

MONRO MUFFLER BRAKE INC

Form 10-K

June 12, 2008

**Table of Contents**

**SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**Form 10-K**

(MARK ONE)

- ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934  
For Fiscal Year Ended March 29, 2008**
- OR**
- TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

**Commission File Number 0-19357**

**MONRO MUFFLER BRAKE, INC.**

*(Exact name of registrant as specified in its charter)*

**New York**

*(State of incorporation)*

**200 Holleder Parkway,  
Rochester, New York**

*(Address of principal executive offices)*

**16-0838627**

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

**14615**

*(Zip code)*

**Registrant's telephone number, including area code:**

**(585) 647-6400**

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

**Common Stock, par value \$.01 per share**

**Name of each exchange on which registered: the NASDAQ Stock Market LLC**

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

**NONE**

*(Title of Class)*

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

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

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

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

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

Large accelerated  
filer

Accelerated filer

Non-accelerated filer   
(Do not check if a smaller  
reporting company)

Smaller reporting  
company

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

As of May 30, 2008, the aggregate market value of voting stock held by non-affiliates of the registrant was \$377,600,000.

As of May 30, 2008, 21,720,151 shares of the registrant's Common Stock, par value \$.01 per share, were outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE:**

Portions of the registrant's definitive proxy statement (to be filed pursuant to Regulation 14A) for the 2008 Annual Meeting of Shareholders (the "Proxy Statement") are incorporated by reference into Part III hereof.

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**Table of Contents**

**PART I**

**Item 1. Business**

**GENERAL**

Monro Muffler Brake, Inc. ( Monro or the Company ) is a chain of 720 Company-operated stores (as of March 29, 2008) and 14 dealer-operated stores providing automotive undercar repair and tire services in the United States. At March 29, 2008, Monro operated Company stores in New York, Pennsylvania, Ohio, Connecticut, Massachusetts, West Virginia, Virginia, Maryland, Vermont, New Hampshire, New Jersey, North Carolina, South Carolina, Indiana, Rhode Island, Delaware and Maine under the names Monro Muffler Brake & Service , Tread Quarters Discount Tire and Mr. Tire (together, the Company Stores ). The Company s Stores typically are situated in high-visibility locations in suburban areas and small towns, as well as in major metropolitan areas. The Company Stores serviced approximately 3.4 million vehicles in fiscal 2008. (References herein to fiscal years are to the Company s year ended fiscal March [e.g., references to fiscal 2008 are to the Company s fiscal year ended March 29, 2008].)

The predecessor to the Company was founded by Charles J. August in 1957 as a Midas Muffler franchise in Rochester, New York, specializing in mufflers and exhaust systems. In 1966, the Company discontinued its affiliation with Midas Muffler, and began to diversify into a full line of undercar repair services. An investor group led by Peter J. Solomon and Donald Glickman purchased a controlling interest in the Company in July 1984. At that time, Monro operated 59 stores, located primarily in upstate New York, with approximately \$21 million in sales in fiscal 1984. Since 1984, Monro has continued its growth and has expanded its marketing area to include 17 additional states.

In December 1998, the Company appointed Robert G. Gross as President and Chief Executive Officer, who began full-time responsibilities on January 1, 1999.

The Company was incorporated in the State of New York in 1959. The Company s principal executive offices are located at 200 Holleder Parkway, Rochester, New York 14615, and its telephone number is (585) 647-6400.

The Company provides a broad range of services on passenger cars, light trucks and vans for brakes (estimated at 22% of fiscal 2008 sales); mufflers and exhaust systems (7%); and steering, drive train, suspension and wheel alignment (14%). The Company also provides other products and services including tires (26%) and routine maintenance services including state inspections (31%). Monro specializes in the repair and replacement of parts which must be periodically replaced as they wear out. Normal wear on these parts generally is not covered by new car warranties. The Company typically does not perform under-the-hood repair services except for oil change services, various flush and fill services and some minor tune-up services. The Company does not sell parts or accessories to the do-it-yourself market.

All of the Company s stores provide the services described above. However, a growing number of the Company s stores are more specialized in tire replacement and service and, accordingly, have a higher mix of sales in the tire category. These stores are described below as tire stores, whereas the majority of the Company s stores are described as service stores. (See additional discussion under Operating Strategy .) At March 29, 2008, there were 579 stores designated as service stores and 141 as tire stores.

The Company s sales mix for fiscal 2008 and 2007 is as follows:

Service Stores	Tire Stores	Total Company
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	<b>FY08</b>	<b>FY07</b>	<b>FY08</b>	<b>FY07</b>	<b>FY08</b>	<b>FY07</b>
Brakes	28%	28%	12%	11%	22%	23%
Exhaust	11	12	1	1	7	8
Steering	15	15	12	11	14	14
Tires	11	10	53	54	26	24
Maintenance	35	35	22	23	31	31
Total	100%	100%	100%	100%	100%	100%

## **Table of Contents**

The Company has one wholly-owned subsidiary, Monro Service Corporation, which is a Delaware corporation qualified to do business in the State of New York.

Monro Service Corporation holds all assets, rights, responsibilities and liabilities associated with the Company's warehousing, purchasing, advertising, accounting, office services, payroll, cash management and certain other operations that are performed in New York State and Maryland. The Company believes that this structure has enhanced, and will continue to enhance, operational efficiency and provide cost savings.

## **INDUSTRY OVERVIEW**

According to industry reports, demand for automotive repair services, including undercar repair and tire services, has increased due to the general increase in the number of vehicles registered, the increase in the average age of vehicles and the increased complexity of vehicles, which makes it more difficult for a vehicle owner to perform do-it-yourself repairs.

At the same time as demand for automotive repair services has grown, the number of general repair outlets has decreased, principally because fewer gas stations now perform repairs, and because there are fewer new car dealers. Monro believes that these factors present opportunities for increased sales by the Company, even though the number of specialized repair outlets (such as those operated by the Company and its direct competitors) has increased to meet the growth in demand.

## **EXPANSION STRATEGY**

Monro has experienced significant growth in recent years due to acquisitions and, to a lesser extent, the opening of new stores. Management believes that the continued growth in sales and profits of the Company is dependent, in large part, upon its continued ability to open/acquire and operate new stores on a profitable basis. In addition, overall profitability of the Company could be reduced if new stores do not attain profitability.

Monro believes that there are significant expansion opportunities in new as well as existing market areas which will result from a combination of constructing stores on vacant land, opening full service Monro stores within host retailers service center locations (e.g. BJ's Wholesale Clubs) and acquiring existing store locations. The Company believes that, as the industry consolidates due to the increasingly complex nature of automotive repair and the expanded capital requirements for state-of-the-art equipment, there will be increasing opportunities for acquisitions of existing businesses or store structures, and to open stores in host retailers' locations.

In that regard, the Company has completed several acquisitions in recent years, as follows:

In September 1998, the Company completed the acquisition of 189 company-operated and 14 franchised Speedy stores (the Acquired Speedy stores), from SMK Speedy International Inc. of Toronto, Canada. The Acquired Speedy stores are located primarily in complementary areas in Monro's existing markets in the Northeast, Mid-Atlantic and Midwest regions of the United States. The majority of these stores operate under the Monro brand name.

Effective April 1, 2002, the Company completed the acquisition of Kimmel Automotive, Inc. (the Kimmel Acquisition). Kimmel operated 34 tire and automotive repair stores in Maryland and Virginia, as well as Wholesale and Truck Tire Divisions (including two commercial stores). In June 2002, Monro disposed of Kimmel's Truck Tire Division. The Maryland stores now operate primarily under the Mr. Tire brand name while the Virginia stores continue to operate under the Tread Quarters brand name.

In February 2003, Monro acquired ten company-operated tire and automotive repair store locations in the Charleston and Columbia, South Carolina markets from Frasier Tire Service, Inc. (the Frasier Acquisition ). These stores now operate under the Tread Quarters brand name.

Effective March 1, 2004, the Company completed the acquisition of Mr. Tire stores (the Mr. Tire Acquisition ) from Atlantic Automotive Corp., which added 26 retail tire and automotive repair stores in Maryland and Virginia, as well as a wholesale operation based in Baltimore, Maryland.

**Table of Contents**

In fiscal 2005, the Company further expanded its presence in Maryland through the acquisition of certain assets of Rice Tire, Inc. (the Rice Acquisition ) and Henderson Holdings, Inc. (the Henderson Acquisition ), which added five and ten retail tire and automotive repair stores in the Frederick and southern Maryland markets, respectively. Thirteen of these stores operate under the Mr. Tire brand name and one under the Tread Quarters brand name. The Company closed one Rice store in fiscal 2007.

On April 29, 2006, the Company acquired substantially all of the assets of ProCare Automotive Service Solutions LLC (the ProCare Acquisition ). The Company acquired 75 ProCare locations that offer automotive maintenance and repair services. The stores are located in eight metropolitan areas throughout Ohio and Pennsylvania. The Company converted 31 of the acquired ProCare stores to tire stores which operate under the Mr. Tire brand. The remaining stores operate as service stores under the Monroe brand. In April 2007, the Company closed three of the acquired locations in accordance with its plan for this acquisition, leaving it with 43 service stores and 29 tire stores.

On July 21, 2007, the Company acquired 11 retail tire and automotive repair stores located primarily in the Philadelphia, PA market from Valley Forge Tire & Auto Centers ( Valley Forge ), on July 28, 2007, the Company acquired eight retail tire and automotive repair stores located in the northern Virginia market from Craven Tire & Auto ( Craven ) and on January 26, 2008, the Company acquired seven retail tire and automotive repair stores located in Buffalo, NY from the Broad Elm Group ( Broad Elm ). The Company purchased the business and substantially all of the operating assets of these stores, which consist mainly of inventory and equipment, and assumed certain liabilities. These stores all operate under the Mr. Tire brand name.

The total number of stores that the Company operates in BJ s Wholesale Clubs is 37 at March 29, 2008.

As of March 29, 2008, Monroe had 720 Company-operated stores and 14 dealer locations located in 18 states. The following table shows the growth in the number of Company-operated stores over the last five fiscal years:

**Store Additions and Closings**

	<b>Year Ended Fiscal March</b>				
	<b>2008</b>	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>
Stores open at beginning of year	698	625	626	595	560
Stores added during year	31(f)	84(e)	10(d)	35(c)	40(b)
Stores closed during year(a)	(9)	(11)	(11)	(4)	(5)
Stores open at end of year	720	698	625	626	595
Service (including BJ s) stores	579	584	544	546	525
Tire stores	141	114	81	80	70

(a) Generally, stores were closed because they failed to achieve or maintain an acceptable level of profitability or because a new Company store was opened in the same market at a more favorable location.

(b) Includes 26 stores acquired in the Mr. Tire Acquisition and 12 stores opened in BJ s Wholesale Club locations.



- (c) Includes 15 stores acquired in the Henderson and Rice Acquisitions and 16 stores opened in BJ's Wholesale Club locations.
- (d) Includes four stores opened in BJ's Wholesale Club locations.
- (e) Includes 75 stores acquired in the ProCare Acquisition and three stores opened in BJ's Wholesale Club locations.
- (f) Includes 11 stores acquired in the Valley Forge Acquisition, eight stores acquired in the Craven Acquisition and seven stores acquired in the Broad Elm Acquisition.

The Company plans to add approximately nine new stores in fiscal 2009, and to continue to pursue appropriate acquisition candidates or opportunities to operate stores within host retailers' locations. In future years, should the

**Table of Contents**

Company find that there are no suitable acquisition or retail partnership candidates, it might increase its new store (greenfield) openings.

The Company has developed a systematic method for selecting new store locations and a targeted approach to marketing new stores. Key factors in market and site selection include population, demographic characteristics, vehicle population and the intensity of competition. The characteristics of each potential site are compared to the profiles of existing stores in projecting sales for that site. Monro attempts to cluster stores in market areas in order to achieve economies of scale in advertising, supervision and distribution costs. All new sites presently under consideration are within Monro's established market areas.

As a result of extensive analysis of its historical and projected store opening strategy, the Company has established major market profiles, as defined by market awareness: mature, existing and new markets. Over the next several years, the Company expects to build a greater percentage of stores in mature and existing markets in order to capitalize on the Company's market presence and consumer awareness. During fiscal 2008, all of the 31 stores added were in existing or mature markets.

The Company believes that management and operating improvements implemented over the last several fiscal years has enhanced its ability to sustain its growth. The Company has a chain-wide computerized inventory control and electronic point-of-sale ( POS ) management information system, which has increased management's ability to monitor operations as the number of stores has grown. The Company has customized the POS system to specific service and tire store requirements and deploys the appropriate version in each type of store. Being Windows-based, the system has simplified training of new employees. Additionally, the system includes electronic mail and electronic cataloging, which allows store managers to electronically research the specific parts needed for the make and model of the car being serviced. This enhanced system includes software which contains data that mirrors the scheduled maintenance requirements in vehicle owners' manuals, specifically by make, model, year and mileage for every automobile. Management believes that this software facilitates the presentation and sale of scheduled maintenance services to customers. Other enhancements include the streamlining of estimating and other processes; graphic catalogs; a feature which facilitates tire searches by size; direct mail support; appointment scheduling; customer service history; a thermometer graphic which guides store managers on the profitability of each job; the ability to view inventory of the closest 14 stores or warehouse; and expanded monitoring of price changes. This latter change requires more specificity on the reason for a discount, which management believes has helped to control discounting. Enhancements will continue to be made to the POS system annually in an effort to increase efficiency, improve the quality and timeliness of store reporting and enable the Company to better serve its customers.

The financing to open a new greenfield store location may be accomplished in one of three ways: a store lease for the land and building (in which case, land and building costs will be financed primarily by the lessor), a land lease with the building constructed by the Company (with building costs paid by the Company), or a land purchase with the building constructed by the Company. In all three cases, for service stores, each new store also will require approximately \$120,000 for equipment (including a POS system and a truck) and approximately \$55,000 in inventory. Because Monro generally does not extend credit to its customers, stores generate almost no receivables and a new store's actual net working capital investment is nominal. Total capital required to open a new greenfield service store ranges, on average (based upon the last five fiscal years' openings, excluding the BJ's locations and the acquired stores), from \$300,000 to \$900,000 depending on the location and which of the three financing methods is used. In general, tire stores are larger and have more service bays than Monro's traditional service stores and, as a result, construction costs are at the high end of the range of new store construction costs. In instances where Monro acquires an existing business, it may pay additional amounts for intangible assets such as customer lists, covenants not-to-compete, trade names and goodwill, but generally will pay less per bay for equipment and real property. Total capital required to open a store within a BJ's Wholesale Club is substantially less than opening a greenfield store.

At March 29, 2008, the Company leased the land and/or the building at approximately 73% of its store locations and owned the land and building at the remaining locations. Monroe's policy is to situate new stores in the best locations, without regard to the form of ownership required to develop the locations.

New service stores, excluding acquired stores and BJ's locations, have average sales of approximately \$384,000 in their first 12 months of operation, or \$64,000 per bay.

**Table of Contents**

**OPERATING STRATEGY**

Monro's operating strategy is to provide its customers with a wide range of dependable, high-quality automotive service at a competitive price by emphasizing the following key elements.

**Products and Services**

All stores provide a full range of undercar repair services for brakes, steering, mufflers and exhaust systems, drive train, suspension and wheel alignment, as well as tire replacement and service. These services apply to all makes and models of domestic and foreign cars, light trucks and vans. The service stores provide significantly more brakes and exhaust service than tire stores, and tire stores provide substantially more tire replacement and related services than service stores.

All stores provide many of the routine maintenance services (except engine diagnostic), which automobile manufacturers suggest or require in the vehicle owners' manuals, and which fulfill manufacturers' requirements for new car warranty compliance. The Company offers Scheduled Maintenance services in all of its stores whereby the aforementioned services are packaged and offered to consumers based upon the year, make, model and mileage of each specific vehicle. Management believes that the Company is able to offer this service in a more convenient and cost competitive fashion than auto dealers can provide.

Included in maintenance services are oil change services, heating and cooling system flush and fill service, belt installation, fuel system service and a transmission flush and fill service. Additionally, all stores replace and service batteries, starters and alternators. Stores in New York, West Virginia, New Hampshire, Maryland, Rhode Island, New Jersey, Pennsylvania, North Carolina, Virginia and Vermont also perform annual state inspections. Approximately 46% of the Company's stores also offer air conditioning services.

The Company began a program in the third quarter of fiscal year 2007 to increase tire and tire related sales, such as alignments, in its service stores. The goal is to increase overall sales of these stores by capturing tire and related sales from existing store traffic and eventually drive additional traffic and sales. The program involves increasing the specific sales training of store managers, expanding the tire merchandise selection in these stores, and raising the focus of store advertising in this category. This initiative, which is called Black Gold, has now been rolled out to 145 of the Company's service stores.

**Customer Satisfaction**

The Company's vision of being the dominant Auto Service provider in the markets it serves is supported by a set of values displayed in each Company store emphasizing TRUST:

**T**otal Customer Satisfaction

**R**espect, Recognize and Reward (employees who are committed to these values)

**U**nparalleled Quality and Integrity

**S**uperior Value and

**T**eamwork

Additionally, each Company-operated store displays and operates under the following set of customer satisfaction principles: free inspection of brakes, tires, shocks, front end and exhaust systems; item-by-item review with customers of problem areas; free written estimates; written guarantees; drive-in service without an appointment; fair and reasonable prices; a 30-day best price guarantee; and repairs by professionally trained undercar and tire specialists. (See additional discussion under Store Operations: Quality Control and Warranties .)

**Competitive Pricing, Advertising and Co-branding Initiatives**

The Company seeks to set competitive prices for quality services and products. The Company supports its pricing strategy by advertising through direct mail coupon inserts and in-store promotional signage and displays. In addition, the Company advertises through radio, yellow pages, newspapers, service reminders and electronic mail to

**Table of Contents**

increase consumer awareness of the services offered. The Company also maintains websites for the Monro and Mr. Tire/Tread Quarters brands which allow customers to search for a location, print coupons, make service appointments, search tires for their vehicle and access information and tips on vehicle services offered at the Company's stores.

The Company employs co-branding initiatives to more quickly increase consumer awareness in certain markets. The Company believes that, especially in newer markets, customers may more readily be drawn into its stores because of their familiarity with national brand names. As part of its BJ's Wholesale Club program, the Company has implemented a series of co-branded initiatives to market the Company's services to the large number of BJ's Wholesale Club members where a new Monro store has opened within the BJ's Wholesale Club service center.

**Centralized Control**

Unlike many of its competitors, the Company operates, rather than franchises, all of its stores (except for the 14 dealer locations). Monro believes that direct operation of stores enhances its ability to compete by providing centralized control of such areas of operations as service quality, store appearance, promotional activity and pricing. A high level of technical competence is maintained throughout the Company, as Monro requires, as a condition of employment, that employees participate in comprehensive training programs to keep pace with changes in technology. Additionally, purchasing, distribution, merchandising, advertising, accounting and other store support functions are centralized primarily in the Company's corporate headquarters in Rochester, New York, and are provided through the Company's subsidiary, Monro Service Corporation. The centralization of these functions results in efficiencies and gives management the ability to closely monitor and control costs.

**Comprehensive Training**

The Company provides ongoing, comprehensive training to its store employees. Monro believes that such training provides a competitive advantage by enabling its technicians to provide quality service to its customers in all areas of undercar repair and tire service. (See additional discussion under Store Operations: Store Personnel and Training.)

**STORE OPERATIONS**

**Store Format**

The typical format for a Monro repair store is a free-standing building consisting of a sales area, fully-equipped service bays and a parts/tires storage area. In BJ's locations, the Company and BJ's both operate counters in the sales area, while the Company operates the service bay area. Most service bays are equipped with above-ground electric vehicle lifts. Generally, each store is located within 25 miles of a key store which carries approximately double the inventory of a typical store and serves as a mini-distribution point for slower moving inventory for other stores in its area. Individual store sizes, number of bays and stocking levels vary greatly, even within the service and tire store groups, and are dependent primarily on the availability of suitable store locations, population, demographics and intensity of competition among other factors (See additional discussion under Store Additions and Closings). A summary of average store data for service and tire stores is presented below:

Average Number of Bays	Average Square Feet	Average Inventory	Average Number of Stock Keeping Units (SKUs)
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Service stores (excluding BJ's and ProCare)	6	4,400	\$ 89,000	2,800
Tire stores	7	5,800	\$ 128,000	1,600

(Data for the acquired ProCare service stores has been excluded because the stores' stock rooms are smaller than those in typical service stores and therefore, they generally carry less than half the amount of inventory of a typical service store.)

## **Table of Contents**

The stores generally are situated in high-visibility locations in suburban areas, major metropolitan areas or small towns and offer easy customer access. The typical store is open from 7:30 a.m. to 7:00 p.m. on Monday through Friday and from 7:30 a.m. to 5:00 p.m. on Saturday. Selected locations are also open Sundays from 9:00 a.m. to 5:00 p.m.

## **Inventory Control and Management Information System**

All Company stores communicate daily with the central office and warehouse by computerized inventory control and electronic POS management information systems, which enable the Company to collect sales and operational data on a daily basis, to adjust store pricing to reflect local conditions and to control inventory on a near real-time basis. Additionally, each store has access, through the POS system, to the inventory carried by the 14 stores nearest to it. Management believes that this feature improves customer satisfaction and store productivity by reducing the time required to locate out-of-stock parts. It also improves profitability because it reduces the amount of parts which must be purchased outside the Company from local vendors.

## **Quality Control and Warranties**

To maintain quality control, the Company conducts audits to rate its employees telephone sales manner and the accuracy of pricing information given.

The Company has a customer survey program to monitor customer attitudes toward service quality, friendliness, speed of service, and several other factors for each store. In fiscal 2008, this program included a monthly telephone survey contacting customers of all stores. (Fifteen customers were contacted for each store during each fiscal quarter.) Customer concerns are addressed via letter and personal follow-up by customer service and field management personnel.

The Company uses a Double Check for Accuracy Program as part of its routine store procedures. This quality assurance program requires that a technician and supervisory-level employee (or in certain cases, another technician in tire stores) independently inspect a customer's vehicle, diagnose and document the necessary repairs, and agree on an estimate before presenting it to a customer. This process is formally documented on the written estimate by store personnel.

The Company is an active member of the Motorist Assurance Program ( MAP ). MAP is an organization of automotive retailers, wholesalers and manufacturers which was established as part of an industry-wide effort to address the ethics and business practices of companies in the automotive repair industry. Participating companies commit to improving consumer confidence and trust in the automotive repair industry by adopting Uniform Inspection Communication Standards ( UICS ) established by MAP. These UICS are available in the Company's stores and serve to provide consistent recommendations to customers in the diagnosis and repair of a vehicle.

Monro offers limited warranties on substantially all of the products and services that it provides. The Company believes that these warranties are competitive with industry practices and serve as a marketing tool to increase repeat business at the stores.

## **Store Personnel and Training**

The Company supervises store operations primarily through its Divisional Vice Presidents who oversee Zone Managers who, in turn, oversee Market Managers. The typical service store is staffed by a Store Manager and four to six technicians, one of whom serves as the Assistant Manager. The typical tire store is staffed by a Store Manager, an Assistant Manager and/or Service Manager, and four to eight technicians. Larger volume tire stores may also have one



or two sales people. The higher staffing level at many tire stores is necessary to support their higher sales volume. All Store Managers receive a base salary, and Assistant Managers receive hourly compensation. In addition, Store Managers and Assistant Managers may receive other compensation based on their store's customer relations, gross profit, labor cost controls, safety, sales volume and other factors via a monthly or quarterly bonus based on performance in these areas.

## **Table of Contents**

Monro believes that the ability to recruit and retain qualified technicians is an important competitive factor in the automotive repair industry, which has historically experienced a high turnover rate. Monro makes a concerted effort to recruit individuals who will have a long-term commitment to the Company and offers an hourly rate structure and additional compensation based on productivity; a competitive benefits package including health, dental, life and disability insurance; a 401(K)/profit-sharing plan; as well as the opportunity to advance within the Company. Many of the Company's Managers and Market Managers started with the Company as technicians.

Many of the Company's new technicians join the Company in their early twenties as trainees or apprentices. As they progress, they are promoted to technician and eventually master technician, the latter requiring ASE certification in both brakes and suspension. The Company offers a tool purchase program through which trainee technicians can acquire their own set of tools. The Company also will reimburse technicians for the cost of ASE certification registration fees and test fees and encourages all technicians to become certified by providing a higher hourly wage rate following their certification.

The Company's training program provides multiple training sessions to both store managers and technicians in each store, each year.

Management training courses are developed and delivered by the Company's dedicated training department and Operations management, and are supplemented with live and online vendor training courses. Management training covers customer service, sales, human resources (counseling, recruiting, interviewing, etc.), leadership, scheduling, financial and operational areas, and is delivered on a quarterly basis. The Company believes that involving Operations management in the development and delivery of these sessions results in more relevant and actionable training for store managers, and that more frequent training covering all managers each year will improve overall performance and staff retention.

The Company's training department develops and coordinates technical training courses on critical areas of automotive repair to Company technicians (e.g. ABS brake repair, drivability, TPMS, etc.) and also conducts required technical training to maintain compliance with inspection licenses, where applicable, and MAP accreditation. Additionally, the Company's training department holds in-house technical clinics for store personnel and coordinates technician attendance at technical clinics offered by the Company's vendors. The Company issues technical bulletins to all stores on innovative or complex repair processes, and maintains a centralized database for technical repair problems. In addition, the Company has established a telephone technical hotline to provide assistance to store personnel in resolving problems encountered while diagnosing and repairing vehicles. The help line is available during all hours of store operation.

## **PURCHASING AND DISTRIBUTION**

The Company, through its wholly-owned subsidiary Monro Service Corporation, selects and purchases tires, parts and supplies for all Company-operated stores on a centralized basis through an automatic replenishment system. Although purchases outside the centralized system (outside purchases) are made when needed at the store level, these purchases are low by industry standards, and accounted for approximately 13% of all parts used in fiscal 2008.

The Company's ten largest vendors accounted for approximately 76% of its parts and tire purchases, with the largest vendor accounting for approximately 18% of total stocking purchases in fiscal 2008. The Company purchases parts and tires from approximately 100 vendors. Management believes that the Company's relationships with vendors are excellent and that alternative sources of supply exist, at comparable cost, for substantially all parts used in the Company's business. The Company routinely obtains bids from vendors to ensure it is receiving competitive pricing and terms.

Most parts are shipped by vendors to the Company's primary warehouse facility in Rochester, New York, and are distributed to stores through the Company-operated tractor/trailer fleet. Stores are replenished either on a weekly or bi-weekly basis from this warehouse, and such replenishment fills, on the average, 97% of all items ordered by the stores' automatic POS-driven replenishment system. The Rochester warehouse stocks approximately 6,600 SKUs. The Company also operates warehouses in Baltimore and Virginia that service the tire and service stores in those markets. These warehouses carry, on average, 4,800 and 1,800 SKUs, respectively.

## **Table of Contents**

The Company has entered into various contracts with parts and tire suppliers, certain of which require the Company to buy up to 100% of its annual purchases of specific products including brakes, exhaust, oil and ride control at market prices. These agreements expire at various dates through January 2012. The Company believes these agreements provide it with high quality, branded merchandise at preferred pricing, along with strong marketing and training support.

## **COMPETITION**

The Company competes in the retail automotive service industry. This industry is generally highly competitive and fragmented, and the number, size and strength of competitors vary widely from region to region. The Company believes that competition in this industry is based on customer service and reputation, store location, name awareness and price. Monroe's primary competitors include national and regional undercar, tire specialty and general automotive service chains, both franchised and company-operated; car dealerships, mass merchandisers operating service centers; and, to a lesser extent, gas stations and independent garages. Monroe considers Midas, Inc. and Meineke Discount Mufflers Inc. to be direct competitors. In most of the new markets that the Company has entered, at least one competitor was already present. In identifying new markets, the Company analyzes, among other factors, the intensity of competition. (See Expansion Strategy and Management's Discussion and Analysis of Financial Condition and Results of Operations .)

## **EMPLOYEES**

As of March 29, 2008, Monroe had 4,066 employees, of whom 3,812 were employed in the field organization, 72 were employed at the warehouses, 159 were employed at the Company's corporate headquarters and 23 were employed in its Baltimore office and warehouse. Monroe's employees are not members of any union. The Company believes that its relations with its employees are good.

## **REGULATION**

The Company stores new oil and recycled antifreeze and generates and/or handles used tires and automotive oils, antifreeze and certain solvents, which are disposed of by licensed third-party contractors. In certain states, as required, the Company also recycles oil filters. Thus, the Company is subject to a number of federal, state and local environmental laws including the Comprehensive Environmental Response Compensation and Liability Act ( CERCLA ). In addition, the United States Environmental Protection Agency (the EPA ), under the Resource Conservation and Recovery Act ( RCRA ), and various state and local environmental protection agencies regulate the Company's handling and disposal of waste. The EPA, under the Clean Air Act, also regulates the installation of catalytic converters by the Company and all other repair stores by periodically spot checking repair jobs, and has the power to fine businesses that use improper procedures or materials. The EPA has the authority to impose sanctions, including civil penalties up to \$25,000 per violation (or up to \$25,000 per day for certain willful violations or failures to cooperate with authorities), for violations of RCRA and the Clean Air Act.

The Company is subject to various laws and regulations concerning workplace safety, zoning and other matters relating to its business. The Company maintains programs to facilitate compliance with these laws and regulations. The Company believes that it is in substantial compliance with all applicable environmental and other laws and regulations and that the cost of such compliance is not material to the Company.

The Company is environmentally conscious, and takes advantage of recycling opportunities both at its headquarters and at its stores. Cardboard, plastic shrink wrap and parts cores are returned to the warehouse by the stores on the weekly stock truck. There, they are accumulated for sale to recycling companies or returned to parts manufacturers for credit.

**SEASONALITY**

Although the Company's business is not highly seasonal, customers do purchase more undercar service during the period of March through October than the period of November through February, when miles driven tend to be lower. As a result, sales and profitability are typically lower during the latter period. In the tire stores, the better sales

## **Table of Contents**

months are typically May through August, and October through December. The slowest months are typically January through April and September.

## **COMPANY INFORMATION AND SEC FILINGS**

The Company maintains a website at [www.monro.com](http://www.monro.com) and makes its annual, quarterly and periodic Securities and Exchange Commission ( SEC ) filings available through the Investor Information section of that website. The Company s SEC filings are available through this website free of charge, via a direct link to the SEC website at [www.sec.gov](http://www.sec.gov). The Company s filings with the SEC are also available to the public at the SEC Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330.

### **Item 1A. Risk Factors**

#### **RISKS RELATED TO OUR BUSINESS**

In addition to the risk factors discussed elsewhere in this annual report, the following are some of the important factors that could cause the Company s actual results to differ materially from those projected in any forward looking statements:

#### ***We operate in the highly competitive automotive repair industry.***

The automotive repair industry in which we operate is generally highly competitive and fragmented, and the number, size and strength of our competitors varies widely from region to region. We believe that competition in the industry is based primarily on customer service, reputation, store location, name awareness and price. Our primary competitors include national and regional undercar, tire specialty and general automotive service chains, both franchised and company-operated, car dealerships, mass merchandisers operating service centers and, to a lesser extent, gas stations and independent garages. Some of our competitors have greater financial resources, are more geographically diverse and have better name recognition than we do, which might place us at a competitive disadvantage to those competitors. Because we seek to offer competitive prices, if our competitors reduce prices, we may be forced to reduce our prices, which could have a material adverse effect on our business, financial condition and results of operations. Further, our success within this industry also depends upon our ability to respond in a timely manner to changes in customer demands for both products and services. We cannot assure that we or any of our stores will be able to compete effectively. If we are unable to compete successfully in new and existing markets, we may not achieve our projected revenue and profitability targets.

#### ***We are subject to seasonality and cycles in the general economy that impact demand for our products and services.***

Although our business is not highly seasonal, our customers typically purchase more undercar service during the period of March through October than the period of November through February, when miles driven tend to be lower. As a result, our sales and profitability tend to be lower during the latter period. In our tire stores, the slowest months are typically January through April and September. Further, customers may defer or forego vehicle maintenance at any time during periods of inclement weather.

The automotive repair industry is subject to fluctuations in the general economy. During a downturn in the economy, customers may defer or forego vehicle maintenance or repair. During periods of good economic conditions, consumers may decide to purchase new vehicles rather than having their older vehicles serviced. While the number of automobiles registered in the United States has steadily increased, this trend may not continue. In any event, should a significant reduction in the number of miles driven by automobile owners occur, it would likely have an adverse effect on the demand for our products and services. For example, when the retail cost of gasoline increases, the number of

miles driven by automobile owners may decrease, which could result in less frequent service intervals and fewer repairs.

**Table of Contents**

***We depend on our relationships with our vendors.***

We depend on close relationships with our vendors for parts and supplies and for our ability to purchase products at competitive prices and terms. Our ability to purchase at competitive prices and terms results from the volume of our purchases from these vendors. We have entered into various contracts with parts suppliers that require us to buy from them (at market prices) up to 100% of our annual purchases of specific products including brakes, exhaust, oil and ride control products. These agreements expire at various dates through January 2012. If we fail to purchase sufficient volumes from our vendors, we may obtain parts and supplies on less competitive terms.

We believe that alternative sources exist for most of the products we sell or use at our stores, and we would not expect the loss of any one supplier to have a material adverse effect on our business, financial condition or results of operations. Our dependence on a small number of suppliers, however, subjects us to the risks of shortages and interruptions. If any of our suppliers do not perform adequately or otherwise fail to distribute parts or other supplies to our stores, our inability to replace the suppliers in a timely manner and on acceptable terms could increase our costs and could cause shortages or interruptions that could have a material adverse effect on our business, financial condition and results of operations.

***Our industry is subject to environmental, consumer protection and other regulation.***

We are subject to various federal, state and local environmental law