common Share:					
Diluted Net Income	<b>\$2.76</b>	10%	\$2.50	11%	\$2.25
Dividends Declared	<b>\$1.35</b>	8%	\$1.25	4%	\$1.20

GPC Net Sales by Segment



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# Automotive Parts Group



49% of Total GPC Net Sales

The Automotive Parts Group, the largest division of GPC, distributes automotive replacement parts, accessory items and service items.

**This Group Operates:** 58 NAPA Distribution Centers  
 4 Balkamp Distribution Centers  
 5 Rayloc Facilities  
 4 Johnson Industries Facilities  
 242 NAPA Canada/UAP Facilities  
 20 Auto Todo Facilities (Mexico)  
 1,100 Company Owned  
 NAPA AUTO PARTS stores

In total, serves approx. 5,800 NAPA AUTO PARTS stores throughout the U.S. and over 660 wholesalers in Canada.

**Market Emphasis:** Offers a broad assortment of automotive related products and services to both Wholesale/Do-it-for-Me and Retail/Do-it-Yourself customers.



**Major Products:** Access to over 320,000 items including:  
 Automotive Replacement Parts  
 Farm and Marine Supplies  
 Tools and Equipment  
 Paint and Refinishing Supplies  
 Automotive Accessories  
 Heavy Duty Parts

These products cover substantially all motor vehicle models.

**Market Advantage:** Provides expert service capabilities and quality product offering – gained over 79 years serving the aftermarket. Service capabilities include product availability, on-time delivery and a vast array of wholesale program offerings. Also committed to improved store merchandising and in-store service. Quality product offering includes thousands of products under the NAPA brand name. The NAPA brand is widely recognized by North American consumers and is often the first choice of the professional customer.

**Web site:** napaonline.com  
**Headquarters:** Atlanta, Georgia

# Industrial Parts Group



30% of Total GPC Net Sales

The Industrial Parts Group offers access to nearly 3 million industrial replacement parts including: bearings; mechanical, industrial automation, electrical, pneumatic and hydraulic replacement parts; hose and rubber products; and industrial supply products.

**Locations in U.S., Puerto Rico and Canada:**  
 9 Distribution Centers  
 464 Branches  
 36 Service Centers

**Market Emphasis:** Serves well over 100,000 industrial companies throughout North America and in all industry segments.

**Service Capabilities Include:**  
 24/7/365 product delivery  
 Repair and fabrication  
 Quality processes (ISO)  
 Technical expertise  
 Asset repair tracking  
 Application and design  
 Inventory management and Logistics  
 Training programs  
 E-business technologies  
 Storeroom and replenishment tracking



**Major Products:**  
 Bearings  
 Electrical Power Transmission  
 Pneumatics  
 Motion Control  
 Industrial Supplies  
 Mechanical Power Transmission  
 Hydraulics  
 Linear  
 Hose & Rubber

**Market Advantage:** Offers comprehensive product selection and specialized services – developed over 61 years serving the industry. Continued product expansion includes hydraulics and pneumatics, industrial automation products, material handling lines and industrial supplies. Specialized service offerings include Cost Management Processes (CMP), Asset and Repair Tracking (ART), Storeroom and Replenishment Tracking (START) and Motion Institute Training Center.

**Web site:** motionindustries.com  
**Headquarters:** Birmingham, Alabama

# Office Products Group



17% of Total GPC Net Sales

The Office Products Group distributes over 40,000 business products from 42 distribution centers in the U.S. and Canada. Sells through a network of thousands of customers, including independent business product resellers, large contract stationers, national office supply superstores, mail order distributors and Internet resellers.

**Locations:** 36 Full-Stocking Distribution Centers  
2 Furniture Only Distribution Centers  
4 S.P. Richards Canada Distribution Centers

**Market Emphasis:** Makes available for resale most products used in business or by business. Allows the Company's resellers to become the single source for the business products end user.

**Proprietary Brands of Products:**  
Sparco Brand office supplies  
Compuessory computer accessories  
Nature Saver recycled office supplies  
Genuine Joe cleaning and breakroom supplies  
Lorell furniture  
Elite Image printer supplies  
Integra writing instruments



**Major Products:**  
Filing and General Office Supplies  
Cleaning and Breakroom Supplies  
Technology Supplies and Accessories  
Business Machines  
Desk Accessories  
Healthcare Supplies  
Office Furniture  
Consumer Electronics  
School Supplies  
Writing Instruments  
Paper Products

**Market Advantage:** Offers quality products, excellent service and innovative marketing programs and dealer services – established over rich history dating to the 1800's. Continuous product expansion utilizing leading manufacturers worldwide. Broad offering includes seven proprietary product brands. Innovative services and programs important to resellers include enhanced catalog offerings, a complementary array of flyers, dealer management support tools and the SPR Advantage Program.

**Web site:** sprichards.com  
**Headquarters:** Atlanta, Georgia

# Electrical/ Electronic Materials Group



4% of Total GPC Net Sales

The Electrical/Electronic Materials Group distributes process materials, production supplies, industrial MRO and value added fabricated parts. Primary markets are the electrical OEM, motor apparatus repair and assembly markets. Products range from insulating and conductive materials, to assembly tools, test equipment, safety and shop supplies, industrial products, and customized parts.

**Market Emphasis:** By stocking a broad product line locally, offering a variety of inventory management solutions, and providing value-added custom-engineered products, EIS is positioned as the single source supplier to electrical and electronic assembly manufacturers throughout North America.

**Locations in U.S., Puerto Rico, Mexico and Canada:**  
31 Branches and 3 Fabrication Facilities



**Major Products:** Supplies over 100,000 critical products including:  
Adhesives, Silicone and Encapsulants  
Hand Tools/Soldering Equipment  
Static Control Products  
Insulating Papers  
Solder and Chemicals  
Industrial MRO Materials  
Magnet Wire  
Pressure Sensitive Tapes  
EMI/RFI Shielding  
Motors and Bearings  
Varnish and Resins

**Market Advantage:** With 57 years in the industry, provides quality products from the leading manufacturers in the electrical and electronic industries. Also has leading product engineers and full service facilities to deliver world class solutions rapidly. Provides the best selection, the most responsive service and the best delivery.

**Web site:** eis-inc.com  
**Headquarters:** Atlanta, Georgia



# To our Shareholders

We are pleased to report that Genuine Parts Company achieved another record level of sales and earnings in 2006.

Total sales for 2006 rose to \$10.5 billion, an increase of 7% compared to 2005, and our first year to surpass the \$10 billion revenue milestone. This is a significant achievement for the GPC team! Our progress in 2006 follows 8% increases in revenues in both 2004 and 2005 and we remain encouraged by the positive trend in total sales growth for the Company. Net earnings for the year were \$475 million, an increase of 9% compared to 2005, and earnings per share were \$2.76, up 10%. 2006 represents our third consecutive year of double-digit growth in earnings per share.

With another record year behind us, we have now increased sales in 56 of the last 57 years and increased profits in 44 of the last 46 years. We are proud of this record and we feel that it reflects our unending commitment to steady and consistent growth at Genuine Parts Company.

## Financial Strength

Ongoing asset management initiatives and the continued generation of consistent and strong cash flows helped to further strengthen our financial condition in 2006. Our year-end ratio of current assets to current liabilities was 3.2 to 1 and working capital as a percentage of sales improved for the third consecutive year to 25%. Cash flow from operations was consistent with last year at \$434 million and, after deducting dividends and capital expenditures, we generated positive free cash flow of \$79 million. At December 31, 2006, our total debt was \$500 million, which was unchanged from the prior year.

During 2006, we used our cash to repurchase 2.9 million shares of our Company stock. We continue to view this as a good use of cash and, at our August 2006 Board meeting, our Directors authorized an additional 15 million shares for repurchase. As of December 31, 2006, we have 15.3 million shares available for repurchase under our current program. We will continue to make opportunistic share repurchases in 2007. We also invested \$126 million in capital expenditures in our businesses and we returned \$228 million to shareholders through dividends paid in 2006.

of increases. The Board of Directors, at its meeting on February 19, 2007, raised the cash dividend payable April 2, 2007 by 8% to an annual rate of \$1.46 per share, or 53% of our 2006 earnings. 2007 will be our 51st consecutive year of increased dividends paid to our shareholders.

## Progress In Operations

Again in 2006, each of our four business segments contributed to our overall progress for the year. Motion Industries, our Industrial Distribution company, reported very strong results, with its sales increasing 11% for the third consecutive year. Looking ahead to 2007, the outlook for the industrial markets served by Motion is promising. The manufacturing sector of the economy, as measured by the Industrial Production and Manufacturer Capacity Utilization indices, remains healthy and customer demand is likely to provide us further growth opportunities. EIS, our Electrical/Electronic segment, also benefited from the strength in the manufacturing sector and, in 2006, reported a 20% increase in sales for the year. We expect 2007 to be another good year for EIS.

S.P. Richards, our Office Products company, improved sales by 7% for the year, and this follows an 8% increase in sales in 2005. The Office Products Group generates consistent and steady results and we are encouraged by its performance in 2006. This year's solid progress reflects our product and customer expansion efforts and the continued development of effective marketing programs and dealer services. In 2007, we expect these initiatives, combined with the ongoing growth in Gross Domestic Product (GDP) and white-collar employment, to drive additional progress for the Office Products Group.

The Automotive Parts Group, our largest business group, increased sales by 3% in 2006, following 6% increases in 2004 and 2005. Core NAPA operations, which excludes our Johnson Industries subsidiary, improved revenues by 5%, so the progress made in our ongoing Automotive operations was somewhat offset by our decision in 2005 to downsize the operations at Johnson Industries. We continue to believe this was the right decision for the Company. Looking ahead, we expect our Automotive growth initiatives to position the group for solid progress in 2007 and beyond. In addition, market factors such as total vehicles on the road, the age and mix of the vehicles and miles driven, remain positive for the industry and they create excellent growth opportunities for the Automotive Parts Group.

## GPC Directors

The GPC Board, at its meeting in November 2006, elected George C. "Jack" Guynn as a new Director. Mr. Guynn is the retired President and Chief Executive Officer of the Federal Reserve Bank of Atlanta. Jack is an experienced and successful executive and we are pleased to have him joining our Board. We look forward to his contributions in the years ahead. We are asking the shareholders to elect Jack, along with all other Directors, at the April 23, 2007 Shareholders' Meeting.

## Management

During 2006, there were a number of management changes and promotions that we would like to share with you. G. Thomas Braswell, our Senior Vice President – Information Technology, retired from the Company in February 2007. Tom's impressive career at Genuine Parts Company spans over 40 years and the Company has benefited greatly

## Summary of Stock Dividends

DATE	AMOUNT	ONE SHARE BECAME
MARCH 1959	100%	2 SHARES
APRIL 1962	200%	6 SHARES
DECEMBER 1967	50%	9 SHARES
MAY 1970	50%	13.5 SHARES
MAY 1972	100%	27 SHARES
APRIL 1979	50%	40.5 SHARES
APRIL 1984	50%	60.75 SHARES
MAY 1987	50%	91.125 SHARES
APRIL 1992	50%	136.69 SHARES
APRIL 1997	50%	205.04 SHARES

## Dividends

The Company has paid a cash dividend to shareholders every year since going public in 1948, and in 2006 we improved our dividend by 8% to \$1.35 per share, representing our 50th consecutive year



**Jerry W. Nix**  
Vice Chairman and  
Chief Financial Officer

**Thomas C. Gallagher**  
Chairman, President and  
Chief Executive Officer

from his guidance and dedicated service. We want to thank Tom for his many contributions and wish him the very best in his retirement. We are pleased to inform you that Keith O. Cowan has joined the Company and at our February 2007 Board meeting, the Directors elected him to the position of Executive Vice President. Keith will be involved in areas such as Information Technology and Telecommunications, as well as Strategic Planning and Business Development. He has distinguished himself over his career and for the last ten years Keith has held several key executive management positions with BellSouth Corporation in Atlanta, Georgia. Keith is a very talented business executive and we look forward to his future contributions.

In the Automotive Parts Group, Cary V. Carter has been promoted to Senior Vice President – Stores, effective January 2007. Cary joined the Company in 1979 and has held several important automotive positions over the years. His vast experience and store focus make him an excellent choice for this key leadership role. In our Mexican automotive operations, Juan Lujambio has been promoted to President and CEO of Auto Todo. Juan joined the Company in early 2002 as Vice President of Sales and Marketing and has done a fine job for us. We are pleased to have him in this leadership position at Auto Todo.

At EIS, John A. Steel, Senior Vice President, retired from the Company on December 31, 2006. John joined EIS in 1978 and over his long and distinguished career he successfully led its Fabrico Division. We thank John for his great leadership and wish him all the best in the years ahead. To replace John, Thomas A. Jones was promoted to Senior Vice President and General Manager – Fabrico, effective July 2006. Tom has been with EIS since 1978 and is uniquely qualified to lead Fabrico into the future. Lastly, Larry L. Griffin was promoted to Senior Vice President – Marketing, in May 2006. Over Larry's many years in the industry, he successfully demonstrated his managerial and business building skills. We are pleased to have Tom and Larry in their new positions.

**Conclusion**

You can read more about 2006 and the progress made throughout each of our four business segments in the pages that follow. We are pleased with the sales and earnings achieved in 2006 and we feel good about the quality of our balance sheet and our strong financial condition.

As we move into the new year, we are well positioned to show additional progress in these areas in 2007. In each of our businesses, growing revenues, improving operating margins and enhancing our asset management and working capital efficiencies remain primary goals. Importantly, we are optimistic that the right people and strategic plans are in place to achieve these goals.

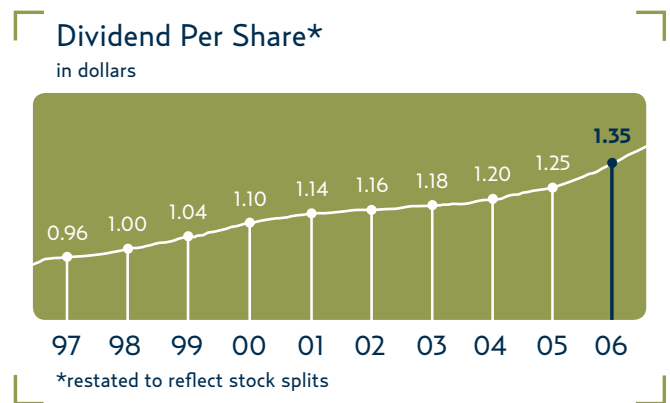
In closing, we want to express our appreciation to our employees, customers, vendors and shareholders for your commitment to and ongoing support of Genuine Parts Company.

Respectfully submitted,

Thomas C. Gallagher  
Chairman, President and  
Chief Executive Officer

Jerry W. Nix  
Vice Chairman and  
Chief Financial Officer

March 2, 2007





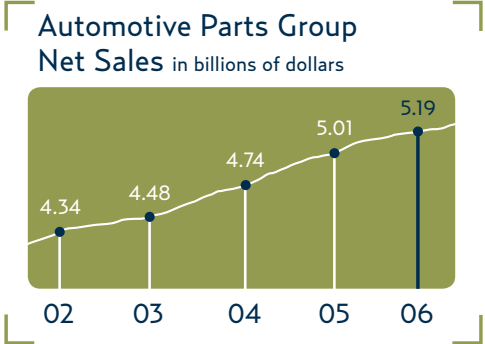
# Automotive Parts Group

**THE AUTOMOTIVE PARTS GROUP IS ONE OF NORTH AMERICA'S LEADING DISTRIBUTORS OF AUTOMOTIVE REPLACEMENT PARTS, ACCESSORY ITEMS AND SERVICE ITEMS. THIS GROUP CONSISTS OF 58 NAPA DISTRIBUTION CENTERS IN THE UNITED STATES SERVING APPROXIMATELY 5,800 NAPA AUTO PARTS STORES OF WHICH APPROXIMATELY 1,100 ARE COMPANY-OWNED.**

**Business Description**

The Automotive Parts Group also includes Balkamp, Inc., a majority-owned subsidiary that purchases, packages and distributes over 30,000 service and supply items through the NAPA system. Under the name Rayloc, we operate four plants where automotive parts are remanufactured and distributed through the NAPA system. Additionally, we operate Johnson Industries, an independent distributor of ACDelco, Motorcraft and other aftermarket parts, equipment and supplies.

Our market extends throughout North America. NAPA Canada/UAP Inc. is one of Canada's leading automotive distributors as well as Canada's largest independent heavy vehicle parts distributor. The operating programs and marketing initiatives utilized in our Canadian operations are fully integrated with our U.S. NAPA system. We are represented in Mexico by Auto Todo, one of that country's largest automotive aftermarket organizations. We are encouraged by the prospects of continued growth throughout the North American markets we serve.





## 2006 Performance

The Automotive Parts Group posted a 3% increase in revenue in 2006 and this follows two strong years in 2004 and 2005. We are encouraged by this group's ability to generate positive sales growth over these periods. This is especially true for 2006, as demand in the automotive aftermarket was impacted by rising gas prices and its effect on miles driven and consumer spending. Our sales growth initiatives, combined with effective cost management, support our efforts to consistently improve our operating performance.

## Automotive Aftermarket

The automotive aftermarket industry is very large and continues to grow. The Wholesale or Do-it-for-Me (DIFM) market represents professional service and repair facilities and accounts for an estimated 75% of the industry. The Retail market represents the Do-it-Yourself (DIY) customer and is approximately 25% of the industry. The Automotive group works in concert with our NAPA AUTO PARTS stores to continually grow our business with both wholesale and retail customers.

## NAPA AutoCare, Major Accounts & IBS

The NAPA business model was originally founded upon serving the wholesale market. Over the years, we have developed a significant number of program offerings, which we believe best meet the demands of our wholesale customers. Examples include NAPA AutoCare, NAPA Collision Centers and NAPA Truck Service Center programs, which provide business tools and support to one of the nation's largest independent automotive service and repair networks. The NAPA Major Accounts Program assists the NAPA AUTO PARTS stores in securing preferred vendor agreements with nationally recognized companies. Integrated Business Solutions (IBS) is a sophisticated inventory management service that effectively handles the inventory procurement and stocking requirements for larger wholesale customers.

## Niche Markets

We are also focused on the specialty markets component of our wholesale business and we continue to invest in trained personnel, tailored inventory and aggressive promotion. Niche markets such as heavy duty, paint, body & equipment, farm and marine, and tools & equipment offer us many growth opportunities. In September 2006, we announced plans to open a new heavy vehicles division in the U.S. dedicated to replacement parts for heavy duty trucks and trailers. This division follows our Canadian heavy duty business template and, over the next several years, we expect to achieve a much greater presence in this market.

## Stores

To effectively compete in the retail market, we are focused on initiatives such as improved NAPA AUTO PARTS store merchandising and in-store service and facility upgrades. Ensuring effective and consistent planograms, competitive retail pricing, convenient retail hours, well-trained personnel and store upgrades and resets are a few examples of the ways we are growing our retail business. These initiatives create an inviting shopping experience for the DIY customer and support our complete and dominant product offering. Our proprietary store inventory management system, Marketplace Inventory Classification (MIC), provides the data necessary to accurately align each store's inventory with its specific market.

## New Distribution

We continue to focus on new distribution with a strategy of positioning our NAPA AUTO PARTS store base in market areas where we anticipate significant growth opportunities. In 2006, we added 64 net

new stores across the U.S. and believe we have tremendous additional opportunities. During 2007, we plan to further expand our footprint with more new Company-owned and independently owned stores.

## Technology

Technology and connectivity remain essential elements in our customer service strategy. The rollout of new and improved technology has better enabled NAPA and NAPA AUTO PARTS stores to conduct business with both retail and wholesale customers. The NAPA Wide Area Network (WAN) connects thousands of stores and provides business-building tools for both the NAPA stores and their commercial accounts. In addition, NAPA TRACS, a leading shop management system, provides repair estimating, management and technical solutions for any wholesale customer. It also contains electronic ordering, eProcurement and 24/7 access to the on-line NAPA PartsPRO catalog, which has over 320,000 parts and product images, among other information. Other technological applications at NAPA include NAPAONLINE.com, used primarily by our retail customers, and NAPA PROLink and NAPA WebConnect CRM, used by our wholesale customers. Finally, through Ibiz, we provide NAPA cataloging, eProcurement and pricing to users of third party Shop Management Systems (SMS), further extending our connectivity to repair facilities.

3% INCREASE IN REVENUES

NAPA AUTOCARE & MAJOR ACCOUNT EXPANSION

INTEGRATED BUSINESS SOLUTIONS (IBS) GROWTH



NICHE MARKETS EXPANSION, INCLUDING  
NEW HEAVY VEHICLE PARTS GROUP

STORE MERCHANDISING AND IN-STORE  
SERVICE AND FACILITY UPGRADES

NEW DISTRIBUTION

PROGRESS IN TECHNOLOGY AND CONNECTIVITY

2006 Highlights

## NAPA Brand

The NAPA brand is widely recognized by North American consumers and professional technicians and its continued strength gives us a competitive advantage in the industry. Our national and local advertising is designed to reinforce this awareness of NAPA and build on the benefits of quality parts, quality service and knowledgeable people. The NAPA advertising program delivers high visibility exposure through national television, radio, print and internet advertising, targeted sponsorships and high-quality local advertising materials.

## 2007 Outlook

In 2007, we see opportunities for additional growth in the Automotive Parts Group. Our sales initiatives, combined with initiatives to control costs, are in place to improve this group's operating performance and further strengthen our leadership position in the industry. In addition, we expect the economic factors noted earlier, and which impacted our business to some degree in 2006, to become favorable in the year ahead. This bodes well for companies with sound growth plans such as ours. 2006 marked a good year in the parts business, and we are optimistic about generating more positive results in 2007.

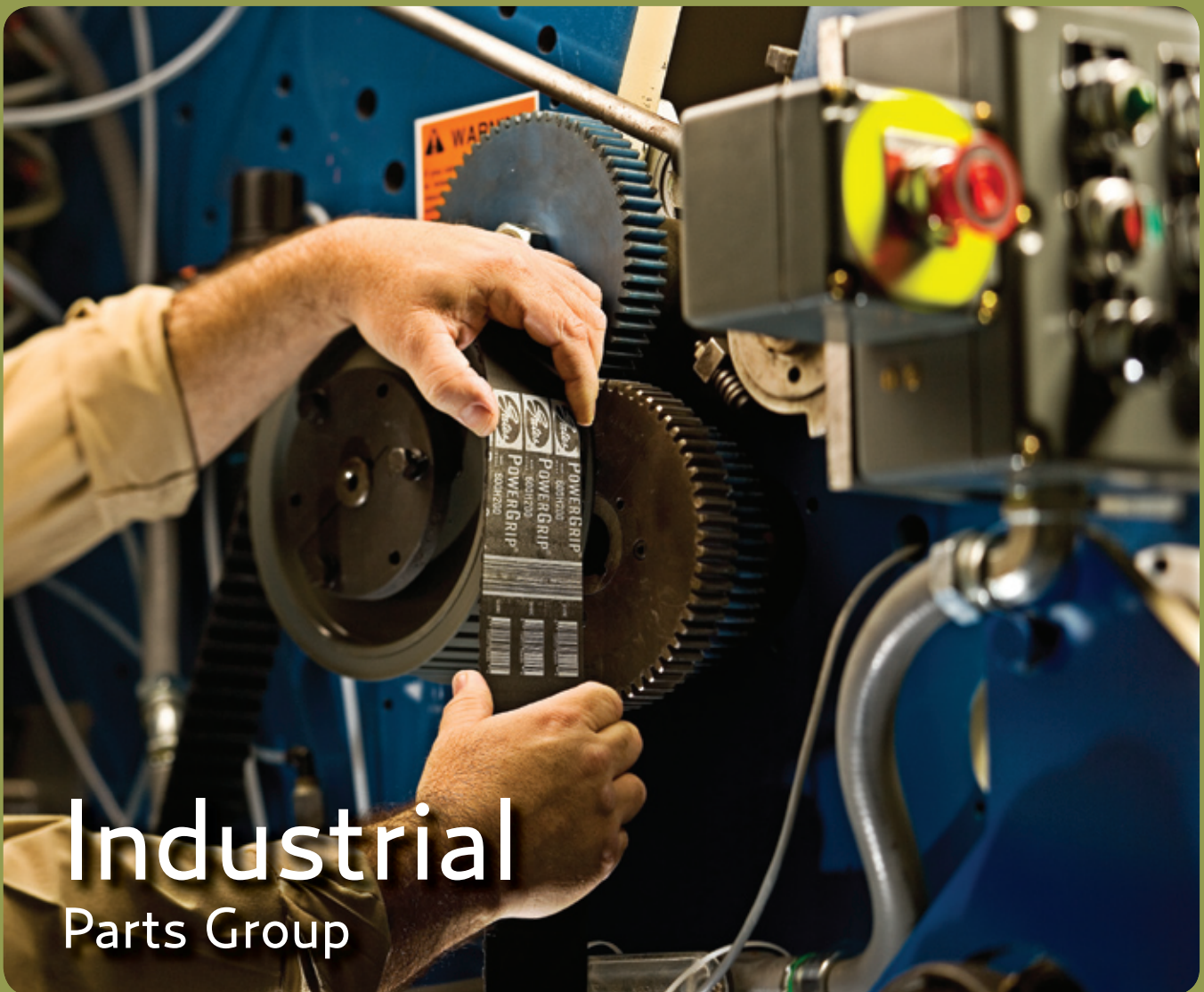
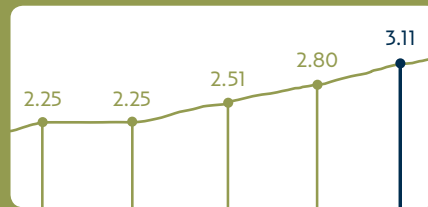
MOTION INDUSTRIES IS A LEADING NORTH AMERICAN INDUSTRIAL DISTRIBUTOR OF BEARINGS; MECHANICAL, INDUSTRIAL AUTOMATION, ELECTRICAL, PNEUMATIC AND HYDRAULIC REPLACEMENT PARTS; HOSE AND RUBBER PRODUCTS; AND INDUSTRIAL SUPPLY PRODUCTS. WE PROVIDE A COMPREHENSIVE PRODUCT OFFERING AND SPECIALIZED SERVICES TO WELL OVER 100,000 CUSTOMERS IN VIRTUALLY ALL INDUSTRY SEGMENTS, INCLUDING THE AUTOMOTIVE, CHEMICAL, FOOD AND BEVERAGE, WOOD AND LUMBER, IRON AND STEEL, PULP AND PAPER, MINING AND AGGREGATE AND PHARMACEUTICAL INDUSTRIES.

The Company operates more than 500 locations, including 464 branches, 9 distribution centers and 36 service centers throughout the U.S. and Canada. Through this extensive operating network, our customers have access to nearly three million quality parts, sourced from a global manufacturing base. Our network also enables us to “Deliver the Difference” through a variety of specialized services that distinguishes Motion from the competition.

#### 2006 Performance

Motion Industries had a very good year in 2006 and became the first company in the MRO bearing and power transmission industry segment to achieve sales over \$3 billion. This record

Industrial Parts Group  
Net Sales in billions of dollars



# Industrial Parts Group

sales level marks the third consecutive year of 11% revenue growth, so we have participated in the on-going strength of the vast industrial markets we serve. In addition to increased customer demand during this period, we have also experienced success with initiatives such as product line expansion, targeted industries, branch expansion and acquisitions. These initiatives match well with our efforts to enhance operations and reduce costs via our Operational Excellence in Motion program. Combined, they were the basis for our improved operating performance in 2006 and will serve as a catalyst for future growth at Motion Industries.

### Services and Solutions

Motion features 24/7/365 product delivery and service from our distribution facilities. We provide customers with expert repair and fabrication services as well as inventory management and logistics solutions. In addition, our highly trained staff of sales representatives and field product specialists provide customers with on-site technical assistance, parts and service solutions, as well as inventory and cost savings consultations.

### Joint Supplier Sales and Marketing Initiatives

We have strengthened our sales growth effort through joint supplier sales and marketing initiatives to target and promote specific product categories. Examples include industry segment product promotions and TargetingMRO market development programs. These programs are strategically developed and executed as a joint initiative with Motion suppliers and are created to meet specific customers' needs. We are encouraged by the success of these programs and their potential to generate additional revenue growth.

### Product Line Expansion & Targeted Industries

We continue to expand Motion's product offering to better serve our current customers and gain coverage for potential new MRO markets. Over the past few years, we have invested more heavily in product categories such as hydraulics and pneumatics, industrial automation products, material handling lines and industrial supplies. In addition, with our added product coverage, we are pursuing sales opportunities in targeted industries including waste water treatment, power generation, ethanol production, rail transportation and ports, among others.

### Branch Expansion and Acquisitions

We also continue to grow our geographical footprint in North America. In 2006, we expanded our distribution network by opening 10 new Motion locations. This has enabled us to capture and retain business in the evolving markets across the continent. In addition, we grew our market presence in 2006 by another 31 locations via two acquisitions. In July 2006, we acquired Lewis Supply Company and, in September 2006, we acquired Ruston Industrial. Both of these companies serve to expand our offering of industrial supplies and our future growth strategy includes additional acquisitions of this type.

### Specialized Service Offerings

Our specialized service offerings include Cost Management Processes (CMP), Asset and Repair Tracking program (ART), Storeroom and Replenishment Tracking (START) and Motion Institute Training Center. CMP delivers plant solutions through

cost savings and productivity programs. ART is designed to track customers' warranty and repair information and adds value by allowing our customers to streamline their entire repair process and track the status with customized, on-line reporting capabilities. START adds value by providing significant transactional efficiencies to plant storeroom management. During 2006, the Motion Institute successfully trained thousands of customers and employees in current industrial technology.

### Operational Excellence

The Operational Excellence program at Motion Industries supports our growth initiatives through more efficient and effective operations across the Company. This on-going initiative serves to improve efficiencies, reduce costs and enhance overall performance via increased productivity. The end results are improved profitability and increased capabilities for "Delivering the Difference" to our customers.

For example, Motion's internal systems and e-business capabilities have improved under this program. 2006 represented our first full year of operations with a newly installed warehouse management system and as a result we are achieving increased efficiency, accuracy and productivity in our warehouse operations. In addition, e-business capabilities such as MotionIndustries.com and MiSupplierConnect continue to improve and, today, offer more sophisticated customer and supplier applications.

### 2007 Outlook

We are very pleased with the improved operating performance at Motion Industries and we expect 2007 to be another good year for our industrial business. The favorable economic conditions that have benefited our manufacturing customer base over the last few years remain healthy. Our strategic initiatives and special attention to our valued supplier and customer relationships will also drive continued sales and earnings growth and operational excellence. At Motion Industries, we aim to "Deliver the Difference" as a globally competitive supplier to the MRO industrial market.



11% INCREASE IN REVENUES

PRODUCT LINE EXPANSION

TARGETED INDUSTRIES

BRANCH EXPANSION

ACQUISITIONS

OPERATIONAL EXCELLENCE

SPECIALIZED SERVICE OFFERINGS  
& E-BUSINESS CAPABILITIES

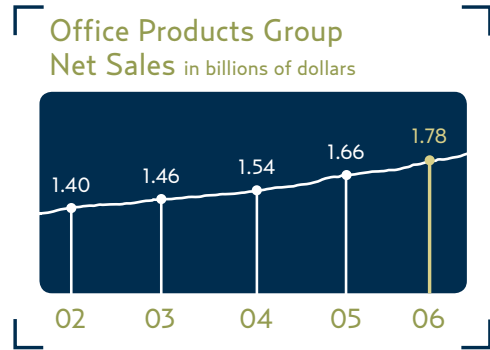
2006 Highlights



S.P. RICHARDS COMPANY IS ONE OF NORTH AMERICA'S LEADING BUSINESS PRODUCTS WHOLESALERS, OFFERING OVER 40,000 ITEMS TO THOUSANDS OF OFFICE PRODUCTS RESELLERS IN THE U.S. AND CANADA. THE COMPANY SUPPLIES ITS CUSTOMERS WITH A VAST ASSORTMENT OF BUSINESS PRODUCTS FROM A

NETWORK OF 42 DISTRIBUTION CENTERS. OUR PRODUCT OFFERING INCLUDES: FILING AND GENERAL OFFICE SUPPLIES, OFFICE FURNITURE, CLEANING AND BREAKROOM SUPPLIES, TECHNOLOGY SUPPLIES AND ACCESSORIES, CONSUMER ELECTRONICS, SCHOOL SUPPLIES, BUSINESS MACHINES, WRITING INSTRUMENTS, DESK ACCESSORIES, PAPER PRODUCTS AND HEALTHCARE SUPPLIES.

The company's comprehensive array of specialized services, logistical capabilities and marketing programs create value for our customers, including independent resellers, large contract stationers, national office supply superstores, mail order distributors and Internet resellers. Our fulfillment capabilities allow us to serve all types of resellers, even those who operate a virtually stockless business model. In addition, our national distribution network enables resellers in any part of the country to serve their customers on a nationwide basis. By providing convenient access to a broad range of quality products, excellent service and innovative programs, we continue to provide our customers with the tools they need to successfully grow their businesses.



Office  
Products Group



The S.P. Richards organization includes the Horizon USA group and S.P. Richards Canada. Horizon specializes as the sales and marketing arm of S. P. Richards in the business technology supplies sector, which includes technology supplies, accessories and business machines. Their keen focus on this category provides a unique level of expertise and in-depth product knowledge to resellers in this fast-changing product category. S.P. Richards Canada distributes office supplies, technology supplies and furniture products from locations in Vancouver, Calgary, Winnipeg and Toronto.

#### 2006 Performance

S.P. Richards delivered solid results in 2006, with revenues increasing 7%. This follows sales growth of 8% in 2005 and 6% in 2004, and reflects favorable business conditions and effective growth initiatives in all three years. In 2006, sales to both independent dealers and national accounts grew at comparably strong rates, and we made great progress with sales through new customer channels. Sales at S.P. Richards Canada were also very encouraging, as were sales of proprietary brand products.

Our 2006 growth initiatives emphasized product line expansion and new products, enhanced marketing materials and e-content and continued development of new customer channels. Initiatives to streamline operations and realize cost savings via Operational Excellence were also implemented in 2006 to support these sell side initiatives and further improve S.P. Richards' operating performance. These sell and cost side efforts helped drive our results in 2006 and their continued emphasis provide future growth opportunities.

#### Product Line Expansion/New Products

S.P. Richards distributes a broad range of business products sourced from hundreds of leading manufacturers worldwide. On-going product line expansion serves to improve our offering and further strengthen our resellers' position as the single source solution to their customers' business products needs. Expansion of our office furniture and emerging product categories, such as cleaning and breakroom supplies, school supplies and healthcare products, has helped our resellers acquire new customers and further penetrate their existing client base.

#### Proprietary Brands

We meet our customers' growing demand for competitively priced commodity products through the expansion of S.P. Richards' proprietary brand program. Proprietary brand sales were very strong in 2006 and these value alternatives provide us with opportunities for more growth in the years ahead. Today, our proprietary lines include: Sparco office supply basics; Elite Image new and remanufactured toner cartridges and premium papers; Lorell office furniture; Compucessory computer accessories; Nature Saver recycled paper products; and Integra writing instruments. An important highlight in 2006 was the accelerated growth and further expansion of the Genuine Joe brand of cleaning and breakroom supplies that was introduced in 2005.

#### Marketing Programs and Dealer Services

Improving our marketing programs and dealer services remain another important growth driver for S.P. Richards. These tools are designed to help the Company and its resellers capture new business, retain and grow existing customer accounts and maximize the relationships that build the foundation for profitable long term growth. Examples include a wide variety of catalog offerings, such as the full line catalog representing our most complete product offering. We also provide promotional and category specific catalogs, including office furniture and school supply catalogs. An array of flyers, such as the Flex-Flyer,

which allows the dealer to determine product pricing and mix, and the innovative Signature Series flyer complement our catalog offering.

Other programs and services for the reseller include a comprehensive offering of management support tools that address such disciplines as: e-content and e-commerce; technology; operations and profitability; human resources and training; national distribution; and furniture support services. Many of these educational and management tools are delivered over the internet through SPR University, a convenient and cost effective on-line training platform available to dealers. We are also improving our e-content database of images, product-related information and indexing that our resellers use to populate their websites and drive their e-commerce sales. We expect to begin realizing the benefits of these enhancements in early 2007.

#### SPR Advantage Program

Another significant offering, the SPR Advantage Program, represents a collection of services, tools, and education and training resources that support our "first call" independent office products dealers. The services and support tools in this program are improved each year to best enable the resellers to compete more effectively in their marketplaces, thus positioning S.P. Richards as a valued resource and consultant to our customers.

#### Operational Excellence

In 2006, S.P. Richards implemented an Operational Excellence initiative to streamline operations and realize cost savings. Areas of focus range from improved freight management and enhanced fuel programs to greater utilization of our warehouse management systems. We are encouraged by the progress made towards Operational Excellence and the opportunity to further improve our high standard of customer service and operating performance.

7% INCREASE IN REVENUES

PRODUCT LINE EXPANSION

NEW PRODUCTS

IMPROVED MARKETING PROGRAMS  
AND DEALER SERVICES

NEW CUSTOMER CHANNELS

SPR ADVANTAGE PROGRAM BENEFITS

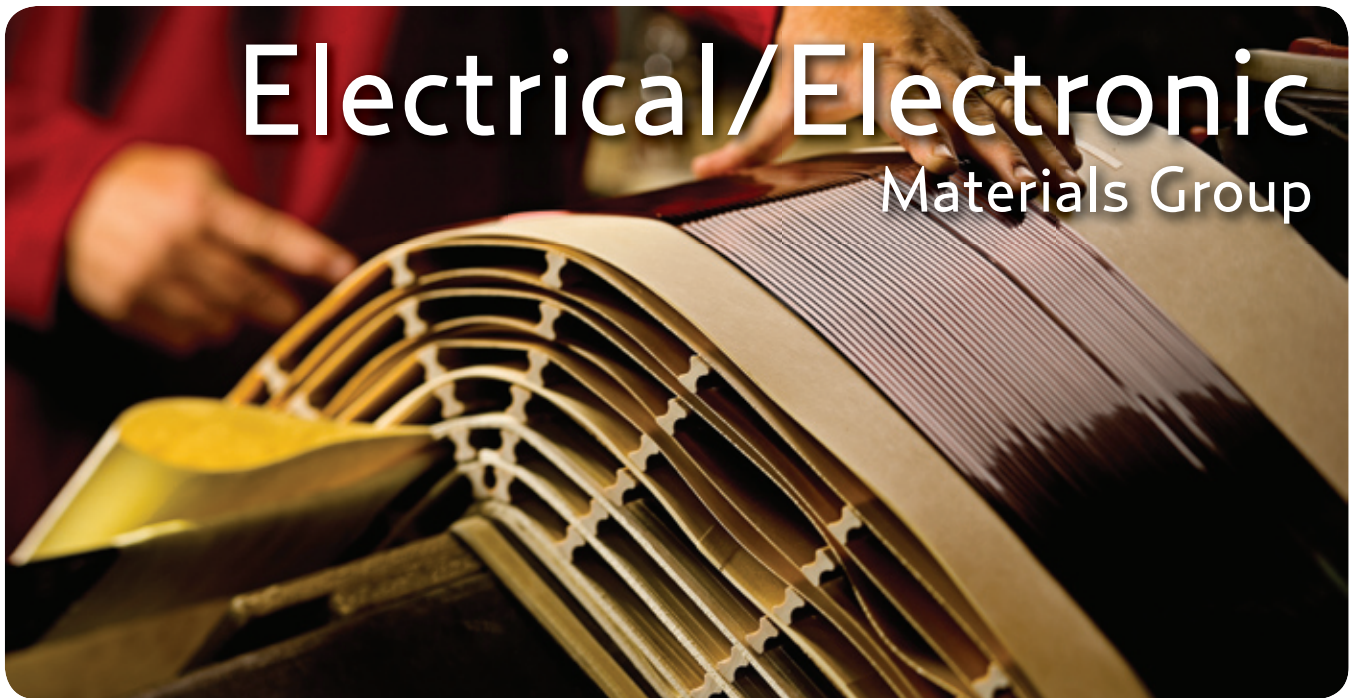
OPERATIONAL EXCELLENCE



#### 2007 Outlook

S.P. Richards continued the tradition of delivering excellent support to business products resellers in 2006. By providing the most complete lines of quality business products and effective and innovative marketing programs, dealer services and logistical capabilities, we successfully grew our business with existing customers and were successful in expanding our customer base as well. The economic climate remains healthy for the office products industry and our sales, marketing and Operational Excellence initiatives are in place to continue to grow both our business and that of our valued customers in 2007.

# Electrical/Electronic Materials Group



**EIS IS ONE OF NORTH AMERICA'S LEADING DISTRIBUTORS OF PROCESS MATERIALS, PRODUCTION SUPPLIES, INDUSTRIAL MRO AND VALUE ADDED FABRICATED PARTS. PRIMARY MARKETS FOR EIS ARE THE ELECTRICAL OEM, MOTOR APPARATUS REPAIR AND ASSEMBLY MARKETS.**

EIS offers cost effective distribution services through a network of 34 stocking and sales locations in the U.S., Mexico and Canada. These locations provide our customers access to complete inventories, capable people and a comprehensive range of innovative logistics services.

### 2006 Performance

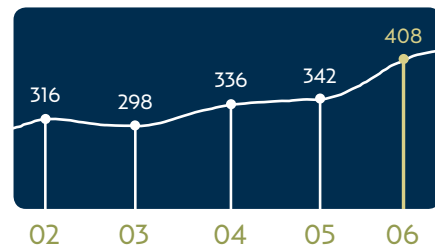
Total revenues increased by 20% in 2006. The strong sales growth reflects favorable market conditions, evident through continued manufacturing expansion in the U.S., as well as our commitment to on-going sales initiatives. Other initiatives involving cost management and operational process improvement have allowed us to grow our operating profit and margin at a healthy rate, thus improving our operating performance in 2006.

Our focus on new products, geographic expansion and customer growth serve as key growth initiatives at EIS. These initiatives have positioned EIS as the "one source" for process materials, production and MRO supplies at electrical and electronic assembly manufacturers throughout North America.

### New Products

We continue to add new product lines such as motors for the apparatus repair industry and MRO supplies for all of our customers. In addition, we represent new thermal management products and continue to

### Electrical/Electronic Group Net Sales in millions of dollars



upgrade and expand our offering of silicones and greases. Furthermore, our initiatives to expand and grow our fabrication solutions for traditional electrical and new assembly markets are encouraging.

### Geographic Expansion

Another source of growth for EIS has been geographic expansion beyond the U.S., where we continue to improve our North American distribution footprint. With three locations in Mexico and one location in Canada, we are better positioned to recognize the growth opportunities in their evolving electrical and assembly markets.

### Key Account Development Tools

Initiatives to grow sales with key customers represent another source for sales growth. In 2006, we completed phase one of a sales process restructuring program designed to maximize customer growth through more focused contact with our accounts. We also offer a number of services to provide solutions to our customers' unique requirements. Our proprietary inventory management systems (AIMS) as well as other product, technical and service solutions further strengthen EIS as our customers' "one source" supplier.

### 2007 Outlook

At EIS, we believe our strategic initiatives, as well as market conditions, provide us with additional opportunities to grow revenues and improve operating performance. We continue to implement our strategic plans to capitalize on these opportunities and make 2007 another good year for the Company.

### 2006 Highlights

20% INCREASE IN REVENUES

NEW PRODUCTS

GEOGRAPHIC EXPANSION

KEY ACCOUNT DEVELOPMENT

PROPRIETARY INVENTORY MANAGEMENT SYSTEMS (AIMS)

PRODUCT, TECHNICAL AND SERVICE SOLUTIONS

STRENGTHENED AS "ONE SOURCE" SUPPLIER



## Selected Financial Data

(in thousands, except per share data)

Year ended December 31,

	2006	2005	2004	2003	2002
Net sales	\$ 10,457,942	\$ 9,783,050	\$ 9,097,267	\$ 8,449,300	\$ 8,258,927
Cost of goods sold	7,182,447	6,718,964	6,267,544	5,826,684	5,704,749
Operating and non-operating expenses, net	2,504,579	2,355,022	2,193,804	2,050,873	1,948,442
Income before taxes and accounting change	770,916	709,064	635,919	571,743	605,736
Income taxes	295,511	271,630	240,367	218,101	238,236
Income before cumulative effect of a change in accounting principle	475,405	437,434	395,552	353,642	367,500
Cumulative effect of a change in accounting principle	-	-	-	19,541*	395,090**
Net income (loss)	\$ 475,405	\$ 437,434	\$ 395,552	\$ 334,101	\$ (27,590)
Weighted average common shares outstanding during year - assuming dilution	172,486	175,007	175,660	174,480	175,104
Per common share:					
Diluted net income, excluding cumulative effect	\$ 2.76	\$ 2.50	\$ 2.25	\$ 2.03	\$ 2.10
Diluted net income (loss)	2.76	2.50	2.25	1.91	(0.16)
Dividends declared	1.35	1.25	1.20	1.18	1.16
December 31 closing stock price	47.43	43.92	44.06	33.20	30.80
Long-term debt, less current maturities	500,000	500,000	500,000	625,108	674,796
Shareholders' equity	2,549,991	2,693,957	2,544,377	2,312,283	2,130,009
Total assets	\$ 4,496,984	\$ 4,771,538	\$ 4,455,247	\$ 4,127,956	\$ 4,061,055

\* The cumulative effect of a change in accounting principle in 2003 represents a non-cash charge related to cash consideration received from vendors in conjunction with the Financial Accounting Standards Board's EITF 02-16. Had the Company accounted for vendor consideration in accordance with EITF 02-16 in prior years, there would have been no significant impact on net income (loss) and diluted net income (loss) per share for the year ended December 31, 2002. In addition, in accordance with EITF 02-16, approximately \$102 million was reclassified from selling, administrative and other expenses to cost of goods sold for the year ended December 31, 2003. Had the Company accounted for consideration received from vendors in accordance with EITF 02-16 in prior years, approximately \$90 million would have been reclassified from selling, administrative and other expenses to cost of goods sold for the year ended December 31, 2002.

\*\* The cumulative effect of a change in accounting principle in 2002 represents a non-cash charge related to the impairment testing for goodwill in conjunction with the Statement of Financial Accounting Standards No. 142 "Goodwill and Other Intangible Assets."

## Market Price and Dividend Information

High and Low Sales Price and Dividends per Common Share Traded on the New York Stock Exchange

### Sales Price of Common Shares

Quarter	2006		2005	
	High	Low	High	Low
First	\$ 45.74	\$ 41.41	\$ 44.77	\$ 41.65
Second	46.16	40.00	44.50	40.81
Third	43.90	40.09	46.64	40.75
Fourth	48.34	42.60	45.70	41.40

### Dividends Declared Per Share

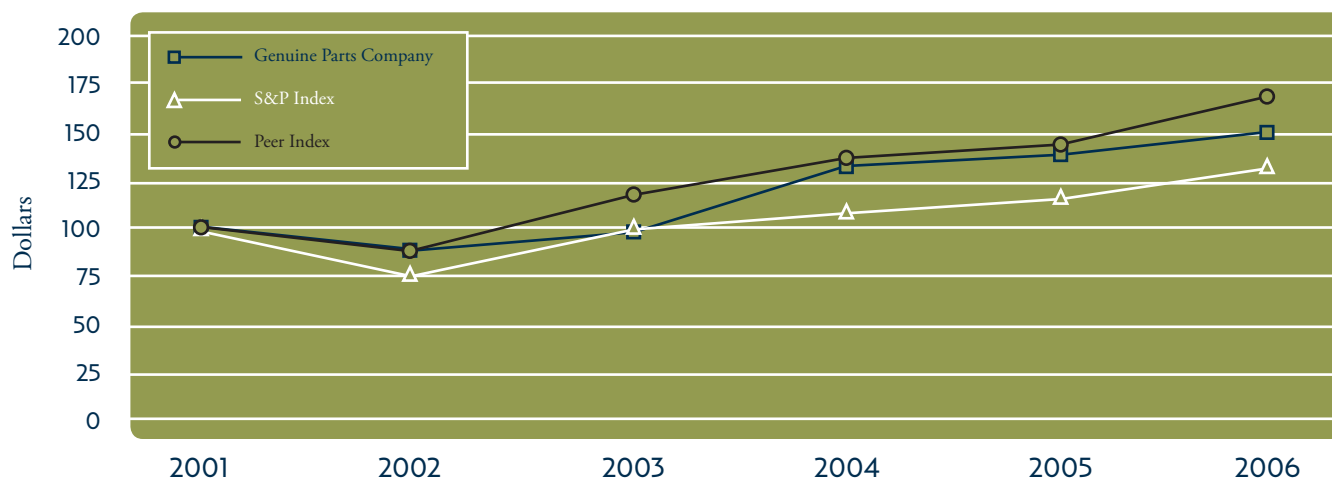
	2006	2005
First	\$ 0.3375	\$ 0.3125
Second	0.3375	0.3125
Third	0.3375	0.3125
Fourth	0.3375	0.3125

Number of Record Holders of Common Stock as of December 31, 2006: 6,909

## Stock Performance

Set forth below is a line graph comparing the yearly dollar change in the cumulative total shareholder return on the Company's Common Stock against the cumulative total shareholder return of the Standard and Poor's 500 Stock Index and a peer group composite index structured by the Company as set forth below for the five year period that commenced December 31, 2001 and ended December 31, 2006. This graph assumes that \$100 was invested on December 31, 2001 in Genuine Parts Company Common Stock, the S&P 500 Stock Index (the Company is a member of the S&P 500, and its cumulative total shareholder return went into calculating the S&P 500 results set forth in the graph) and the peer group composite index as set forth below and assumes reinvestment of all dividends.

### Comparison of Five Year Cumulative Total Shareholder Return



### Genuine Parts Company, S&P 500 Index & Peer Group Composite Index

#### Cumulative Total Shareholder Return

(\$)	2001	2002	2003	2004	2005	2006
Genuine Parts Company	100.00	86.86	97.22	133.08	136.48	152.01
S&P 500	100.00	77.95	100.27	111.15	116.60	135.01
Peer Index	100.00	85.40	116.63	138.45	145.00	165.50

In constructing the peer group composite index ("Peer Index") for use in the stock performance graph above, the Company used the shareholder returns of various publicly held companies (weighted in accordance with each company's stock market capitalization at December 31, 2001 and including reinvestment of dividends) that compete with the Company in three industry segments: automotive parts, industrial parts and office products (each group of companies included in the Peer Index as competing with the Company in a separate industry segment is hereinafter referred to as a "Peer Group"). Included in the automotive parts Peer Group are those companies making up the Dow Jones Auto Parts and Equipment Index (the Company is a member of such industry group, and its individual shareholder return was included when calculating the Peer Index results set forth in the performance graph). Included in the industrial parts Peer Group are Applied Industrial Technologies, Inc. and Kaman Corporation and included in the office products Peer Group is United Stationers Inc. The Peer Index for 2006 does not break out a separate electrical/electronic peer group due to that fact that there is currently no true market comparative. The electrical/electronic component of sales is redistributed to the Company's other segments on a pro rata basis to calculate the final Peer Index.

In determining the Peer Index, each Peer Group was weighted to reflect the Company's annual net sales in each industry segment. Each industry segment of the Company comprised the following percentages of the Company's net sales for the fiscal years shown:

Industry Segment	2002	2003	2004	2005	2006
Automotive Parts	52.27%	52.76%	51.92%	51.09%	49.47%
Industrial Parts	27.08%	26.56%	27.51%	28.52%	29.65%
Office Products	16.84%	17.17%	16.90%	16.94%	16.98%
Electrical/Electronic Materials	3.81%	3.51%	3.67%	3.45%	3.90%



## Segment Data

(in thousands) Year ended December 31,

	2006	2005	2004	2003	2002
Net sales:					
Automotive	\$ 5,185,080	\$ 5,013,460	\$ 4,739,261	\$ 4,477,508	\$ 4,335,362
Industrial	3,107,593	2,795,699	2,511,597	2,253,947	2,246,124
Office products	1,779,832	1,662,393	1,540,878	1,457,149	1,396,453
Electrical/electronic materials	408,138	341,513	335,605	297,618	315,826
Other	(22,701)	(30,015)	(30,074)	(36,922)	(34,838)
Total net sales	\$ 10,457,942	\$ 9,783,050	\$ 9,097,267	\$ 8,449,300	\$ 8,258,927
Operating profit:					
Automotive	\$ 399,931	\$ 398,494	\$ 396,015	\$ 363,022	\$ 381,771
Industrial	257,022	214,222	173,760	151,109	178,027
Office products	166,573	157,408	150,817	143,263	140,912
Electrical/electronic materials	22,630	17,470	14,611	7,112	2,756
Total operating profit	846,156	787,594	735,203	664,506	703,466
Interest expense, net	(26,445)	(29,564)	(37,260)	(51,538)	(59,640)
Corporate expense	(44,341)	(45,299)	(58,980)	(37,121)	(33,354)
Intangible asset amortization	(463)	(396)	(356)	(1,539)	(2,421)
Minority interests	(3,991)	(3,271)	(2,688)	(2,565)	(2,315)
Income before income taxes and accounting change	\$ 770,916	\$ 709,064	\$ 635,919	\$ 571,743	\$ 605,736
Assets:					
Automotive	\$ 2,625,846	\$ 2,711,620	\$ 2,521,906	\$ 2,369,969	\$ 2,313,747
Industrial	910,734	976,903	955,029	957,735	982,951
Office products	669,303	722,813	681,992	621,523	581,203
Electrical/electronic materials	105,623	113,913	104,918	97,195	98,225
Corporate	123,224	183,572	133,730	23,506	26,224
Goodwill and intangible assets	62,254	62,717	57,672	58,028	58,705
Total assets	\$ 4,496,984	\$ 4,771,538	\$ 4,455,247	\$ 4,127,956	\$ 4,061,055
Depreciation and amortization:					
Automotive	\$ 52,565	\$ 44,102	\$ 39,222	\$ 42,681	\$ 43,007
Industrial	7,941	8,345	8,972	10,265	10,789
Office products	9,518	9,551	10,245	10,639	9,856
Electrical/electronic materials	1,394	1,612	2,011	2,729	3,422
Corporate	1,542	1,523	1,401	1,160	656
Intangible asset amortization	463	396	356	1,539	2,421
Total depreciation and amortization	\$ 73,423	\$ 65,529	\$ 62,207	\$ 69,013	\$ 70,151
Capital expenditures:					
Automotive	\$ 111,644	\$ 68,062	\$ 52,263	\$ 58,754	\$ 38,599
Industrial	6,187	5,695	3,922	6,824	10,868
Office products	6,002	8,893	12,354	7,211	13,376
Electrical/electronic materials	904	1,550	1,552	394	224
Corporate	1,307	1,514	1,986	721	1,691
Total capital expenditures	\$ 126,044	\$ 85,714	\$ 72,077	\$ 73,904	\$ 64,758
Net sales:					
United States	\$ 9,314,970	\$ 8,768,737	\$ 8,198,368	\$ 7,666,389	\$ 7,568,926
Canada	1,071,095	954,317	845,563	731,200	623,686
Mexico	94,578	90,011	83,410	88,633	101,153
Other	(22,701)	(30,015)	(30,074)	(36,922)	(34,838)
Total net sales	\$ 10,457,942	\$ 9,783,050	\$ 9,097,267	\$ 8,449,300	\$ 8,258,927
Net long-lived assets:					
United States	\$ 415,569	\$ 388,916	\$ 368,345	\$ 339,020	\$ 339,495
Canada	72,556	62,842	65,649	57,906	47,522
Mexico	3,389	3,254	3,066	4,094	4,739
Total net long-lived assets	\$ 491,514	\$ 455,012	\$ 437,060	\$ 401,020	\$ 391,756

## Management's Discussion and Analysis of Financial Condition and Results of Operations

### 2006

#### Overview

Genuine Parts Company is a service organization engaged in the distribution of automotive replacement parts, industrial replacement parts, office products and electrical/electronic materials. The Company has a long tradition of growth dating back to 1928, the year we were founded in Atlanta, Georgia. We have increased sales in 56 of the last 57 years and increased profits in 44 of the last 46 years. In 2006, business was conducted throughout the United States, in Puerto Rico, in Canada and in Mexico from approximately 2,000 locations.

We recorded consolidated net sales of \$10.5 billion for the year ended December 31, 2006, an increase of 7% compared to \$9.8 billion in 2005. Consolidated net income for the year ended December 31, 2006, was \$475 million, up 9% from \$437 million in 2005. The combination of ongoing healthy economic conditions, strong end markets and effective internal initiatives provided us the opportunity to achieve another record level of sales and earnings in 2006. All four business segments contributed to our progress for the year, with each showing gains in revenues and profits.

Our progress in 2006 follows 8% increases in revenues in both 2004 and 2005, and represents the third consecutive year of double-digit growth in earnings per share. During the three-year period ended December 31, 2006, the Company implemented a variety of growth initiatives, including the introduction of new and expanded product lines, geographic expansion, sales to new markets, enhanced customer marketing programs and cost savings initiatives. Each of our business segments participated in developing these initiatives, as discussed further below.

The major categories on the December 31, 2006 consolidated balance sheet were relatively consistent with the December 31, 2005 balance sheet categories, subject to certain exceptions explained below. Our cash balances decreased \$53 million or 28% from December 31, 2005, due primarily to cash used during the year for increased working capital requirements and investments in capital expenditures. Accounts receivable grew \$41 million or 3%, which is less than our increase in revenues, and inventory was up less than 1%. Accounts payable decreased \$63 million or 7% from the prior year, due primarily to the termination of extended terms with certain suppliers during 2006, resulting in the decrease in days payables outstanding. Total debt outstanding at December 31, 2006 was unchanged from December 31, 2005.

#### Results of Operations

Our results of operations are summarized for the three years ended December 31, 2006, 2005 and 2004, as follows:

*(in thousands, except per share data)*

Year ended December 31,	2006	2005	2004
Net Sales	\$10,457,942	\$9,783,050	\$9,097,267
Gross Profit	3,275,495	3,064,086	2,829,723
Net Income	475,405	437,434	395,552
Diluted Earnings Per Share	2.76	2.50	2.25

#### Net Sales

Consolidated net sales for the year ended December 31, 2006 totaled \$10.5 billion, another record sales level for the Company and a 7% increase from 2005. Again in 2006, each of our four business segments showed progress in revenues and contributed to our overall sales growth. We attribute this improvement to the ongoing good health of the national economy, strong end markets and effective growth initiatives. For the year, prices were up approximately 2% in the Automotive segment, 3% in the Industrial and Office segments and 7% in the Electrical segment.

Net sales for the year ended December 31, 2005 totaled \$9.8 billion, an 8% increase from 2004. Similar to 2006, all of the business segments contributed to our sales growth in 2005, as our internal initiatives, healthy economy and positive trends in the industries we serve enhanced the sales volume in each of our four groups. Prices were up approximately 2% in the Automotive segment, 3% in the Office and Electrical segments and 6% in the Industrial segment in 2005.

#### Automotive Group

Net sales for the Automotive Group ("Automotive") increased by 3% to \$5.2 billion in 2006. After achieving sales increases of 5% in both the first and second quarters, our sales growth slowed to 1% growth in the third quarter, followed by a 2% increase in the fourth quarter. Automotives' sales initiatives, including the addition of 64 net new NAPA AUTO PARTS stores and the continued expansion of NAPA AutoCare programs, were somewhat impacted by the effect of higher gasoline prices on vehicle miles driven and aftermarket product demand. Both of these factors influenced our sales trends for the year. Additionally, our core NAPA sales increase of 5% was offset by the sales decrease at Johnson Industries, which was downsized in 2005.

Automotive sales were \$5.0 billion in 2005, an increase of 6% over 2004. Among the quarters in 2005, sales increases over the same period of the prior year ranged from an increase of 4% in the first quarter to 8% in the third quarter, our strongest period for the year. The continued effectiveness of our growth initiatives in this group, as well as positive industry trends, helped produce these results. As in 2006, stronger growth in our core NAPA operations was offset by a decrease in sales at Johnson Industries, where we sold eight of twelve operations during 2005.

#### Industrial Group

Net sales for Motion Industries, our Industrial Group ("Industrial"), were \$3.1 billion in 2006, an increase of 11% compared to 2005, and our third consecutive year of 11% sales growth. In 2006, this group recorded steady progress throughout the year, with double-digit growth in each quarter. Industrial expanded its distribution network during the year by opening 10 new locations and by adding another 31 locations via two acquisitions. U.S. industrial production and capacity utilization indices also showed continued strength for the manufacturing sector in 2006, and based on current indices, the outlook remains positive for this sector in 2007.

Net sales in 2005 were \$2.8 billion, an 11% increase compared to 2004. In 2005, this group had double-digit growth in each quarter except in the fourth quarter when sales increased 9%. Over the three-year period ended December 31, 2006, Industrial has benefited from a combination of price increases common in the industry as well as stronger sales volume.

#### Office Group

Net sales for S.P. Richards, our Office Products Group ("Office"), were \$1.8 billion, an increase of 7% compared to the prior year. Among our business groups, Office is our most steady performer from year to year, and in 2006, product and customer expansion efforts and the continued development of effective marketing programs and dealer services helped to drive this group's progress. Although its rate of sales growth decreased during the year, we were encouraged by the Office group's performance in 2006. Sales increased by 13% in the first quarter, 6% in the second quarter, 5% in the third quarter and 4% in the fourth quarter.

Net sales in 2005 were \$1.7 billion, up 8% over 2004. This represents a solid increase for the Office group and reflects the success of its ongoing business expansion strategy. Among the quarters, revenues grew stronger over the year, with sales increasing 6% in

the first quarter, 8% in the second and third quarters and 10% in the fourth quarter.

#### Electrical Group

Net sales for EIS, our Electrical and Electronic Group ("Electrical"), increased by 20% to \$408 million in 2006. The strong performance at Electrical reflects the continued manufacturing expansion in the U.S., as well as this group's commitment to ongoing sales initiatives. In 2006, Electrical completed phase one of a sales process restructuring program developed to improve customer contact and maximize customer growth. For the year, sales were up 13% in the first quarter, 24% in the second quarter, 23% in the third quarter and 17% in the fourth quarter.

Net sales were up 2% to \$342 million in 2005. Electrical's strongest performance was in the fourth quarter, after generally flat results over the first three quarters of the year. EIS sold its Circuit Supply division in April of 2005, which impacted its overall growth rate. The ongoing Electrical operations were up 9% for the year, reflecting the continued strength in the manufacturing sector, which began to show improvement late in 2005.

#### Cost of Goods Sold

Cost of goods sold was \$7.2 billion and \$6.7 billion in 2006 and 2005, respectively, representing 68.7% of net sales in both years. After improving gross margins in each of the previous two years, our ongoing gross margin growth initiatives were offset in 2006 by increasing competitive pricing pressures in the markets we serve. Our initiatives to enhance our pricing strategies, promote and sell higher margin products, and minimize material acquisition costs lessened the effect of these negative margin pressures in 2006.

Cost of goods sold in 2005 was \$6.7 billion or 68.7% of net sales compared to \$6.3 billion or 68.9% in 2004. The decrease in cost of goods sold as a percent of net sales reflects the success of our initiatives implemented to improve gross margins. These initiatives were initially developed to offset the usual competitive pricing pressures as well as lower levels of vendor discounts and volume incentives earned over the prior few years, especially in Industrial. Each of our business segments also experienced vendor price increases in 2005, and by working with our customers we were able to pass some of these along to them, particularly in Industrial.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### 2006

#### Operating Expenses

Selling, administrative and other expenses ("SG&A") increased to \$2.4 billion in 2006, representing 22.8% of sales and down slightly from 22.9% of sales in 2005. SG&A expenses as a percentage of net sales reflect the benefits of our cost control initiatives. Our cost management initiatives continue to emphasize continuous improvement programs designed to optimize our utilization of people and systems. We were pleased with the success of our initiatives and expect our SG&A expenses as a percentage of sales to show progress in the foreseeable future. Depreciation and amortization expense in 2006 was \$73 million, up 12% from 2005, which relates to the increase in capital expenditures in the current year. The provision for doubtful accounts was \$16 million in 2006, consistent with our bad debt expense in 2005.

In 2005, SG&A increased to \$2.2 billion, or 22.9% of net sales, a slight increase from 22.8% of sales in 2004. Depreciation and amortization expense in 2005 was \$66 million, up 5% from 2004, and corresponds to the increase in capital expenditures in 2005 relative to the prior year. The provision for doubtful accounts was \$16 million in 2005, down from \$21 million in the prior year. This was due to our improved collections on accounts receivable balances relative to 2004, when the Company incurred unusually high bad debt losses.

#### Non-Operating Expenses

Non-operating expenses for the Company consist primarily of interest. Interest expense was \$32 million, \$34 million and \$39 million in 2006, 2005 and 2004, respectively. The decrease in interest expense in 2006 is primarily due to the termination of an interest rate swap agreement.

In 2005, the decrease in interest expense from the prior year relates to the repayment of borrowings during 2004 to its current level.

In "Other", interest income net of minority interests increased in both 2006 and 2005 due to the change in interest income earned on the Company's cash balances.

#### Operating Profit

Operating profit was \$846 million in 2006, an increase of 7.4% from \$788 million in 2005. Operating profit as a percentage of net sales, which we refer to as operating margin, was 8.1% in 2006, reflecting no change from our operating margin achieved in 2005 and 2004. Our constant operating margin over the last three years is primarily the result of specific short-term margin issues in Automotive, which offset the benefits of our overall improvement in gross margin and SG&A expense as a percentage of net sales over these periods. We discuss these issues further below. We remain optimistic that our margins will show improvement in the year ahead.

#### Automotive Group

Automotive operating margins decreased to 7.7% in 2006 from 7.9% in 2005. During 2006, the Company recorded non-recurring costs associated with certain closing and consolidation expenses at Johnson Industries and our re-manufacturing operations. At Johnson Industries, we sold or closed eight of twelve locations during 2005, resulting in selling and closure costs in that year, and we incurred additional costs to downsize these operations in 2006. At our re-manufacturing operations, we incurred costs during the year related to certain facility consolidations.

Automotive operating margins decreased to 7.9% in 2005 from 8.4% in 2004. Despite showing progress in our core NAPA operations, Automotive was challenged with specific issues at Johnson Industries, as discussed above, and, within the re-manufacturing operations, we made some price adjustments to certain product lines to drive sales growth, resulting in lower margins for this group relative to the prior year. We consider the issues reviewed for 2005 and 2006 to be short-term challenges for this group and believe our Automotive operating margins will show improvement in the year ahead.

#### Industrial Group

Industrial operating margins increased to 8.3% in 2006 from 7.7% in 2005. This represents the third consecutive year of margin improvement for Industrial and reflects the effectiveness of our sales and operating initiatives, as well as the relative strength of the industries served by Industrial over these periods. Industrial operating margins increased to 7.7% in 2005 from 6.9% in 2004. This was the largest margin gain among our business segments in 2005 and reflects the strong performance at Industrial for the year.

#### Office Group

Operating margins in Office were 9.4% in 2006, down slightly from 9.5% in 2005. Office continues to generate industry leading operating margins despite competitive pricing pressures in the industry. These pressures are offset by ongoing product and customer expansion efforts and the continued development of effective marketing programs and dealer services. Office operating margins were 9.5% in 2005, down from 9.8% in 2004. The success of this Group's sales initiatives was offset by pricing pressures, which resulted in the decrease in operating margin in 2005.

#### Electrical Group

Operating margins in Electrical increased to 5.5% in 2006 from 5.1% in 2005. This represents the third consecutive year of margin improvement for Electrical and reflects the continued strength in the manufacturing sector of the economy, combined with Electrical's successful growth strategy during this three year period. Operating margins in Electrical increased to 5.1% in 2005 from 4.4% in 2004. We are encouraged by the ongoing progress we see in Electrical.



## Income Taxes

The effective income tax rate was 38.3% in 2006, unchanged from the effective rate in 2005. The effective income tax rate increased to 38.3% in 2005 from 37.8% in 2004. The increase in 2005 was primarily due to higher state income taxes in that year and favorable non-recurring items in the prior year.

## Net Income

Net income was \$475 million in 2006, an increase of 9% from \$437 million in 2005. On a per share diluted basis, net income was \$2.76 in 2006 compared to \$2.50 in 2005, up 10%. 2006 represents our third consecutive year of double-digit growth in diluted earnings per share. Net income in 2006 and 2005 was 4.5% of net sales.

Net income was \$437 million in 2005, up 11% from \$396 million in 2004, and on a per share diluted basis, net income was \$2.50 in 2005 compared to \$2.25 in 2004. Net income in 2005 was 4.5% of net sales compared to 4.3% in 2004.

## Share-Based Compensation

Effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R) choosing the "modified prospective" method. Compensation cost recognized for the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated with the provisions of SFAS No. 123(R).

Results for prior periods have not been restated. Most options may be exercised not earlier than twelve months nor later than ten years from the date of grant. As of January 1, 2006, there was approximately \$1.2 million of unrecognized compensation cost for all awards granted prior to January 1, 2003 to employees that remained unvested prior to the effective date of SFAS No. 123(R). This compensation cost is expected to be recognized over a weighted-average period of approximately four years. For the year ended December 31, 2006, total compensation cost related to nonvested awards not yet recognized was approximately \$20.2 million. The weighted-average period over which this compensation cost is expected to be recognized is approximately three years. For the years ended December 31, 2006, 2005 and 2004, \$11.9 million, \$6.9 million and \$2.5 million of share-based compensation cost was recorded, respectively. There have been no modifications to valuation methodologies or methods subsequent to the adoption of SFAS No. 123(R).

## Financial Condition

The major consolidated balance sheet categories at December 31, 2006, with the exception of the accounts discussed below, were relatively consistent with the December 31, 2005 balance sheet categories. The Company's cash balances decreased \$53 million or 28% from December 31, 2005, due primarily to cash used during the year for increased working capital requirements and investments in capital expenditures. Our accounts receivable balance at December 31, 2006 increased 3% compared to the prior year, which is less than our increase in revenues for the fourth quarter and year. Inventory at December 31, 2006, was up less than 1% from December 31, 2005, reflecting our continued emphasis on inventory management. Prepaid expenses and other current assets increased \$20 million or 10% from December 31, 2005, reflecting the increase in receivables due from vendors. Accounts payable at December 31, 2006 decreased \$63 million or 7% from the prior year, due primarily to the termination of extended terms with certain suppliers during 2006 and the resulting decrease in days payables outstanding.

Other assets at December 31, 2006 decreased \$339 million or 67%; other long-term liabilities increased \$73 million or 64%; and accumulated other comprehensive (loss) income, included as a component of shareholders' equity, was a loss of \$243 million at December 31, 2006 compared to income of \$46 million at December 31, 2005. These changes in other assets, other long-term liabilities and accumulated other comprehensive loss were primarily due to the pension adjustments required by SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

## Liquidity and Capital Resources

The ratio of current assets to current liabilities was 3.2 to 1 at December 31, 2006 compared to 3.0 to 1 at December 31, 2005. Our cash position remains strong. The Company had \$500 million in total debt outstanding at December 31, 2006 and 2005.

A summary of the Company's consolidated statements of cash flows is as follows:

Net Cash Provided by (Used in):	Year Ended December 31, (in thousands)			Percent Change 2006 vs. 2005 vs. 2004	
	2006	2005	2004	2005	2004
Operating Activities	\$ 433,500	\$ 440,517	\$ 555,236	-2%	-21%
Investing Activities	(145,599)	(70,174)	(67,955)	107%	3%
Financing Activities	(340,729)	(317,469)	(369,328)	7%	-14%

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued)

### 2006

#### Net Cash Provided by Operating Activities

The Company continues to generate excellent cash flows, with \$434 million in net cash provided by operating activities in 2006. The 9% increase in net income was offset by the use of cash for working capital requirements during the year, resulting in a slight decrease in cash from operations compared to 2005. In 2005, the Company generated \$441 million in cash from operations, a decrease from 2004. Despite an increase in net income in 2005, the 2005 operating cash flows were down from the prior year primarily due to an increase of \$70 million in contributions to Company-sponsored defined benefit plans. In addition, the Company's extended term negotiations and other working capital improvements in 2004 were especially favorable for operating cash flows in that year. The Company believes existing credit facilities and cash generated from operations will be sufficient to fund its operations, and to meet its cash requirements.

#### Net Cash Used in Investing Activities

Cash flow used in investing activities was \$146 million in 2006, up from the prior two years due primarily to increased spending for capital expenditures during the year. In 2006, capital expenditures were \$126 million compared to approximately \$86 million and \$72 million in 2005 and 2004, respectively. The Company believes that 2006 was an extraordinary year for capital spending due in part to the timing of certain assets placed in service during the year. The Company expects its investment in capital expenditures to decrease to more customary levels in the foreseeable future.

#### Net Cash Used in Financing Activities

The Company used \$341 million of cash in financing activities in 2006, primarily for dividends to shareholders and the repurchase of the Company's common stock. Dividends and share repurchases were also the primary financing activities in 2005, and in 2004, the primary financing activities were the dividend and repayment of borrowings. The Company paid dividends to shareholders of \$228 million, \$216 million, and \$209 million during 2006, 2005, and 2004, respectively. The Company expects this trend of increasing dividends to continue in the foreseeable future. During 2006, 2005 and 2004, the Company repurchased \$123 million, \$119 million and \$21 million, respectively, in Company stock. We plan to remain active in our share repurchase program, but the amount and value of shares repurchased will vary annually.

While no borrowings were repaid in 2006 or 2005, the Company repaid variable rate borrowings of approximately \$177 million in 2004. Long-term debt of \$500 million at December 31, 2006 is comprised of two \$250 million term notes with a consortium of financial and insurance institutions due in 2008 and 2011. The Company does not anticipate repaying these notes prior to their scheduled expiration. The increasing dividends and fluctuations in cash used for share repurchases and the reduction of debt primarily explain the changes in cash used for financing activities in 2006, 2005 and 2004.

#### Notes and Other Borrowings

The Company maintains a \$350 million unsecured revolving line of credit with a consortium of financial institutions, which matures in October 2008 and bears interest at LIBOR plus .25%. (5.57% at December 31, 2006). At December 31, 2006 and 2005, no amounts were outstanding under the line of credit.

At December 31, 2006, the Company had unsecured Senior Notes outstanding under a \$500 million financing arrangement as follows: \$250 million, Series A, 5.86% fixed, due 2008; and \$250 million, Series B, 6.23% fixed, due 2011. Certain borrowings contain covenants related to a maximum debt-to-equity ratio, a minimum fixed-charge coverage ratio and certain limitations on additional borrowings. At December 31, 2006, the Company was in compliance with all such covenants. The weighted average interest rate on the Company's outstanding borrowings was approximately 6.05% at December 31, 2006 and 2005. Total interest expense, net of interest income, for all borrowings was \$26.4 million, \$29.6 million and \$37.3 million in 2006, 2005 and 2004, respectively.

#### Construction and Lease Agreement

The Company also has an \$85 million construction and lease agreement with an unaffiliated third party. Properties acquired by the lessor are constructed and then leased to the Company under operating lease agreements. The total amount advanced and outstanding under this agreement at December 31, 2006 was approximately \$84 million. Since the resulting leases are operating leases, no debt obligation is recorded on the Company's balance sheet. This construction and lease agreement expires in 2009 and no additional properties are being added to this agreement, as the construction term has ended. Lease payments fluctuate based upon current interest rates and are generally based upon LIBOR plus .50%. The lease agreement contains residual value guarantee provisions and guarantees under events of default. Although management believes the likelihood of funding to be remote, the maximum guarantee obligation, which represents our residual value guarantee, under the construction and lease agreement is approximately \$73 million at December 31, 2006. Refer to Note 8 to the Consolidated Financial Statements for further information regarding this arrangement.

#### Contractual and Other Obligations

The following table shows the Company's approximate obligations and commitments, excluding interest due on credit facilities, to make future payments under contractual obligations as of December 31, 2006:

<i>(in thousands)</i>	Total	Payment Due by Period			
		Less than 1 year	1-3 years	4-5 years	Over 5 years
Credit facilities	\$ 500,000	\$ —	\$ 250,000	\$ 250,000	\$ —
Capital leases	13,615	2,509	4,502	2,852	3,752
Operating leases	444,606	129,156	159,142	74,774	81,534
Total Contractual Cash Obligations	\$ 958,221	\$ 131,665	\$ 413,644	\$ 327,626	\$ 85,286

Purchase orders or contracts for the purchase of inventory and other goods and services are not included in our estimates. We are not able to determine the aggregate amount of such purchase orders that represent contractual obligations, as purchase orders may represent authorizations to purchase rather than binding agreements. Our purchase orders are based on our current distribution needs and are fulfilled by our vendors within short time horizons. The Company does not have significant agreements for the purchase of inventory or other goods specifying minimum quantities or set prices that exceed our expected requirements.

As discussed in "Construction and Lease Agreement" above, the Company has approximately \$84 million outstanding under a construction and lease agreement which expires in 2009. In addition, the Company guarantees the borrowings of certain independently controlled automotive parts stores (independents) and certain other affiliates in which the Company has a minority equity ownership interest (affiliates). The Company's maximum exposure to loss as a result of its involvement with these independents and affiliates is equal to the total borrowings subject to the Company's guarantee. To date, the Company has had no significant losses in connection with guarantees of independents' and affiliates' borrowings. The following table shows the Company's approximate commercial commitments under these two arrangements as of December 31, 2006:

	Total Amounts Committed	Payment Due by Period			
		Less than 1 year	1-3 years	4-5 years	Over 5 years
<i>(in thousands)</i> Guaranteed borrowings of independents and affiliates	\$ 186,473	\$ 49,173	\$ 21,309	\$ 14,206	\$ 101,785
Residual value guarantee under operating leases	72,640	—	72,640	—	—
Total Commercial Commitments	\$ 259,113	\$ 49,173	\$ 93,949	\$ 14,206	\$ 101,785

In addition, the Company sponsors defined benefit pension plans that may obligate us to make contributions to the plans from time to time. Contributions in 2006 were \$67 million. We expect to make a cash contribution to our qualified defined benefit plans in 2007, and contributions required for 2008 and future years will depend on a number of unpredictable factors including the market performance of the plans' assets and future changes in interest rates that affect the actuarial measurement of the plans' obligations.

## Share Repurchases

On April 19, 1999, our Board of Directors authorized the repurchase of 15 million shares of our common stock, and on August 21, 2006, the Board authorized the repurchase of an additional 15 million shares. Such repurchase plans were announced on April 20, 1999 and August 21, 2006, respectively. The authorization for these repurchase plans continues until all such shares have been repurchased, or the repurchase plan is terminated by action of the Board of Directors. Through December 31, 2006, approximately 14.7 million shares have been repurchased under these authorizations.

## Critical Accounting Estimates

### General

Management's Discussion and Analysis of Financial Condition and Results of Operations is based upon our consolidated financial statements, which have been prepared in accordance with U.S. generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, net sales and expenses and related disclosure of contingent assets and liabilities. Management bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

An accounting policy is deemed to be critical if it requires an accounting estimate to be made based on assumptions about matters that are uncertain at the time the estimate is made and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements. Management believes the following critical accounting policies reflect its most significant estimates and assumptions used in the preparation of the consolidated financial statements. For further information on the critical accounting policies, see Note 1 of the notes to our consolidated financial statements.

### Inventories – Provisions for Slow Moving and Obsolescence

The Company identifies slow moving or obsolete inventories and estimates appropriate loss provisions related thereto. Historically, these loss provisions have not been significant as the vast majority of the Company's inventories are not highly susceptible to obsolescence and are eligible for return under various vendor return programs. While the Company has no reason to believe its inventory return privileges will be discontinued in the future, its risk of loss associated with obsolete or slow moving inventories would increase if such were to occur.

## Management's Discussion and Analysis of Financial Condition and Results of Operations (continued) 2006

### Allowance for Doubtful Accounts – Methodology

The Company evaluates the collectibility of accounts receivable based on a combination of factors. Initially, the Company estimates an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This initial estimate is periodically adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in the overall aging of accounts receivable. While the Company has a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which the Company operates could result in higher than expected defaults and, therefore, the need to revise estimates for bad debts. For the years ended December 31, 2006, 2005 and 2004, the Company recorded provisions for bad debts of \$16.5 million, \$16.4 million and \$20.7 million, respectively.

### Consideration Received from Vendors

The Company enters into agreements at the beginning of each year with many of its vendors providing for inventory purchase incentives and advertising allowances. Generally, the Company earns inventory purchase incentives upon achieving specified volume purchasing levels and advertising allowances upon fulfilling its obligations related to cooperative advertising programs. The Company accrues for the receipt of inventory purchase incentives as part of its inventory cost based on cumulative purchases of inventory to date and projected inventory purchases through the end of the year and, in the case of advertising allowances, upon completion of the Company's obligations related thereto. While management believes the Company will continue to receive such amounts in 2007 and beyond, there can be no assurance that vendors will continue to provide comparable amounts of incentives and allowances in the future.

### Impairment of Property, Plant and Equipment and Goodwill and Other Intangible Assets

At least annually, the Company evaluates property, plant and equipment, goodwill and other intangible assets for potential impairment indicators. The Company's judgments regarding the existence of impairment indicators are based on market conditions and operational performance, among other factors. Future events could cause the Company to conclude that impairment indicators exist and that assets associated with a particular operation are impaired. Evaluating the impairment also requires the Company to estimate future operating results and cash flows which require judgment by management. Any resulting impairment loss could have a material adverse impact on the Company's financial condition and results of operations.

### Employee Benefit Plans

The Company's benefit plan committees in the U.S. and Canada establish investment policies and strategies and regularly monitor the performance of the Company's pension plan assets. The pension plan investment strategy implemented by the Company's management is to achieve long-term objectives and invest the pension assets in accordance with the applicable pension legislation in the U.S. and Canada and fiduciary standards. The long-term primary objectives for the pension plan funds are to provide for a reasonable amount of long-term growth of capital without undue exposure to risk, protect the assets from erosion of purchasing power and provide investment results that meet or exceed the pension plan's actuarially assumed long term rate of return.

Based on the investment policy for the U.S. pension plan, as well as an asset study that was performed based on the Company's asset allocations and future expectations, the Company's expected rate of return on plan assets for measuring 2007 pension expense or income is 8.25% for the U.S. plan. The asset study forecasted expected rates of return for the approximate duration of the Company's benefit obligations, using capital market data and historical relationships.

The discount rate is chosen as the rate at which pension obligations could be effectively settled and is based on capital market conditions as of the measurement date. We have matched the timing and duration of the expected cash flows of our pension obligations to a yield curve generated from a broad portfolio of high-quality fixed income debt instruments to select our discount rate. Based upon this cash flow matching analysis, we selected a discount rate for the U.S. plan of 6.00% at December 31, 2006.

Net periodic cost for our defined benefit pension plans was \$48.2 million, \$32.4 million, and \$26.4 million for the years ended December 31, 2006, 2005 and 2004, respectively. The increasing trend in pension cost over these periods was primarily due to the change in assumptions for the rate of return on plan assets, the discount rate and the rate of compensation increases. These expenses are included in SG&A expenses. Refer to Note 7 to the Consolidated Financial Statements for more information regarding employee benefit plans.

On September 29, 2006, the Financial Accounting Standards Board issued SFAS No. 158 *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*. SFAS No. 158 was effective for public companies for fiscal years ending after December 15, 2006. The Company adopted the balance sheet recognition provisions of SFAS No. 158 at the end of fiscal 2006. Refer to Note 7 to the Consolidated Financial Statements for details regarding the incremental effect of adopting SFAS No. 158.

The Company has evaluated the potential impact of the Pension Protection Act ("the Act"), which was passed into law on August 17, 2006, on future U.S. pension plan funding requirements based on current market conditions. The Act is not anticipated to have a material effect on the level of future funding requirements or on the Company's liquidity and capital resources.



## Quarterly Results of Operations

The preparation of interim consolidated financial statements requires management to make estimates and assumptions for the amounts reported in the interim condensed consolidated financial statements. Specifically, the Company makes certain estimates in its interim consolidated financial statements for the accrual of bad debts, inventory adjustments and discounts and volume incentives earned. Bad debts are accrued based on a percentage of sales, and volume incentives are estimated based upon cumulative and projected purchasing levels. Inventory adjustments are accrued on an interim basis and adjusted in the fourth quarter based on the annual October 31 book-to-physical inventory adjustment. The methodology and practices used in deriving estimates for interim reporting typically result in adjustments upon accurate determination at year-end. The effect of these adjustments in 2006 and 2005 was not significant.

The following is a summary of the quarterly results of operations for the years ended December 31, 2006 and 2005:

Three Months Ended  
March 31, June 30, Sept. 30, Dec. 31,  
*(in thousands except for per share data)*

### 2006

Net Sales	\$2,553,552	\$2,661,805	\$2,699,641	\$2,542,944
Gross Profit	803,477	825,182	831,295	815,541
Net Income	113,925	120,680	121,333	119,467
Earnings Per Share:				
Basic	.66	.70	.71	.70
Diluted	.66	.70	.71	.70

### 2005

Net Sales	\$2,342,201	\$2,475,657	\$2,555,503	\$2,409,689
Gross Profit	736,480	761,257	778,502	787,847
Net Income	106,598	110,967	110,876	108,993
Earnings Per Share:				
Basic	.61	.64	.64	.63
Diluted	.61	.63	.63	.63

## Forward-Looking Statements

Some statements in this report, as well as in other materials we file with the SEC or otherwise release to the public and in materials that we make available on our website, constitute forward-looking statements that are subject to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Senior officers may also make verbal statements to analysts, investors, the media and others that are forward-looking. Forward-looking statements may relate, for example, to future operations, prospects, strategies, financial condition, economic performance (including growth and earnings), industry conditions and demand for our products and services. The Company cautions that its forward-looking statements involve risks and uncertainties, and while we believe that our expectations for the future are reasonable in view of currently available information, you are cautioned not to place undue reliance on our forward-looking statements. Actual results or events may differ materially from those indicated as a result of various important factors. Such factors include, but are not limited to, changes in general economic conditions, the growth rate of the market for the Company's products and services, the ability to maintain favorable supplier arrangements and relationships, competitive product and pricing pressures, including internet related initiatives, the effectiveness of the Company's promotional, marketing and advertising programs, changes in laws and regulations, including changes in accounting and taxation guidance, the uncertainties of litigation, as well as other risks and uncertainties discussed from time to time in the Company's filings with the SEC.

Forward-looking statements are only as of the date they are made, and the Company undertakes no duty to update its forward-looking statements. You are advised, however, to review any further disclosures we make on related subjects in our Forms 10-Q and Form 8-K reports to the SEC.

## Report of Management

### Genuine Parts Company

#### Management's Responsibility for the Financial Statements

We have prepared the accompanying consolidated financial statements and related information included herein for the years ended December 31, 2006, 2005 and 2004. The opinion of Ernst & Young LLP, the Company's independent registered public accounting firm, on those consolidated financial statements is included herein. The primary responsibility for the integrity of the financial information included in this annual report rests with management. Such information was prepared in accordance with generally accepted accounting principles appropriate in the circumstances based on our best estimates and judgments and giving due consideration to materiality.

#### Management's Report on Internal Control over Financial Reporting

The management of Genuine Parts Company and its subsidiaries (the "Company") is responsible for establishing and maintaining adequate internal control over financial reporting as defined in Rule 13a-15(f) under the Securities Exchange Act of 1934.

The Company's internal control system was designed to provide reasonable assurance to the Company's management and to the board of directors regarding the preparation and fair presentation of the Company's published financial statements. The Company's internal control over financial reporting includes those policies and procedures that:

- i. pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company;
- ii. provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with U.S. 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
- iii. 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.

All internal control systems, no matter how well designed, have inherent limitations and may not prevent or detect misstatements. 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 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.

The Company's management, including our Chief Executive Officer and Chief Financial Officer, assessed the effectiveness of the Company's internal control over financial reporting as of December 31, 2006. In making this assessment, it used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in "Internal Control-Integrated Framework." Based on this assessment, management concluded that, as of December 31, 2006, the Company's internal control over financial reporting was effective.

Ernst & Young LLP has issued an audit report on our assessment of the Company's internal control over financial reporting and the operating effectiveness of internal control over financial reporting as of December 31, 2006. This report appears on page 25.

#### Audit Committee Responsibility

The Audit Committee of Genuine Parts Company's Board of Directors is responsible for reviewing and monitoring the Company's financial reports and accounting practices to ascertain that they are within acceptable limits of sound practice in such matters. The membership of the Committee consists of non-employee Directors. At periodic meetings, the Audit Committee discusses audit and financial reporting matters and the internal audit function with representatives of financial management and with representatives from Ernst & Young LLP.



JERRY W. NIX  
Vice Chairman and Chief Financial Officer  
February 26, 2007

## Report of Independent Registered Public Accounting Firm on Internal Control over Financial Reporting

### The Board of Directors and Shareholders of Genuine Parts Company

We have audited management's assessment, included in the accompanying Report of Management, that Genuine Parts Company maintained effective internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (the COSO criteria). Genuine Parts 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. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). 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, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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.

In our opinion, management's assessment that Genuine Parts Company maintained effective internal control over financial reporting as of December 31, 2006, is fairly stated, in all material respects, based on the COSO criteria. Also, in our opinion, Genuine Parts Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2006, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Genuine Parts Company as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006 of Genuine Parts Company and our report dated February 26, 2007 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Atlanta, Georgia  
February 26, 2007

## Report of Independent Registered Public Accounting Firm on the Financial Statements

### The Board of Directors and Shareholders of Genuine Parts Company

We have audited the accompanying consolidated balance sheets of Genuine Parts Company and subsidiaries as of December 31, 2006 and 2005, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 2006. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Genuine Parts Company and subsidiaries at December 31, 2006

and 2005, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 1, effective December 31, 2006, the Company adopted Statement of Financial Accounting Standards No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of Genuine Parts Company's internal control over financial reporting as of December 31, 2006, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission and our report dated February 26, 2007 expressed an unqualified opinion thereon.

*Ernst & Young LLP*

Atlanta, Georgia  
February 26, 2007

## Consolidated Balance Sheets

(in thousands, except share data) December 31,

2006

2005

### Assets

#### Current assets:

Cash and cash equivalents	\$ 135,973	\$ 188,911
Trade accounts receivable, net	1,227,805	1,186,865
Merchandise inventories, net	2,236,368	2,216,542
Prepaid expenses and other assets	234,981	214,564
Total current assets	3,835,127	3,806,882

Goodwill and intangible assets, less accumulated amortization

62,254 62,717

Other assets

170,343 509,644

#### Property, plant, and equipment:

Land	50,726	52,335
Buildings, less allowance for depreciation (2006 - \$142,324; 2005 - \$133,950)	162,679	147,061
Machinery and equipment, less allowance for depreciation (2006 - \$418,815; 2005 - \$403,294)	215,855	192,899
Net property, plant, and equipment	429,260	392,295

\$ 4,496,984 \$ 4,771,538

### Liabilities and Shareholders' Equity

#### Current liabilities:

Trade accounts payable	\$ 910,263	\$ 973,615
Other borrowings	—	881
Accrued compensation	95,770	99,402
Other accrued expenses	97,284	84,760
Dividends payable	57,552	54,150
Income taxes payable	37,899	36,296
Total current liabilities	1,198,768	1,249,104

Long-term debt

500,000 500,000

Deferred income taxes

— 156,807

Minority interests in subsidiaries

60,716 57,047

Other long-term liabilities

187,509 114,623

#### Shareholders' equity:

Preferred stock, par value \$1 per share – authorized 10,000,000 shares; none issued	—	—
Common stock, par value \$1 per share – authorized 450,000,000 shares; issued 170,530,874 shares in 2006 and 173,032,697 shares in 2005	170,531	173,033
Accumulated other comprehensive (loss) income	(242,534)	45,535
Retained earnings	2,621,994	2,475,389
Total shareholders' equity	2,549,991	2,693,957
	\$ 4,496,984	\$ 4,771,538

See accompanying notes.



## Consolidated Statements of Income

(in thousands, except per share amounts) Year ended December 31,

	2006	2005	2004
Net sales	\$ 10,457,942	\$ 9,783,050	\$ 9,097,267
Cost of goods sold	7,182,447	6,718,964	6,267,544
Gross margin	3,275,495	3,064,086	2,829,723
Operating expenses:			
Selling, administrative and other expenses	2,388,882	2,244,308	2,073,804
Depreciation and amortization	73,423	65,529	62,207
Provision for doubtful accounts	16,472	16,356	20,697
Total operating expenses	2,478,777	2,326,193	2,156,708
Non-operating expenses (income):			
Interest expense	31,576	34,024	38,628
Other	(5,774)	(5,195)	(1,532)
Total non-operating expenses	25,802	28,829	37,096
Income before income taxes	770,916	709,064	635,919
Income taxes	295,511	271,630	240,367
Net income	\$ 475,405	\$ 437,434	\$ 395,552
Basic net income per common share	\$ 2.77	\$ 2.51	\$ 2.26
Diluted net income per common share	\$ 2.76	\$ 2.50	\$ 2.25
Weighted average common shares outstanding	171,576	174,054	174,687
Dilutive effect of stock options and non-vested restricted stock awards	910	953	973
Weighted average common shares outstanding - assuming dilution	172,486	175,007	175,660

See accompanying notes.

## Consolidated Statements of Shareholders' Equity

<i>(in thousands, except share and per share amounts)</i>	Common Stock		Additional Paid-In Capital	Accumulated		Total Shareholders' Equity
	Shares	Amount		Other Comprehensive Income (Loss)	Retained Earnings	
Balance at January 1, 2004	174,045,263	\$ 174,045	\$ 32,853	\$ 4,835	\$ 2,100,550	\$ 2,312,283
Net income	—	—	—	—	395,552	395,552
Foreign currency translation adjustment	—	—	—	27,202	—	27,202
Changes in fair value of derivative instruments, net of income taxes of \$1,764	—	—	—	2,786	—	2,786
Change in minimum pension liability, net of income taxes of \$5,079	—	—	—	(8,345)	—	(8,345)
Comprehensive income						417,195
Cash dividends declared, \$1.20 per share	—	—	—	—	(209,739)	(209,739)
Stock options exercised, including tax benefit of \$6,073	1,498,002	1,498	42,097	—	—	43,595
Stock based compensation	—	—	2,518	—	—	2,518
Purchase of stock	(578,381)	(578)	(20,897)	—	—	(21,475)
Balance at December 31, 2004	174,964,884	174,965	56,571	26,478	2,286,363	2,544,377
Net income	—	—	—	—	437,434	437,434
Foreign currency translation adjustment	—	—	—	14,351	—	14,351
Changes in fair value of derivative instruments, net of income taxes of \$2,041	—	—	—	3,372	—	3,372
Change in minimum pension liability, net of income taxes of \$(258)	—	—	—	1,334	—	1,334
Comprehensive income						456,491
Cash dividends declared, \$1.25 per share	—	—	—	—	(217,523)	(217,523)
Stock options exercised, including tax benefit of \$5,242	852,745	853	22,114	—	—	22,967
Stock based compensation	—	—	6,884	—	—	6,884
Purchase of stock	(2,784,932)	(2,785)	(85,569)	—	(30,885)	(119,239)
Balance at December 31, 2005	173,032,697	173,033	—	45,535	2,475,389	2,693,957
Net income	—	—	—	—	475,405	475,405
Foreign currency translation adjustment	—	—	—	(2,341)	—	(2,341)
Changes in fair value of derivative instruments, net of income taxes of \$201	—	—	—	322	—	322
Change in minimum pension liability, net of income taxes of \$922	—	—	—	(1,265)	—	(1,265)
Comprehensive income						472,121
Pension and postretirement benefit adjustment, net of income taxes of \$187,371 (see note below)	—	—	—	(284,785)	—	(284,785)
Cash dividends declared, \$1.35 per share	—	—	—	—	(231,454)	(231,454)
Stock options exercised, including tax benefit of \$3,005	432,694	433	11,249	—	—	11,682
Stock based compensation	—	—	11,948	—	—	11,948
Purchase of stock	(2,934,517)	(2,935)	(23,197)	—	(97,346)	(123,478)
Balance at December 31, 2006	170,530,874	\$ 170,531	\$ -	\$ (242,534)	\$ 2,621,994	\$ 2,549,991

See accompanying notes.

The pension and postretirement benefit adjustment relates to the adoption of SFAS No. 158 as described further in Note 7.

## Consolidated Statements of Cash Flows

(in thousands) Year ended December 31,

	2006	2005	2004
<b>Operating activities</b>			
Net income	\$ 475,405	\$ 437,434	\$ 395,552
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	73,423	65,529	62,207
Excess tax benefits from share-based compensation	(3,005)	—	—
Loss (gain) on sale of property, plant, and equipment	509	(2,675)	(1,656)
Deferred income taxes	(5,481)	43,935	19,670
Minority interests	3,991	3,271	2,688
Stock based compensation	11,948	12,126	8,590
Changes in operating assets and liabilities:			
Trade accounts receivable, net	(31,821)	(59,949)	(33,370)
Merchandise inventories, net	(7,240)	(19,869)	(28,406)
Trade accounts payable	(66,116)	112,087	143,456
Other long-term assets	(7,052)	(118,358)	(60,147)
Other, net	(11,061)	(33,014)	46,652
	(41,905)	3,083	159,684
Net cash provided by operating activities	433,500	440,517	555,236
<b>Investing activities</b>			
Purchases of property, plant and equipment	(126,044)	(85,714)	(72,077)
Proceeds from sale of property, plant, and equipment	4,452	7,110	7,140
Acquisition of businesses and other investments	(29,007)	(27,518)	(3,018)
Proceeds from disposal of businesses	—	35,948	—
Other	5,000	—	—
Net cash used in investing activities	(145,599)	(70,174)	(67,955)
<b>Financing activities</b>			
Proceeds from credit facilities	160,000	113,432	555,848
Payments on credit facilities	(160,881)	(113,519)	(732,649)
Stock options exercised	8,677	17,725	37,523
Excess tax benefits from share-based compensation	3,005	—	—
Dividends paid	(228,052)	(215,868)	(208,575)
Purchase of stock	(123,478)	(119,239)	(21,475)
Net cash used in financing activities	(340,729)	(317,469)	(369,328)
Effect of exchange rate changes on cash	(110)	1,097	1,594
Net (decrease) increase in cash and cash equivalents	(52,938)	53,971	119,547
Cash and cash equivalents at beginning of year	188,911	134,940	15,393
Cash and cash equivalents at end of year	\$ 135,973	\$ 188,911	\$ 134,940
<b>Supplemental disclosures of cash flow information</b>			
Cash paid during the year for:			
Income taxes	\$ 285,696	\$ 235,384	\$ 205,148
Interest	\$ 32,521	\$ 33,544	\$ 40,082

See accompanying notes.

## Notes to Consolidated Financial Statements

### December 31, 2006

#### 1. Summary of Significant Accounting Policies

##### Business

Genuine Parts Company and all of its majority-owned subsidiaries (the Company) is a distributor of automotive replacement parts, industrial replacement parts, office products and electrical/electronic materials. The Company serves a diverse customer base through more than 2,000 locations in North America and, therefore, has limited exposure from credit losses to any particular customer, region, or industry segment. The Company performs periodic credit evaluations of its customers' financial condition and generally does not require collateral.

##### Principles of Consolidation

The consolidated financial statements include all of the accounts of the Company. Income applicable to minority interests is included in other non-operating expenses (income). Significant intercompany accounts and transactions have been eliminated in consolidation.

##### Use of Estimates

The preparation of the consolidated financial statements, in conformity with U.S. generally accepted accounting principles, requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. Actual results may differ from those estimates and the differences could be material.

##### Revenue Recognition

The Company recognizes revenues from product sales upon shipment to its customers.

##### Foreign Currency Translation

The consolidated balance sheets and statements of income of the Company's foreign subsidiaries have been translated into U.S. dollars at the current and average exchange rates, respectively. The foreign currency translation adjustment is included as a component of accumulated other comprehensive (loss) income.

##### Cash and Cash Equivalents

The Company considers all highly liquid investments with maturities of three months or less when purchased to be cash and cash equivalents.

##### Trade Accounts Receivable and the Allowance for Doubtful Accounts

The Company evaluates the collectibility of trade accounts receivable based on a combination of factors. Initially, the Company estimates an allowance for doubtful accounts as a percentage of net sales based on historical bad debt experience. This initial estimate is periodically adjusted when the Company becomes aware of a specific customer's inability to meet its financial obligations (e.g., bankruptcy filing) or as a result of changes in the overall aging of accounts receivable. While the Company has a large customer base that is geographically dispersed, a general economic downturn in any of the industry segments in which the Company operates could result in higher than expected defaults, and, therefore, the need to revise estimates for bad debts. For the years ended December 31, 2006, 2005, and 2004, the Company recorded provisions for bad debts of approximately \$16,472,000, \$16,356,000 and \$20,697,000, respectively. At December 31, 2006 and 2005, the allowance for doubtful accounts was approximately \$13,456,000 and \$11,386,000, respectively.

##### Merchandise Inventories, including Consideration Received from Vendors

Merchandise inventories are valued at the lower of cost or market. Cost is determined by the last-in, first-out (LIFO) method for a majority of automotive parts, electrical/electronic materials, and industrial parts, and by the first-in, first-out (FIFO) method for office products and certain other inventories. If the FIFO method had been used for all inventories, cost would have been approximately \$316,148,000 and \$278,573,000 higher than reported at December 31, 2006 and 2005, respectively.

The Company identifies slow moving or obsolete inventories and estimates appropriate provisions related thereto. Historically, these losses have not been significant as the vast majority of the Company's inventories are not highly susceptible to obsolescence and are eligible for return under various vendor return programs. While the Company has no reason to believe its inventory return privileges will be discontinued in the future, its risk of loss associated with obsolete or slow moving inventories would increase if such were to occur.

The Company enters into agreements at the beginning of each year with many of its vendors providing for inventory purchase incentives and advertising allowances. Generally, the Company earns inventory purchase incentives and advertising allowances upon achieving specified volume purchasing levels or other criteria. The Company accrues for the receipt of inventory purchase incentives and advertising allowances as part of its inventory cost based on cumulative purchases of inventory to date and projected inventory purchases through the end of the year, or, in the case of specific advertising allowances, upon completion of the Company's obligations related thereto. While management believes the Company will continue to receive consideration from vendors in 2007 and beyond, there can be no assurance that vendors will continue to provide comparable amounts of incentives and allowances in the future.

##### Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consist primarily of prepaid expenses and amounts due from vendors.

##### Goodwill and Other Intangible Assets

Goodwill and other intangible assets primarily represent the excess of the purchase price paid over the fair value of the net assets acquired in connection with business acquisitions. Statement of Financial Accounting Standards ("SFAS") No. 142, *Goodwill and Other Intangible Assets* ("SFAS No. 142") requires that when the fair value of goodwill is less than the related carrying value, entities are required to reduce the amount of goodwill. In accordance with the provisions of SFAS No. 142, the Company reviews its goodwill annually in the fourth quarter, or sooner if circumstances indicate that the carrying amount may exceed fair value. No goodwill impairments have been recorded in 2006, 2005, or 2004. The impairment-only approach required by SFAS No. 142 may have the effect of increasing the volatility of the Company's earnings if goodwill impairment occurs at a future date.



SFAS No. 142 also requires that entities discontinue amortization of all purchased goodwill, including amortization of goodwill recorded in past business combinations. Accordingly, the Company no longer amortizes goodwill.

#### Other Assets

Other assets are comprised of the following:

<i>(in thousands) December 31,</i>	2006	2005
Retirement benefit assets	\$ 12,951	\$ 402,993
Investment accounted for under the cost method	21,400	21,400
Cash surrender value of life insurance policies	49,294	42,142
Deferred tax asset	38,839	-
Other	47,859	43,109
Total other assets	<u>\$ 170,343</u>	<u>\$ 509,644</u>

The reduction in other assets is primarily due to adjustments to retirement benefit assets as required by SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"), which is discussed further in Note 7.

#### Property, Plant, and Equipment

Property, plant, and equipment are stated at cost. Buildings include certain leases capitalized at December 31, 2006 and 2005. Depreciation and amortization is primarily determined on a straight-line basis over the following estimated useful life of each asset: buildings and improvements, 10 to 40 years; machinery and equipment, 5 to 15 years.

#### Long-Lived Assets Other Than Goodwill

The Company assesses its long-lived assets other than goodwill for impairment annually or whenever facts and circumstances indicate that the carrying amount may not be fully recoverable. To analyze recoverability, the Company projects undiscounted net future cash flows over the remaining life of such assets. If these projected cash flows are less than the carrying amount, an impairment would be recognized, resulting in a write-down of assets with a corresponding charge to earnings. Impairment losses, if any, are measured based upon the difference between the carrying amount and the fair value of the assets.

#### Other Long-Term Liabilities

Other long-term liabilities is comprised of the following:

<i>(in thousands) December 31,</i>	2006	2005
Retirement and post-employment benefit liabilities	\$ 116,374	\$ 54,198
Obligations under capital and other leases	12,248	21,878
Insurance liabilities	39,558	36,145
Other	19,329	2,402
Total other long-term liabilities	<u>\$ 187,509</u>	<u>\$ 114,623</u>

The increase in other long-term liabilities is primarily due to adjustments to retirement and post-employment benefit liabilities required by SFAS No. 158, which is discussed further in Note 7.

The Company's retirement and post-employment benefit liabilities consist primarily of actuarially determined obligations related to certain retiree benefits as discussed further in Note 7. See Note 4 for further discussion of the Company's obligations under capital leases.

Insurance liabilities consist primarily of reserves for the workers' compensation program. The Company carries various large risk deductible workers' compensation policies for the majority of workers' compensation liabilities. The Company records the workers' compensation reserves based on an analysis performed by an independent actuary. The analysis calculates development factors, which are applied to total reserves as provided by the various insurance companies who underwrite the program. While the Company believes that the assumptions used to calculate these liabilities are appropriate, significant differences in actual experience or significant changes in these assumptions may materially affect workers' compensation costs.

#### Self-Insurance

The Company is self-insured for the majority of group health insurance costs. A reserve for claims incurred but not reported is developed by analyzing historical claims data provided by the Company's claims administrators. While the Company believes that the assumptions used to calculate these liabilities are appropriate, significant differences from historical trends may materially impact financial results. These reserves are included in accrued expenses in the accompanying consolidated balance sheets as the expenses are expected to be paid within one year.

#### Accumulated Other Comprehensive (Loss) Income

Accumulated other comprehensive (loss) income is comprised of the following:

<i>(in thousands) December 31,</i>	2006	2005
Foreign currency translation	\$ 50,823	\$ 53,164
Net unrealized loss on derivative instruments, net of taxes	(296)	(618)
Minimum pension liability, net of taxes	N/A	(7,011)
Unrecognized net (loss), net of tax	(290,461)	N/A
Unrecognized prior service (cost), net of tax	(2,600)	N/A
Total accumulated other comprehensive (loss) income	<u>\$ (242,534)</u>	<u>\$ 45,535</u>

The change in accumulated other comprehensive (loss) income is primarily due to adjustments required by SFAS No. 158, which is discussed further in Note 7.

## Notes to Consolidated Financial Statements (continued)

### 1. Summary of Significant Accounting Policies (continued)

#### Fair Value of Financial Instruments

The carrying amounts reflected in the consolidated balance sheets for cash and cash equivalents, trade accounts receivable and trade accounts payable approximate their respective fair values based on the short-term nature of these instruments. At December 31, 2006 and 2005, the fair market value of fixed rate long-term debt was approximately \$511,000,000 and \$526,000,000, respectively, based primarily on quoted prices for these or similar instruments. The fair value of fixed rate long-term debt was estimated by calculating the present value of anticipated cash flows. The discount rate used was an estimated borrowing rate for similar debt instruments with like maturities.

#### Shipping and Handling Costs

Shipping and handling costs are classified as selling, administrative and other expenses in the accompanying consolidated statements of income and totaled approximately \$267,000,000, \$238,000,000, and \$216,000,000 in the years ended December 31, 2006, 2005, and 2004, respectively.

#### Advertising Costs

Advertising costs are expensed as incurred and totaled \$49,700,000, \$44,100,000, and \$41,500,000 in the years ended December 31, 2006, 2005, and 2004, respectively.

#### Stock Compensation

The Company maintains various Long-Term Incentive Plans, which provide for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalents and other share-based awards.

Effective January 1, 2003, the Company prospectively adopted the fair value method of accounting for stock compensation. The Company recognizes compensation expense based on the straight-line method. Until January 1, 2003, the Company had elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* ("APB No. 25"), and related Interpretations in accounting for stock compensation. Under APB No. 25, no compensation expense was recognized if the exercise price of stock options equaled or exceeded the market price of the underlying stock on the date of grant. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, as amended, determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method of SFAS No. 123.

Effective January 1, 2006 the Company adopted SFAS No. 123(R) choosing the "modified prospective" method. Compensation cost recognized for the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair

value estimated with the provisions of SFAS No. 123(R). Results for prior periods have not been restated. Most options may be exercised not earlier than twelve months nor later than ten years from the date of grant. As of January 1, 2006, there was approximately \$1.2 million of unrecognized compensation cost for all awards granted prior to January 1, 2003 to employees that remained unvested prior to the effective date of SFAS No. 123(R). This compensation cost is expected to be recognized over a weighted-average period of approximately four years.

#### Net Income per Common Share

Basic net income per common share is computed by dividing net income by the weighted average number of common shares outstanding during the year. The computation of diluted net income per common share includes the dilutive effect of stock options and non-vested restricted stock awards. For the years ended December 31, 2005 and 2004, the dilutive effect of options to purchase approximately 12,000, and 12,000 shares of common stock, respectively, at an average exercise price of approximately \$18 per share issued in connection with a 1998 acquisition have been included in the computation of diluted net income per common share since the date of the acquisition. These shares were exercised on May 15, 2006 and therefore are included in the basic calculation for the year ended December 31, 2006.

#### Recently Issued Accounting Pronouncements

On July 13, 2006, the Financial Accounting Standards Board ("FASB") issued Interpretation No. 48, *Accounting for Uncertainty in Income Taxes, an interpretation of SFAS No. 109* ("FIN No. 48"), to create a single model to address accounting for uncertainty in tax positions. FIN No. 48 clarifies the accounting for income taxes by prescribing a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FIN No. 48 also provides guidance on derecognition, measurement, classification, interest and penalties, accounting in interim periods, disclosure and transition. FIN No. 48 is effective for fiscal years beginning after December 15, 2006. The Company will adopt FIN No. 48 as of January 1, 2007, as required. While the Company has not yet completed its analysis, the Company does not expect that the adoption of FIN No. 48 will have a significant impact on the Company's financial position and results of operations.

On September 15, 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* ("SFAS No. 157"). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with accounting principles generally accepted in the United States, and expands disclosures about fair value measurements. SFAS No. 157 does not expand the use of fair value in any new circumstances. SFAS No. 157 is effective for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect SFAS No. 157 will have a significant impact on the Company's consolidated financial statements.

On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans* ("SFAS No. 158"), which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the consolidated balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost will be recognized in accumulated other comprehensive (loss) income, net of tax effects, until they are amortized as a component of net periodic cost. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006. The Company adopted the balance sheet recognition provisions of SFAS No. 158 at December 31, 2006, as more fully discussed in Note 7. SFAS No. 158 has no impact on the consolidated statement of income for the year ended December 31, 2006.

## 2. Goodwill and Other Intangible Assets

In accordance with SFAS No. 142, the Company performed an annual goodwill and indefinite lived intangible asset impairment test during the fourth quarter of 2006, 2005, and 2004. The present value of future cash flows approach was used to determine any potential impairment. The Company determined that these assets were not impaired and, therefore, no impairment was recognized for the years ended December 31, 2006, 2005, and 2004.

The changes in the carrying amount of goodwill during the years ended December 31, 2006, 2005 and 2004 by reportable segment, as well as other identifiable intangible assets, are summarized as follows (in thousands):

	Goodwill			Identifiable Intangible Assets	Total
	Automotive	Industrial	Office Products		
Balance as of January 1, 2004	\$ 21,617	\$ 31,170	\$ 2,131	\$ 3,110	\$ 58,028
Amortization during the year	-	-	-	(356)	(356)
Balance as of December 31, 2004	21,617	31,170	2,131	2,754	57,672
Goodwill acquired during the year	2,270	239	-	2,932	5,441
Amortization during the year	-	-	-	(396)	(396)
Balance as of December 31, 2005	23,887	31,409	2,131	5,290	62,717
Amortization during the year	-	-	-	(463)	(463)
Balance as of December 31, 2006	\$ 23,887	\$ 31,409	\$ 2,131	\$ 4,827	\$ 62,254

## 3. Credit Facilities

The principal amount of the Company's borrowings subject to variable rates totaled approximately \$881,000 at December 31, 2005. There were no amounts subject to variable rates at December 31, 2006. The weighted average interest rate on the Company's outstanding borrowings was approximately 6.05% at December 31, 2006 and 2005.

The Company maintains a \$350,000,000 unsecured revolving line of credit with a consortium of financial institutions that matures in October 2008 and bears interest at LIBOR plus .25% (5.57% at December 31, 2006). No amounts were outstanding under this line of credit at December 31, 2006 and 2005. Certain borrowings contain covenants related to a maximum debt-to-equity ratio, a minimum fixed-charge coverage ratio, and certain limitations on additional borrowings. At December 31, 2006, the Company was in compliance with all such covenants. Due to the workers compensation and insurance reserve requirements in certain states, the Company also had unused letters of credit of \$58,955,000 and \$52,600,000 outstanding at December 31, 2006 and 2005, respectively.

Amounts outstanding under the Company's credit facilities consist of the following:

(in thousands) December 31,	2006	2005
Unsecured term notes:		
November 30, 2002, Series A Senior Notes, \$250,000,000, 5.86% fixed, due November 30, 2008	\$ 250,000	\$ 250,000
November 30, 2002, Series B Senior Notes, \$250,000,000, 6.23% fixed, due November 30, 2011	250,000	250,000
Long-term debt	500,000	500,000
Other borrowings	-	881
	\$ 500,000	\$ 500,881

Approximate maturities under the Company's credit facilities are as follows (in thousands):

2007	\$ -
2008	250,000
2009	-
2010	-
2011	250,000
	\$ 500,000

## Notes to Consolidated Financial Statements (continued)

### 4. Leased Properties

In June 2003, the Company completed an amended and restated master agreement to our \$85,000,000 construction and lease agreement (the "Agreement"). The lessor in the Agreement is an independent third-party limited liability company, which has as its sole member a publicly traded corporation. Properties acquired by the lessor are constructed and/or then leased to the Company under operating lease agreements. No additional properties are being added to this Agreement, as the construction term has ended. The Company does not believe the lessor is a variable interest entity, as defined in FASB Interpretation No. 46(R), *Consolidation of Variable Interest Entities, an interpretation of ARB No. 51* ("FIN No. 46"). In addition, the Company has verified that even if the lessor was determined to be a variable interest entity, the Company would not have to consolidate the lessor nor the assets and liabilities associated with properties leased to the Company. This is because the assets leased under the Agreement do not exceed 50% of the total fair value of the lessor's assets, excluding any assets that should be excluded from such calculation under FIN No. 46, nor did the lessor finance 95% or more of the leased balance with non-recourse debt, target equity or similar funding. The Agreement has been accounted for as an operating lease under SFAS No. 13, *Accounting for Leases* ("SFAS No. 13") and related interpretations. Future minimum rental commitments under the Agreement have been included in the table of future minimum payments below.

Rent expense related to the Agreement is recorded under selling, administrative and other expenses in our consolidated statements of income and was \$4,797,000, \$3,338,000, and \$1,745,000 for the years ended December 31, 2006, 2005, and 2004, respectively.

Buildings includes \$15,400,000 with accumulated depreciation of \$6,917,000, for leases of distribution centers and stores capitalized at December 31, 2006. Depreciation expense for capital leases was approximately \$4,585,000, \$3,466,000, and \$2,776,000 in 2006, 2005, and 2004, respectively.

Future minimum payments, by year and in the aggregate, under the capital and noncancelable operating leases with initial or remaining terms of one year or more consisted of the following at December 31, 2006 (in thousands):

	Capital Leases	Operating Leases
2007	\$ 2,509	\$ 129,156
2008	2,344	95,152
2009	2,158	63,990
2010	1,760	44,239
2011	1,092	30,535
Thereafter	3,752	81,534
Total minimum lease payments	13,615	<u>\$ 444,606</u>
Amounts representing interest	5,132	
Present value of future minimum lease payments	<u>\$ 8,483</u>	

Rental expense for operating leases was approximately \$147,727,000 in 2006, \$147,187,000 in 2005, and \$132,493,000 in 2004.

### 5. Stock Options and Restricted Stock Awards

The Company maintains various Long-Term Incentive Plans, which provide for the granting of stock options, stock appreciation rights, restricted stock, restricted stock units, performance awards, dividend equivalents and other share-based awards. The Company issues new shares upon option exercise under these plans.

Effective January 1, 2003, the Company prospectively adopted the fair value method of accounting for stock compensation. The Company recognizes compensation expense based on the straight-line method for all award types, including SARs, which are subject to graded vesting based on a service condition. Until January 1, 2003, the Company had elected to follow APB No. 25, *Accounting for Stock Issued to Employees* and related interpretations in accounting for stock compensation. Under APB No. 25, no compensation expense was recognized if the exercise price of stock options equaled or exceeded the market price of the underlying stock on the date of grant. Pro forma information regarding net income and earnings per share is required by SFAS No. 123, as amended, determined as if the Company had accounted for its employee stock options granted subsequent to December 31, 1994, under the fair value method of SFAS No. 123.

Effective January 1, 2006 the Company adopted SFAS No. 123(R) choosing the "modified prospective" method. Compensation cost recognized for the year ended December 31, 2006 includes: (a) compensation cost for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated with the provisions of SFAS No. 123(R). Results for prior periods have not been restated. Most options may be exercised not earlier than twelve months nor later than ten years from the date of grant. As of January 1, 2006, there was approximately \$1.2 million of unrecognized compensation cost for all awards granted prior to January 1, 2003 to employees that remained unvested prior to the effective date of SFAS No. 123(R). This compensation cost is expected to be recognized over a weighted-average period of approximately four years.



For the year ended December 31, 2006, total compensation cost related to nonvested awards not yet recognized was approximately \$20.2 million. The weighted-average period over which this compensation cost is expected to be recognized is approximately three years. The aggregate intrinsic value for options and RSUs outstanding at December 31, 2005 and 2006 was approximately \$56.4 million and \$74.6 million, respectively. The aggregate intrinsic value for options and RSUs vested totaled approximately \$39.0 million and \$46.4 million at December 31, 2005 and 2006, respectively. At December 31, 2006, the weighted-average contractual life for outstanding and exercisable options and RSUs was seven and six years, respectively. For the years ended December 31, 2006, 2005 and 2004, \$11.9 million, \$6.9 million and \$2.5 million of share-based compensation cost was recorded, respectively. The total income tax benefit recognized in the income statement for share-based compensation arrangements was approximately \$4.8 million, \$2.8 million and \$1.0 million for 2006,

2005 and 2004, respectively. There have been no modifications to valuation methodologies or methods subsequent to the adoption of SFAS No. 123(R).

For the years ended December 31, 2006, 2005 and 2004 the fair value for options and SARs granted was estimated using a Black-Scholes option pricing model with the following weighted-average assumptions, respectively: risk-free interest rate of 4.8%, 4.1% and 4.0%; dividend yield of 2.9%, 3.2% and 3.7%; annual historical volatility factor of the expected market price of the Company's common stock of 21%, 23% and 23%; an expected life and estimated turnover based on the historical pattern of existing grants of six, six and eight years and 4.0% to 4.4%, respectively. The fair value of RSUs is based on the price of the Company's stock on the date of the grant. The total fair value of shares vested during the years ended December 31, 2006, 2005 and 2004 was \$6.9 million, \$8.0 million and \$6.2 million, respectively.

For purposes of pro forma disclosures under SFAS No. 123, as amended by SFAS No. 148 *Accounting for Stock-Based Compensation Transition and Disclosure*, an amendment of FASB Statement No. 123, the estimated fair value of the options is amortized to expense over the options' vesting period. The following table illustrates the effect on net income and income per share if the fair value based method had been applied to all outstanding and unvested awards in each period (in thousands, except per share amounts):

<i>Year Ended December 31,</i>	2005	2004
Net income, as reported	°\$ 437,434	\$ 395,552
Add: Stock-based employee compensation expense related to option grants after January 1, 2003 included in reported net income, net of related tax effects	4,247	1,566
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effects	(6,225)	(5,324)
Pro forma net income	<u>\$ 435,456</u>	<u>\$ 391,794</u>
Income per share:		
Basic—as reported	\$ 2.51	\$ 2.26
Basic—pro forma	<u>\$ 2.50</u>	<u>\$ 2.24</u>
Diluted—as reported	\$ 2.50	\$ 2.25
Diluted—pro forma	<u>\$ 2.49</u>	<u>\$ 2.23</u>

## Notes to Consolidated Financial Statements (continued)

### 5. Stock Options and Restricted Stock Awards (continued)

A summary of the Company's stock option activity and related information is as follows:

	2006	
	Shares (000's)	Weighted Average Exercise Price
Outstanding at beginning of year	5,589	\$ 34
Granted <sup>(1)</sup>	1,340	44
Exercised	(805)	32
Forfeited	(40)	38
Outstanding at end of year	<u>6,084</u>	<u>\$ 35</u>
Exercisable at end of year	<u>3,268</u>	<u>\$ 33</u>
Shares available for future grants	<u>8,000</u>	

(1) Total includes 94,000 Restricted Stock Units ("RSUs"). The weighted average exercise price excludes RSUs. The exercise prices for options outstanding as of December 31, 2006 ranged from approximately \$21 to \$44. The weighted-average remaining contractual life of all options outstanding is approximately seven years.

The weighted-average grant date fair value of options granted during the years 2006, 2005 and 2004 was \$9.14, \$8.58 and \$6.94, respectively. The aggregate intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was \$10.7 million, \$19.6 million and \$18.1 million, respectively.

In 2006, the Company granted approximately 1,246,000 Stock Appreciation Rights ("SARs") and 94,000 RSUs. In 2005, the Company granted approximately 1,169,000 SARs and 91,000 RSUs. In 2004, the Company granted approximately 1,146,000 SARs and 124,000 RSUs. SARs represent a right to receive the excess, if any, of the fair market value of one share of common stock on the date of exercise over the grant price. RSUs represent a contingent right to receive one share of the Company's common stock at a future date provided certain pre-tax profit targets are achieved. The majority of awards vest on a pro-rata basis for periods ranging from one to five years and are expensed accordingly on a straight-line basis.

A summary of the Company's nonvested share awards (RSUs) activity is as follows:

	Shares (000's)	Weighted- Average Grant Date Fair Value
Nonvested Share Awards (RSUs)		
Nonvested at January 1, 2006	178	\$ 40
Granted	94	44
Vested	(13)	44
Forfeited or Expired	(4)	41
Nonvested at December 31, 2006	<u>255</u>	<u>\$ 41</u>

Prior to the adoption of SFAS No. 123(R), the Company presented all tax benefits for deductions resulting from the exercise of stock options as operating cash flows in the consolidated statements of cash flows. SFAS No. 123(R) requires the cash flows resulting from the tax benefits related to tax deductions in excess of the compensation cost recognized for those options (excess tax benefits) to be classified as financing cash inflow. For the year ended December 31, 2006, approximately \$3.0 million of excess tax benefits was classified as a financing cash inflow.

### 6. Income Taxes

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and amounts used for income tax purposes. Undistributed earnings of the Company's foreign subsidiaries are considered to be indefinitely reinvested. As such, no U.S. federal and state income taxes have been provided thereon, and it is not practicable to determine the amount of the related unrecognized deferred income tax liability. Significant components of the Company's deferred tax assets are as follows:

(in thousands)	2006	2005
Deferred tax assets related to:		
Expenses not yet deducted for tax purposes	\$ 114,146	\$ 115,890
Pension liability not yet deducted for tax purposes	193,194	N/A
	<u>307,340</u>	<u>115,890</u>
Deferred tax liabilities related to:		
Employee and retiree benefits	160,798	159,890
Inventory	88,672	90,920
Property and equipment	24,787	28,828
Other	9,605	17,973
	<u>283,862</u>	<u>297,611</u>
Net deferred tax (asset) liability	(23,478)	181,721
Current portion of deferred tax liability	15,361	24,914
Non-current deferred tax (asset) liability	<u>\$ (38,839)</u>	<u>\$ 156,807</u>

The current portion of the deferred tax liability is included in income taxes payable and the non-current deferred tax asset is included in other assets in the consolidated balance sheets. The 2006 deferred tax asset includes \$187,371,000 related to adjustments required by SFAS No. 158, which is discussed further in Note 7.

The components of income tax expense are as follows:

<i>(in thousands)</i>	2006	2005	2004
Current:			
Federal	\$ 243,089	\$ 183,387	\$ 180,709
State	41,361	32,977	31,599
Foreign	16,542	11,331	8,389
Deferred	(5,481)	43,935	19,670
	<u>\$ 295,511</u>	<u>\$ 271,630</u>	<u>\$ 240,367</u>

The reasons for the difference between total tax expense and the amount computed by applying the statutory Federal income tax rate to income before income taxes are as follows:

<i>(in thousands)</i>	2006	2005	2004
Statutory rate applied to income	\$ 269,821	\$ 248,172	\$ 222,572
Plus state income taxes, net of Federal tax benefit	26,395	25,571	22,370
Other	(705)	(2,113)	(4,575)
	<u>\$ 295,511</u>	<u>\$ 271,630</u>	<u>\$ 240,367</u>

## 7. Employee Benefit Plans

The Company's defined benefit pension plans cover substantially all of its employees in the U.S. and Canada. The plan covering U.S. employees is noncontributory and benefits are based on the employees' compensation during the highest five of their last ten years of credited service. The Canadian plan is contributory and benefits are based on career average compensation. The Company's funding policy is to fund amounts deductible for income tax purposes.

The Company also sponsors unfunded supplemental retirement plans covering employees in the U.S. and Canada and other postretirement benefit plans in the U.S. The Company uses a measurement date of December 31 for its pension and other postretirement benefit plans.

On September 29, 2006, the FASB issued SFAS No. 158, *Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans*, which amends SFAS No. 87 and SFAS No. 106 to require recognition of the overfunded or underfunded status of pension and other postretirement benefit plans on the balance sheet. Under SFAS No. 158, gains and losses, prior service costs and credits, and any remaining transition amounts under SFAS No. 87 and SFAS No. 106 that have not yet been recognized through net periodic benefit cost are to be recognized in accumulated other comprehensive income, net of tax effects, until they are amortized as a component of net periodic cost. SFAS No. 158 is effective for publicly-held companies for fiscal years ending after December 15, 2006. The incremental effect of adopting SFAS No. 158 was to reduce other long-term assets by \$411,714,000. In addition, other current liabilities were increased by \$5,036,000; other long-term liabilities were increased by \$55,406,000, a deferred tax asset was recorded for \$187,371,000 and shareholders' equity was reduced by an amount recorded to accumulated other comprehensive (loss) income of \$284,785,000, net of taxes.

<i>(in thousands)</i>	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
<b>Changes in benefit obligation</b>				
Benefit obligation at beginning of year	\$ 1,236,379	\$ 1,035,858	\$ 24,267	\$ 22,705
Service cost	50,224	41,910	475	453
Interest cost	72,246	64,102	1,327	1,310
Plan participants' contributions	2,709	2,446	1,173	3,867
Plan amendments	1,708	902	—	—
Actuarial loss	9,213	123,140	2,842	2,821
Exchange rate (gain) loss	(349)	3,031	—	—
Gross benefits paid	(37,602)	(35,010)	(5,263)	(6,889)
Less: federal subsidy	N/A	N/A	848	N/A
Benefit obligation at end of year	<u>\$ 1,334,528</u>	<u>\$ 1,236,379</u>	<u>\$ 25,669</u>	<u>\$ 24,267</u>

The benefit obligation for the Company's U.S. pension plans included in the above were \$1,225,020,000 and \$1,130,210,000 at December 31, 2006 and 2005, respectively. The total accumulated benefit obligation for the Company's defined benefit pension plans was approximately \$1,068,895,000 and \$996,100,000 at December 31, 2006 and 2005, respectively.

## Notes to Consolidated Financial Statements (continued)

### 7. Employee Benefit Plans (continued)

The assumptions used to measure the pension and other postretirement plan obligations for the plans at December 31, 2006 and 2005 were:

	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Weighted-average discount rate	6.00%	5.75%	5.75%	5.75%
Rate of increase in future compensation levels	3.75%	3.75%	—	—

A 9% annual rate of increase in the per capita cost of covered health care benefits was assumed on December 31, 2006. The rate was assumed to decrease ratably to 5% on December 31, 2010 and thereafter.

<i>(in thousands)</i>	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
<b>Changes in plan assets</b>				
Fair value of plan assets at beginning of year	\$1,114,980	\$ 962,871	\$ —	\$ —
Actual return on plan assets	114,076	47,621	—	—
Exchange rate gain (loss)	(441)	3,518	—	—
Employer contributions	66,816	133,534	3,242	3,022
Plan participants' contribution	2,709	2,446	1,173	3,867
Gross benefits paid	(37,602)	(35,010)	(4,415)	(6,889)
Fair value of plan assets at end of year	\$1,260,538	\$1,114,980	\$ —	\$ —

The fair values of plan assets for the Company's U.S. pension plans included in the above were \$1,139,298,000 and \$1,005,525,000 at December 31, 2006 and 2005, respectively.

Following are the asset allocations for the Company's funded pension plans at December 31, 2006 and 2005, and the target allocation for 2007, by asset category:

Asset Category	Target Allocation	Percentage of Plan Assets at December 31	
	2007	2006	2005
Equity securities	70%	67%	64%
Debt securities	30%	31%	34%
Real estate and other	—	2%	2%
	<b>100%</b>	<b>100%</b>	<b>100%</b>

At December 31, 2006 and 2005, the plan held 2,016,932 shares of common stock of the Company with a market value of approximately \$95,663,000 and \$88,584,000, respectively. Dividend payments received by the plan on Company stock totaled approximately \$2,723,000 and \$2,521,000 in 2006 and 2005, respectively. Fees paid during the year for services rendered by parties-in-interest were based on customary and reasonable rates for such services.

The Company's benefit plan committees in the U.S. and Canada establish investment policies and strategies and regularly monitor the performance of the funds. The pension plan strategy implemented by the Company's management is to achieve long-term objectives and invest the pension assets in accordance with the applicable pension legislation in the U.S. and Canada, as well as fiduciary standards. The long-term primary objectives for the pension plans are to provide for a reasonable amount of long-term growth of capital, without undue exposure to risk, protect the assets from erosion of purchasing power, and provide investment results that meet or exceed the pension plans' actuarially assumed long term rates of return.

Based on the investment policy for the pension plans, as well as an asset study that was performed based on the Company's asset allocations and future expectations, the Company's expected rate of return on plan assets for measuring 2007 pension expense or income is 8.25% for the plans. The asset study forecasted expected rates of return for the approximate duration of the Company's benefit obligations, using capital market data and historical relationships.



The following table sets forth the funded status of the plans and the amounts recognized in the consolidated balance sheets at December 31:

Amounts recognized in the consolidated balance sheets consist of: (in thousands)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Other long-term asset	\$ 12,951	\$ N/A	\$ N/A	\$ N/A
Other current liability	(2,272)	N/A	(2,764)	N/A
Other long-term liability	(84,669)	N/A	(22,905)	N/A
Prepaid benefit cost included in other long-term assets	N/A	402,993	N/A	N/A
Accrued benefit cost included in other long-term liabilities	N/A	(45,596)	N/A	(1,086)
Intangible asset included in other long-term assets	N/A	163	N/A	N/A
Accumulated other comprehensive (loss) income related to the additional minimum liability	N/A	11,832	N/A	N/A
	\$ (73,990)	\$ 369,392	\$ (25,669)	\$ (1,086)

Amounts recognized in accumulated other comprehensive (loss) income consist of:

(in thousands)	Pension Benefits		Other Postretirement Benefits	
	2006	2005	2006	2005
Net actuarial loss	\$ 459,478	\$ N/A	\$ 22,457	\$ N/A
Prior service cost	2,410	N/A	1,904	N/A
	\$ 461,888	N/A	\$ 24,361	N/A

For the pension benefits, the following table reflects the total benefits expected to be paid from the plans' or the Company's assets. Of the pension benefits expected to be paid in 2007, \$2,272,000 is expected to be paid from employer assets. Expected contributions reflect amounts expected to be contributed to funded plans. For other postretirement benefits, the table below reflects only the Company's share of the benefit cost without regard to income from federal subsidy payments received pursuant to the Medicare Prescription Drug Improvement and Modernization Act of 2003 (MMA). Expected MMA subsidy payments, which will reduce the Company's cost for the plan, are shown separately.

Information about the expected cash flows for the pension plans and other post retirement benefit plans follows:

(in thousands)	Pension Benefits	Other Postretirement Benefits	
		Net Employer Contribution (Excluding MMA Subsidy)	Value Due to MMA Subsidy
<b>Employer contribution</b>			
2007 (expected)	\$ 32,091	\$ -	\$ -
<b>Expected benefit payments</b>			
2007	39,274	3,515	751
2008	41,891	3,617	823
2009	45,354	3,661	561
2010	48,579	3,516	526
2011	52,316	3,246	-
2012 through 2016	352,274	13,890	-

**Notes to Consolidated Financial Statements  
(continued)**

**7. Employee Benefit Plans (continued)**

Net periodic benefit cost included the following components:

<i>(in thousands)</i>	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Service cost	\$ 50,224	\$ 41,910	\$ 35,740	\$ 475	\$ 453	\$ 460
Interest cost	72,246	64,102	60,039	1,327	1,310	1,256
Expected return on plan assets	(100,174)	(89,422)	(81,962)	–	–	–
Amortization of prior service (credit) cost	(471)	(386)	(1,006)	371	371	371
Amortization of actuarial loss	26,379	16,172	13,600	1,291	1,224	996
Net periodic benefit cost	\$ 48,204	\$ 32,376	\$ 26,411	\$ 3,464	\$ 3,358	\$ 3,083

The estimated amounts that will be amortized from accumulated other comprehensive (loss) income into net periodic benefit cost in 2007 are as follows:

<i>(in thousands)</i>	Pension Benefits	Other Postretirement Benefits
Actuarial loss	\$ 25,709	\$ 1,424
Prior service (credit) cost	(374)	371
Total	\$ 25,335	\$ 1,795

The assumptions used in measuring the net periodic benefit costs for the plans follow:

<i>(in thousands)</i>	Pension Benefits			Other Postretirement Benefits		
	2006	2005	2004	2006	2005	2004
Weighted average discount rate	5.75%	6.00%	6.25%	5.75%	6.00%	6.25%
Rate of increase in future compensation levels	3.75%	3.50%	3.25%	–	–	–
Expected long-term rate of return on plan assets	8.25%	8.50%	8.75%	–	–	–
Health care cost trend covered charges	–	–	–	9.00%	10.00%	10.00%

The effect of a one-percentage point change in the 2006 assumed health care cost trend is as follows:

<i>(in thousands)</i>	Decrease	Increase
Total service and interest cost components of 2006 net periodic postretirement health care benefit cost	\$ (291)	\$ 465
Accumulated postretirement benefit obligation for health care benefits at December 31, 2006	(5,749)	4,503

The Company has a defined contribution plan that covers substantially all of its domestic employees. The Company's matching contributions are determined based on 20% of the first 6% of the covered employee's salary. Total plan expense was approximately \$6,824,000 in 2006, \$6,722,000 in 2005, and \$6,034,000 in 2004.

## 8. Guarantees

The amended and restated master agreement to our \$85,000,000 construction and lease agreement (the "Agreement"), discussed further in Note 4, has a term of six years expiring in 2009 and contains residual value guarantee provisions and other guarantees which would become due in the event of a default under the operating lease agreement, or at the expiration of the operating lease agreement if the fair value of the leased properties is less than the guaranteed residual value. The maximum amount of the Company's potential guarantee obligation, representing the residual value guarantee, at December 31, 2006, is approximately \$72,640,000. The Company believes the likelihood of funding the guarantee obligation under any provision of the operating lease agreements is remote.

The Company also guarantees the borrowings of certain independently controlled automotive parts stores (independents) and certain other affiliates in which the Company has a minority equity ownership interest (affiliates). Presently, the independents are generally consolidated by unaffiliated enterprises that have a controlling financial interest through ownership of a majority voting interest in the entity. The Company has no voting interest or other equity conversion rights in any of the independents. The Company does not control the independents or the affiliates, but receives a fee for the guarantee. The Company has concluded that it is not the primary beneficiary with respect to any of the independents and that the affiliates are not variable interest entities. The Company's maximum exposure to loss as a result of its involvement with these independents and affiliates is equal to the total borrowings subject to the Company's guarantee.

At December 31, 2006, the total borrowings of the independents and affiliates subject to guarantee by the Company were approximately \$186,473,000. These loans generally mature over periods from one to ten years. In the event that the Company is required to make payments in connection with guaranteed obligations of the independents or the affiliates, the Company would obtain and liquidate certain collateral (e.g. accounts receivable and inventory) to recover all or a portion of the amounts paid under the guarantee. When it is deemed probable that the Company will incur a loss in connection with a guarantee, a liability is recorded equal to this estimated loss. To date, the Company has had no significant losses in connection with guarantees of independents' and affiliates' borrowings.

Effective January 1, 2003, the Company adopted FIN No. 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*. In accordance with FIN No. 45 and based on available information, the Company has accrued for those guarantees related to the independent and affiliates' borrowings and the construction and lease agreement as of December 31, 2006 and 2005. These liabilities are not material to the financial position of the Company and are included in other long-term liabilities in the accompanying consolidated balance sheets.

## 9. Segment Data

The segment data for the past five years presented on page 15 is an integral part of these consolidated financial statements.

The Company's automotive segment distributes replacement parts (other than body parts) for substantially all makes and models of automobiles, trucks and other vehicles.

The Company's industrial segment distributes a wide variety of industrial bearings, mechanical and fluid power transmission equipment, including hydraulic and pneumatic products, material handling components, and related parts and supplies.

The Company's office products segment distributes a wide variety of office products, computer supplies, office furniture, and business electronics.

The Company's electrical/electronic materials segment distributes a wide variety of electrical/electronic materials, including insulating and conductive materials for use in electronic and electrical apparatus.

The Company's reportable segments consist of automotive, industrial, office products and electrical/electronic materials. Within the reportable segments, certain of the Company's operating segments are aggregated because they have similar: economic characteristics, products and services, type and class of customers, and distribution methods. Inter-segment sales are not significant. Operating profit for each industry segment is calculated as net sales less operating expenses excluding general corporate expenses, interest expense, equity in income from investees, amortization and minority interests. Approximately \$43,500,000, \$39,700,000, and \$34,700,000 of income before income taxes was generated in jurisdictions outside the United States for the years ending December 31, 2006, 2005, and 2004, respectively. Net sales and net long-lived assets by country relate directly to the Company's operations in the respective country. Corporate assets are principally cash and cash equivalents and headquarters' facilities and equipment.

For management purposes, net sales by segment exclude the effect of certain discounts, incentives and freight billed to customers. The line item "other" represents the net effect of the discounts, incentives and freight billed to customers, which are reported as a component of net sales in the Company's consolidated statements of income.

## Board of Directors

Dr. Mary B. Bullock	President Emerita - Agnes Scott College
Richard W. Courts, II	Chairman of the Board of Directors of Atlantic Investment Company
Jean Douville	Chairman of the Board of Directors of UAP Inc.
Thomas C. Gallagher	Chairman, President and Chief Executive Officer
George C. "Jack" Guynn	Retired President and Chief Executive Officer of the Federal Reserve Bank of Atlanta
John D. Johns	Chairman, President & Chief Executive Officer of Protective Life Corporation
Michael M. E. Johns, MD	Executive Vice President for Health Affairs - Emory University, CEO of Woodruff Health Sciences Center and Chairman of the Board - Emory Healthcare
J. Hicks Lanier	Chairman of the Board of Directors and Chief Executive Officer of Oxford Industries, Inc.
Wendy B. Needham	Retired Managing Director, Global Automotive Research - Credit Suisse First Boston
Jerry W. Nix	Vice Chairman and Chief Financial Officer
Larry L. Prince	Chairman of the Executive Committee
Gary W. Rollins	Chief Executive Officer, President and Chief Operating Officer of Rollins Inc.
Lawrence G. Steiner	Retired Chairman of the Board of Directors of Ameripride Services, Inc.

## Corporate Officers

Thomas C. Gallagher	Chairman, President and Chief Executive Officer
Jerry W. Nix	Vice Chairman and Chief Financial Officer
Keith O. Cowan	Executive Vice President
Robert J. Susor	Executive Vice President
R. Bruce Clayton	Senior Vice President - Human Resources
Frank M. Howard	Senior Vice President and Treasurer
Scott C. Smith	Senior Vice President - Corporate Counsel
Carol B. Yancey	Senior Vice President - Finance and Corporate Secretary
Treg S. Brown	Vice President - Planning and Acquisitions
Philip C. Johnson	Vice President - Compensation and Benefits
Sidney G. Jones	Vice President - Investor Relations
Karl J. Koenig	Vice President - Real Estate and Construction

## U.S. Automotive Parts Group

Larry R. Samuelson	President
Glenn M. Chambers	Executive Vice President - Operations
R. Craig Bierman	Senior Vice President - Chief Information Officer
Cary V. Carter	Senior Vice President - Stores
John J. Hanighen IV	Senior Vice President - AutoCare and Wholesale Marketing
D. Gary Silva	Senior Vice President - Global Product Management
W. Larry Bevil	Vice President - Information Systems
Michael A. Briggs	Vice President - Retail Product Management and Merchandising
Jay C. Burnworth	Vice President - Information Technology
Coleman M. Foley	Vice President - Manufacturer Sales Groups
Michael J. Fusaro	Vice President - Process Improvement - Distribution
Richard A. Geiger	Vice President - Finance
Thomas E. Hancock	Vice President - Growth Capital Program
Mark W. Hohe	Vice President - New Store Development
Greg A. Lancour	Vice President - NAPA Global Sourcing
David B. Nicki	Vice President - Major Accounts
J. Michael Phillips	Vice President - Organizational Development
Edward O. Ridlehoover	Vice President - Operations Controls
Gaylord M. Spencer	Vice President - Marketing Strategy
Michael L. Swartz	Vice President - Inventory & Procurement
Robert E. Thomley	Vice President - Process Improvement - Stores
Nancy M. Vepraskas	Vice President - Human Resources
Karl E. Wolfe	Vice President - Classification

### MIDWEST GROUP

Lee A. Maher	Group Vice President
Stuart A. Kambury	Regional Vice President - South
Ronald L. Koenigshofer	Regional Vice President - North

### NORTHEAST GROUP

Grant L. Morris	Group Vice President
Rocklen R. Justice	Regional Vice President - Central
Michael J. Kelleher	Regional Vice President - Eastern

### SOUTHEAST GROUP

Michael L. Barbee	Group Vice President
Michael W. Lott	Regional Vice President - Southern
M. Todd McMurtrie	Regional Vice President - Atlantic Coast
Robert H. Davis	Vice President - Store Operations

### WESTERN GROUP

Daniel F. Askey	Group Vice President
Eric G. Fritsch	Regional Vice President - Mountain
Bradley A. Shaffer	Regional Vice President - West

### RAYLOC (ATLANTA, GA)

J. Richard Borman	President
Damon E. Elmore	Vice President - Human Resources
Michael S. Gaffney II	Vice President - Marketing
David Gonzales	Vice President - Product
William D. Kuykendall	Vice President - Administration
Joseph W. Lashley	Vice President - Information Services
J. Scott Mosteller	Vice President - Supply Chain
Steven C. Schwan	Vice President - Electrical Sales



## Subsidiaries

### Balkamp, Inc. (Indianapolis, IN)

Scott W. LeProhon	President
Frank C. Amato	Executive Vice President - Operations
D. Tip Tollison	Executive Vice President - Administration
Mary F. Knudsen	Vice President - Finance and Treasurer

### Grupo Auto Todo (Puebla, Mexico)

Juan Lujambio	President and Chief Executive Officer
Jorge Otero	Executive Vice President - Finance
Miguel A. Rodriguez	Vice President - Sales and Marketing

### Johnson Industries (Atlanta, GA)

Bret A. Robyck	President and Chief Executive Officer
Randy J. Kulamer	Executive Vice President
Julio C. Rodriguez	Vice President - Finance and Secretary

### NAPA Canada/UAP Inc. (Montreal, Canada)

Jean Douville	Chairman of the Board
Larry R. Samuelson	Vice Chairman and Chief Executive Officer
Robert Hattem	President and Chief Operating Officer
Andre Hudon	Executive Vice President - HVPD
Kevin M. Chase	Vice President - Automotive Operations
Pierre Lefebvre	Vice President - Finance and Secretary

### Motion Industries (Birmingham, AL)

William J. Stevens	President and Chief Executive Officer
Thomas L. Miller	Executive Vice President and Chief Operating Officer
G. Harold Dunaway, Jr.	Executive Vice President - Finance & Administration and Secretary
M. Wayne Law	Executive Vice President - Corp. Purchasing & Distribution
Robert J. Summerlin	Executive Vice President - Sales & Marketing
Timothy P. Breen	Group Vice President - Midwest
R. David James	Group Vice President - Southeast
C. Jeff Rouse	Group Vice President - East
Mark W. Sheehan	Group Vice President - Central
Kevin P. Storer	Group Vice President - West
John D. Walters	Group Vice President - Southwest
Ellen H. Holladay	Senior Vice President, Chief Information Officer, Director of Operational Excellence
William E. Horn	Senior Vice President - Strategic Accounts
Thomas S. Robertshaw	Senior Vice President - Strategic Planning/Corporate Development
J. Gary Garris	Vice President - Distribution Center Operations/Corporate Logistics
Zahirudin K. Hameer	Vice President - Inventory Management
James H. McCullar	Vice President - Industrial Division Operations

### Motion Industries (Birmingham, AL) continued

James R. Neill	Vice President - Human Resources
Linda L. Price	Vice President - Marketing and Advertising
Gerald V. Sourbeer	Vice President - Corporate Accounts
Mark R. Thompson	Vice President - Corporate Services and Sales Support

### Motion Industries (Canada), Inc. (Toronto, Ontario)

William J. Stevens	Chairman of the Board
Mark W. Sheehan	President and Chief Executive Officer
Kelly Kanashiro	Vice President - Purchasing
R. J. Ward Westgate	Vice President - Marketing

### S. P. Richards Company (Atlanta, GA)

C. Wayne Beacham	Chairman of the Board and Chief Executive Officer
Paul D. Donahue	President and Chief Operating Officer
Robert J. Fornal	Executive Vice President - Operations
Steven E. Lynn	Senior Vice President - Merchandising
Donald C. Mikolasy	Senior Vice President - National Accounts
James F. O'Brien	Senior Vice President - Marketing
Michael D. Orr	Senior Vice President - Logistics/Operations
Boyd E. Rice	Senior Vice President - Chief Information Officer
John E. Elliott	Vice President - Advertising
Robert J. Kelly	Vice President - Sales Operations
Charles E. Macpherson	Vice President - Dealer Development
G. Henry Martin	Vice President - Human Resources
James C. Moseley	Vice President - Information Systems
Thomas M. Testa	Vice President - Sales
J. Phillip Welch, Jr.	Vice President - Finance, Controller, Secretary and Treasurer
Brad B. Wolf	Vice President - Office Supplies and Furniture
Lester P. Christian	Vice President - Southeast Division
Gregory L. Nissen	Vice President - South Central/West Division
James P. O'Connor	Vice President - Northeast Division
Richard A. Wiltz	Vice President - North Central Division
Peter R. Dalglish	Managing Director - S. P. Richards Canada
<b>EIS, Inc. (Atlanta, GA)</b>	
Robert W. Thomas	President
Robert R. Gannon	Executive Vice President
Charles A. Chesnutt	Senior Vice President - Finance and Secretary
Alexander Gonzalez	Senior Vice President
Larry L. Griffin	Senior Vice President - Marketing
Thomas A. Jones	Senior Vice President and General Manager
William C. Knight	Senior Vice President

## Shareholder Information

### Stock Listing

Genuine Parts Company's common stock is traded on the New York Stock Exchange under the symbol "GPC".

### Stock Transfer Agent, Registrar of Stock and Dividend Disbursing Agent

Computershare  
Post Office Box 43078  
Providence, Rhode Island 02940-3078  
800.568.3476  
404.588.7815 (in Georgia)

### Shareholder Services

Communications concerning share transfer requirements, duplicate mailings, direct deposit of dividends, lost certificates or dividend checks or change of address should be directed to the Company's transfer agent. You may send written requests to:

Computershare  
Post Office Box 43078  
Providence, Rhode Island 02940-3078

### Dividend Reinvestment Plan

Shareholders can build their investments in Genuine Parts Company through a low-cost plan for automatically reinvesting dividends and by making optional cash purchases of the Company's stock. For enrollment information, write to the Stock Transfer Agent listed above or Shareholder Relations at the Company address.

### Form 10-K Information

A copy of the Company's annual report on Form 10-K, filed with the Securities and Exchange Commission, will be furnished to any shareholder without charge upon written request to:

Shareholder Relations Department  
Genuine Parts Company  
2999 Circle 75 Parkway  
Atlanta, Georgia 30339

### Certifications

Our Annual Report on Form 10-K includes the certifications of our chief executive officer and chief financial officer required by Sections 302 and 906 of the Sarbanes-Oxley Act of 2002. Additionally, we filed with the New York Stock Exchange the certification by our chief executive officer that he is not aware of any violation of New York Stock Exchange corporate governance listing standards.

### Investor Relations

Inquiries from security analysts and investment professionals should be directed to the Company's investor relations contacts: Mr. Jerry Nix, Chief Financial Officer, or Mr. Sid Jones, Vice President Investor Relations, at 770.953.1700.

### Annual Shareholders' Meeting

The annual meeting of the shareholders of Genuine Parts Company will be held at the Executive Offices of the Company, 2999 Circle 75 Parkway, Atlanta, Georgia at 10:00 a.m. on Monday, April 23, 2007.

### Independent Auditors

Ernst & Young LLP - Atlanta, Georgia

### General Counsel

Alston & Bird LLP - Atlanta, Georgia

### Executive Offices

Genuine Parts Company  
2999 Circle 75 Parkway  
Atlanta, Georgia 30339  
770.953.1700



# **Genuine Parts Company**

2999 Circle 75 Parkway  
Atlanta, GA 30339  
770 953 1700  
[www.genpt.com](http://www.genpt.com)