MONRO MUFFLER BRAKE INC
Form 10-K
May 25, 2016

UNITED STATES

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 26, 2016

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)	16-0838627 (I.R.S. Employer Identification No.)
200 Holleder Parkway, Rochester, New York (Address of principal executive offices)	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

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

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

Indicate by check mark 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 "small reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer	Accelerated Filer	Non-Accelerated Filer	Smaller Reporting Company
	(Do not check if a 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

The aggregate market value of the voting stock held by non-affiliates of the registrant, computed by reference to the closing price as of the last business day of the registrant's most recently completed second fiscal quarter, September 26, 2015, was approximately $2,069,200,000.

As of May 6, 2016, 32,247,684 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 2016 Annual Meeting of Shareholders (the "Proxy Statement") are incorporated by reference into Part III hereof.

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PART I

FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K that are not historical facts, including (without limitation) statements made in this Item and in “Item 1 – Business”, may contain statements of future expectations and other forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. When used in this Annual Report on Form 10-K, the words “anticipates”, “believes”, “contemplates”, “see”, “could”, “estimate”, “intend”, “plans” and variations thereof and similar expressions, are intended to identify forward-looking statements. Forward-looking statements are subject to risks, uncertainties and other important factors that could cause actual results to differ materially from those expressed. These factors include, but are not necessarily limited to, product demand, dependence on and competition within the primary markets in which Monro Muffler Brake, Inc.’s (“Monro”, the “Company”, “we”, “us”, or “our”) stores are located, the need for and costs associated with store renovations and other capital expenditures, the effect of economic conditions, seasonality, the impact of weather conditions, the impact of competitive services and pricing, parts supply restraints or difficulties, our dependence on foreign vendors, industry regulation, risks relating to leverage and debt service (including sensitivity to fluctuations in interest rates), continued availability of capital resources and financing, advances in automotive technologies, disruption or unauthorized access to our computer systems, risks relating to protection of customer and employee personal data, business interruptions, risks relating to litigation, risks relating to integration of acquired businesses, including goodwill impairment and the risks set forth in “Item 1A. Risk Factors”. Except as required by law, we do not undertake to update any forward-looking statement that may be made from time to time by us or on our behalf.

Item 1. Business

GENERAL

Monro is a chain of 1,029 Company-operated stores (as of March 26, 2016), 135 franchised locations and 14 dealer-operated stores providing automotive undercar repair and tire services in the United States. At March 26, 2016, Monro operated Company stores in 25 states, including Connecticut, Delaware, Florida, Georgia, Illinois, Indiana, Kentucky, Maine, Maryland, Massachusetts, Michigan, Missouri, New Hampshire, New Jersey, New York, North Carolina, Ohio, Pennsylvania, Rhode Island, South Carolina, Tennessee, Vermont, Virginia, West Virginia and Wisconsin, primarily under the names “Monro Muffler Brake & Service”, “Tread Quarters Discount Tire”, “Mr. Tire”, “Autotire Car Care Center”, “Tire Warehouse”, “Tire Barn Warehouse”, “Ken Towery’s Tire & Auto Care”, “The Tire Choice” and “Car-X” (together, the “Company Stores”). Company Stores typically are situated in high-visibility locations in suburban areas and small towns, as well as in major metropolitan areas. Company Stores serviced approximately 5.8 million vehicles in fiscal 2016. (References herein to fiscal years are to the Company's year ended fiscal March [e.g., references to "fiscal 2016" are to the Company's fiscal year ended March 26, 2016].)

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. The Company was incorporated in the State of New York in 1959. In 1966, we discontinued our 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, we have continued our growth and have expanded our marketing area to include 24 additional states.

In December 1998, Monro appointed Robert G. Gross as President and Chief Executive Officer, who began full-time responsibilities on January 1, 1999. Effective October 1, 2012, Mr. Gross assumed the role of Executive Chairman and John W. Van Heel was appointed Chief Executive Officer.

The Company's principal executive offices are located at 200 Holleder Parkway, Rochester, New York 14615, and our telephone number is (585) 647-6400.

Monro provides a broad range of services on passenger cars, light trucks and vans for brakes; mufflers and exhaust systems; and steering, drive train, suspension and wheel alignment. Monro also provides other products and services, including tires and routine maintenance services, including state inspections. 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. Monro 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. Monro does not sell parts or accessories to the do-it-yourself market.

All of the Company’s stores, except Tire Warehouse and Tire Barn Warehouse stores, provide the services described above. Tire Warehouse and Tire Barn Warehouse stores only sell tires and tire related services and alignments. However, a growing number of our 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 remaining stores are described as service stores. (See additional discussion under “Operating Strategy”.) At March 26, 2016, there were 515 stores designated as service stores and 514 as tire stores.

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Our sales mix for fiscal 2016, 2015 and 2014 was as follows:

	Service Stores			Tire Stores			Total Company		
	FY16	FY15	FY14	FY16	FY15	FY14	FY16	FY15	FY14
Brakes	25 %	25 %	24 %	10 %	10 %	9 %	15 %	15 %	15 %
Exhaust	9	9	9	1	1	1	3	3	4
Steering	11	11	11	9	9	8	10	10	9
Tires	20	19	18	56	57	60	45	44	44
Maintenance	35	36	38	24	23	22	27	28	28
Total	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %	100 %

The Company has two wholly-owned subsidiaries, Monro Service Corporation and Car-X, LLC.

Monro Service Corporation, a Delaware corporation qualified to do business in the states of Kentucky, Maryland, New Hampshire, New York and Virginia, holds all assets, rights, responsibilities and liabilities associated with our warehousing, purchasing, advertising, accounting, office services, payroll, cash management and certain other operations that are performed in the aforementioned states. We believe that this structure has enhanced operational efficiency and provides cost savings.

On April 25, 2015, we acquired the Car-X brand, as well as the franchise rights for 146 auto service centers from Car-X Associates Corp. (See additional discussion under Note 2 to the Company's Consolidated Financial Statements.) Car-X, LLC, a Delaware limited liability company, operates as the franchisor through a standard royalty agreement, while Car-X remains a separate and independent brand and business with franchise operations based in Illinois.

As of March 26, 2016, Monro had 134 Car-X franchised locations.

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 as a result of dealership closures by car manufacturers, such as Chrysler and General Motors. We believe that these factors present opportunities for increased sales by the Company, even though the number of specialized repair outlets (such as those operated by Monro and our direct competitors) has increased to meet growing 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 our continued ability to open/acquire and operate new stores on a profitable basis. Overall profitability of the Company may not meet expectations if acquired or new stores do not attain expected profitability.

Monro believes that there are significant expansion opportunities in new as well as existing market areas, which may result from a combination of constructing stores on vacant land and acquiring existing store locations. We believe that, as the industry consolidates due to the increasingly complex nature of automotive repair, the expanded capital requirements for state-of-the-art equipment and aging of existing shop owners, there will be increasing opportunities for acquisitions of existing businesses or store structures.

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In that regard, we have completed several acquisitions, including:

Date of Acquisition	Seller	Number of Stores Acquired (a) (b)		Location of Stores	Current Brand (f)
March 2004	Atlantic Automotive Corp.	26		MD, VA	Mr. Tire
October 2004	Rice Tire, Inc.	5		MD	Mr. Tire/Tread Quarters
March 2005	Henderson Holdings, Inc.	10		MD	Mr. Tire
April 2006	ProCare Automotive Service Solutions LLC	75		OH, PA	Monro/Mr. Tire
July 2007	Valley Forge Tire & Auto Centers	11		PA	Mr. Tire
July 2007	Craven Tire & Auto	8		VA	Mr. Tire
January 2008	Broad Elm Group	7		NY	Mr. Tire
June 2009	Am-Pac Tire Distributors	26		IL, MO	Autotire
September 2009	Midwest Tire & Auto Repair	4		IN	Tire Warehouse
October 2009	Tire Warehouse Central, Inc.	41	(c)	ME, MA, NH, RI, VT	Tire Warehouse
March 2010	Import Export Tire, Co.	5		PA	Mr. Tire
November 2010	Courthouse Tire	3		VA	Mr. Tire
June 2011	Vespia Tire Centers, Inc.	24		NJ, PA	Mr. Tire
October 2011	Terry's Tire Town	7		PA, OH	Mr. Tire
April 2012	Kramer Tire Co.	20	(d)	VA	Kramer Tire/Tread Quarters
June 2012	Colony Tire Corporation	18		NC	Mr. Tire/Tread Quarters
August 2012	Tuffy Associates Corp.	17		SC, WI	Monro/Tread Quarters
October 2012	ChesleyCo, Inc.	5		NY	Monro/Mr. Tire
November 2012	Everybody's Oil Corporation	31		IL, IN, TN	Tire Barn Warehouse
December 2012	Ken Towery's Auto Care of Kentucky, Inc./Ken Towery's Auto Care of Indiana, Inc.	27	(e)	IN, KY	Ken Towery Tire & Auto Care
December 2012	Tire King of Durham, Inc.	9		NC	Mr. Tire
December 2012	Enger Auto Service, Inc.	12		OH	Mr. Tire
August 2013	Curry's Automotive Group	10		MD, VA	Curry's/Mr. Tire
November 2013	S & S Firestone, Inc.	4		KY	Ken Towery Tire & Auto Care
November 2013	Carl King Tire Co., Inc.	6		DE, MD	Mr. Tire
June 2014	Kan Rock Tire Company, Inc.	9	(g)	MI	Monro
June 2014	Lentz U.S.A. Service Centers, Inc.	10	(g)	MI	Monro
August 2014	Hennelly Tire & Auto, Inc.	35		FL	The Tire Choice

September 2014	Wood & Fullerton Stores, LLC	9	GA	Mr. Tire
December 2014	Gold Coast Tire & Auto Centers	9	FL	The Tire Choice
March 2015	Martino Tire Stores	8	FL	The Tire Choice
July 2015	Windsor Tire Co., Inc.	4	MA	Monro
August 2015	Kost Tire Distributors, Inc.	27	NY, PA	Mr. Tire
December 2015	McMar, Inc.	4	WI	Car-X

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(a) Table includes only acquisitions of three or more Company-operated stores.

(b) Thirty-five stores were subsequently closed due to redundancies or failure to achieve an acceptable level of profitability. See additional discussion under “Store Additions and Closings”.

(c) Six franchised locations were initially acquired, and five have subsequently been purchased by Monro and converted to Company-operated stores.

(d) Two heavy truck tire and truck repair stores, two wholesale operations and a retread facility were also acquired and subsequently sold.

(e) One wholesale operation was also acquired and is operating under the America’s Best Tires name.

(f) In this table, “Monro” refers to the brand of “Monro Brake · Tire” or “Monro Muffler Brake & Service”, not the corporation.

(g) One acquired store was never opened.

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As of March 26, 2016, Monro had 1,029 Company-operated stores, 135 franchised locations and 14 dealer locations located in 25 states. The following table shows the growth in the number of Company-operated stores over the last five fiscal years:

STORE ADDITIONS AND CLOSINGS

	Year Ended Fiscal March				
	2016	2015	2014	2013	2012
Stores open at beginning of year	999	953	937	803	781
Stores added during year	52 (b)	92 (c)	29 (d)	144 (e)	36 (f)
Stores closed during year (a)	(22)	(46)	(13)	(10)	(14)
Stores open at end of year	1,029	999	953	937	803
Service (including BJ’s) stores	515	509	532	540	536
Tire stores	514	490	421	397	267

(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. Additionally, in fiscal 2015, we closed the 34 remaining stores operated in BJ’s Wholesale Clubs. In fiscal 2012, we sold all of our seven stores in the Long Island market to Mavis Tire for $2.0 million.
(b) Includes 40 stores acquired in the fiscal 2016 Acquisitions.
(c) Includes 85 stores acquired in the fiscal 2015 Acquisitions. (Excludes the Kan Rock and Lentz stores that were never opened.)
(d) Includes 24 stores acquired in the fiscal 2014 Acquisitions.
(e) Includes 140 stores acquired in the fiscal 2013 Acquisitions.
(f) Includes 32 stores acquired in the fiscal 2012 Acquisitions.

We plan to add approximately twenty to forty new greenfield stores in fiscal 2017 and to pursue appropriate acquisition candidates.

Key factors in market and site selection for selecting new greenfield store locations include population, demographic characteristics, vehicle population and the intensity of competition. Monro attempts to cluster stores in market areas in order to achieve economies of scale in advertising, supervision and distribution costs. All new greenfield sites presently under consideration are within Monro's established market areas.

As a result of extensive analysis of our historical and projected store opening strategy, we have established major market profiles, as defined by market awareness: mature, existing and new markets. Over the next several years, we expect to build a greater percentage of stores in mature and existing markets in order to capitalize on our market presence and consumer awareness. During fiscal 2016, 47 of the stores added (including acquired stores) were located in existing markets and five stores were added in new markets.

We believe that management and operating improvements implemented over the last several fiscal years have enhanced our ability to sustain our growth. Monro 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.

We have customized the POS system to specific service and tire store requirements and deploy the appropriate version in each type of store. Being Windows-based, the system has simplified training of new employees. Additionally, the system includes the following:

- 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;
- Electronic repair manuals that allow for instant access to a single source of accurate, up-to-date, original equipment manufacturer-direct diagnosis, repair and maintenance information;
- Software which contains data that mirrors the scheduled maintenance requirements in vehicle owner's manuals, specifically by make, model, year and mileage for every major automobile brand. Management believes that this software facilitates the presentation and sale of scheduled maintenance services to customers;
- 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;

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- The ability to view inventory of up to the closest 14 stores or warehouse; and
- Expanded monitoring of price changes. This requires more specificity on the reason for a discount, which management believes helps 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 us to better serve our customers.

The financing to open a new greenfield service 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 Monro (with building costs paid by Monro), or a land purchase with the building constructed by Monro. In all three cases, for service stores, each new store also will require approximately $225,000 for equipment (including a POS system and a truck) and approximately $55,000 in inventory. Because we generally do not extend credit to our 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, from $360,000 to $990,000 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. Total capital required to open a new greenfield tire (land and building leased) location costs, on average, approximately $600,000, including $250,000 for equipment and $150,000 for inventory. 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.

At March 26, 2016, we leased the land and/or the building at approximately 69% of our store locations and owned the land and building at the remaining locations. Monro'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 and tire stores, (excluding acquired stores), have average sales of approximately $400,000 and $1,050,000, respectively, in their first 12 months of operation, or $67,000 and $150,000, respectively, per bay.

STORE OPERATIONS

Store Format

The typical format for a Monro store is a free-standing building consisting of a sales area, fully-equipped service bays and a parts/tires storage 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)
Service stores (excluding ProCare)	6	4,500	$ 105,000	2,500
Tire stores (excluding Tire Warehouse and Tire Barn Warehouse stores)	7	6,300	$ 135,000	1,300

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 approximately half the amount of inventory of a typical service store.

Data for the Tire Warehouse and Tire Barn Warehouse stores has been excluded because these locations primarily install new tires and wheels and many perform alignments. Additionally, most Tire Warehouse stores have one indoor service bay to perform alignments. The store building houses a waiting room, storage area and an area to mount and balance tires on the car's wheels once the wheels and tires have been removed from the car. Removal of old tires and wheels from, and installation of new tires and wheels on, customers' cars are performed outdoors under a carport. The average inventory carried by the Tire Warehouse and Tire Barn Warehouse stores is $251,000 per store.

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 6:00 p.m. on Saturday. A majority of store locations are also open Sundays from 9:00 a.m. to 5:00 p.m.

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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 us 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 up to the 14 stores or warehouse 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 and tires. It also improves profitability because it reduces the amount of inventory which must be purchased outside Monro from local vendors.

Quality Control and Warranties

To maintain quality control, we conduct audits to rate our employees' telephone sales manner and the accuracy of pricing information given.

We have a customer survey program to monitor customer attitudes toward service quality, friendliness, speed of service, and several other factors for each store. Customer concerns are addressed by customer service and field management personnel.

Monro uses a “Double Check for Accuracy Program” as part of our routine store procedures. This quality assurance program requires that a technician and supervisory-level employee 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.

We are an active member of the Automotive Maintenance & Repair Association (“AMRA”). AMRA 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 through the Motorist Assurance Program (“MAP”). 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 our stores and serve to provide consistent recommendations to customers in the diagnosis and repair of a vehicle.

We offer limited warranties on substantially all of the products and services that we provide. We believe that these warranties are competitive with industry practices and serve as a marketing tool to increase repeat business at our stores.

Store Personnel and Training

Monro supervises store operations primarily through our 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, except Tire Warehouse and Tire Barn stores, is staffed by a Store Manager, an Assistant Manager and/or Service Manager, and four to eight technicians. Larger volume service and 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. Tire Warehouse and Tire Barn stores are generally staffed by a Store Manager and two to four technicians, one of whom serves as the Assistant Manager. All Store Managers receive a base salary and Assistant Managers receive either hourly or salaried 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.

We believe 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. We make a concerted effort to recruit individuals who will have a long-term commitment to the Company and offer 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 our Store Managers and Market Managers started with the Company as technicians.

Many of our new technicians join the Company in their early twenties as trainees or apprentices. As they progress, many are promoted to technician and eventually master technician, the latter requiring Automotive Service Excellence (“ASE”) certification in eight different categories. We offer a tool purchase program through which trainee technicians can acquire their own set of tools. We also will reimburse technicians for the cost of ASE certification registration fees and test fees and encourage all technicians to become certified by providing a higher hourly wage rate following their certification.

Our training program provides multiple training sessions to both Store Managers and technicians in each store, each year.

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Management training courses are developed and delivered by our dedicated training department and Operations management, and are supplemented with live and on-line vendor training courses. Management training covers safety, customer service, sales, human resources (counseling, recruiting, interviewing, etc.), leadership, scheduling, financial and operational areas, and is delivered on a regular basis. We believe that involving Operations management in the development and delivery of these sessions results in more relevant and actionable training for Store Managers, and helps to improve overall performance and staff retention.

Our training department develops and coordinates technical training courses on critical areas of automotive repair to Monro technicians (e.g. Antilock braking systems ("ABS") brake repair, drivability, tire pressure monitoring system ("TPMS"), etc.) and also conducts required technical training to maintain compliance with state inspection licenses, where applicable, and AMRA/MAP accreditation. Additionally, our training department holds periodic field technical clinics for store personnel and coordinates technician attendance at technical clinics offered by our vendors. We have electronic repair manuals installed in all of our stores for daily reference. We also issue technical bulletins to all stores on innovative or complex repair processes, and maintain a centralized database for technical repair problems. In addition, Monro has established a telephone technical help line 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.

Monro also maintains an employee website that contains many resources for both managers and technicians to reference including Human Resource information and forms. Additionally, there is a Facilities section containing important environmental and equipment information, as well as a Training section that contains training programs and documents for both managers and technicians.

OPERATING STRATEGY

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

Products and Services

The typical store provides 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. As a percentage of sales, the service stores provide significantly more brake and exhaust services than tire stores, and tire stores provide substantially more tire replacement and related services than service stores.

Stores generally provide many of the routine maintenance services (except engine diagnostic), which automobile manufacturers suggest or require in the vehicle owner's manuals, and which fulfill manufacturers' requirements for new car warranty compliance. We offer "Scheduled Maintenance" services in our 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 we are 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, most stores replace and service batteries, starters and alternators. Stores in Georgia, Maine, Maryland, Massachusetts, Missouri, New Hampshire, New York, North Carolina, Pennsylvania, Rhode Island, Vermont, Virginia, West Virginia and Wisconsin perform annual state inspections. Approximately 63% of our stores also offer air conditioning services.

The format of the Tire Warehouse and Tire Barn Warehouse stores are slightly different from Monro's typical service or tire stores (as described above) in that, generally, over 93% of the stores' sales involve tire services, including the mounting and balancing of tires, and the sale of road hazard warranties. Most of these stores also provide the installation of wiper blades. Currently, 70% of Tire Warehouse and 87% of Tire Barn Warehouse stores perform alignments. In fiscal year 2017, Monro plans to expand the number of Tire Warehouse and Tire Barn Warehouse stores offering alignment services to 83% of total stores.

Customer Satisfaction

Monro's vision of being the dominant auto service provider in the markets we serve is supported by a set of values displayed in each Company Store emphasizing TRUST:

- Total Customer Satisfaction
  - Respect, Recognize and Reward (employees who are committed to these values)
- Unparalleled Quality and Integrity
- Superior Value and
- Teamwork

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Also displayed in each Company Store are guiding principles in support of our commitment to customer service: only present needed work; fix vehicles right the first time; complete vehicle service on time; and exceed the customer's expectations.

Additionally, each Company-operated store operates under the following set of customer satisfaction principles: free inspection of brakes, tires, shocks, front end and exhaust systems (as applicable); 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

Monro seeks to set competitive prices for quality services and products. We support our pricing strategy with special offers and coupons distributed through a variety of channels including: direct mail, email, digital advertising, newspaper, promotional store signage and in-store displays. In addition, to increase consumer awareness of the services we offer, Monro advertises through radio, cable television and yellow page advertising. Our digital marketing efforts include paid and organic search on all major search engines, search remarketing and banner and mobile advertising. We also manage social media profiles on a variety of platforms.

Our websites include www.Monro.com, www.MrTire.com, www.TQTire.com, www.AutoTire.com, www.TireWarehouse.net, www.KenTowery.com, www.TireBarn.com, www.CurrysAuto.com, and www.TheTireChoice.com. These sites help customers search for store locations, print coupons, make service appointments, shop for tires and access information on our services and products, as well as car care tips.

Monro currently maintains mobile apps on the iPhone and Android platforms for the Monro, Mr. Tire, Tire Warehouse, and The Tire Choice brands. Our mobile apps enable customers to manage vehicle service records on their smart phones and access information, coupons and specials, as they do on our websites.

Centralized Control

While we both operate and franchise stores, we believe that direct operation of stores enhances our ability to compete by providing centralized control of such areas of operations as service quality, store appearance, promotional activity and pricing. We also believe our experience in operating stores makes us a more valuable partner to our franchisees. A high level of competence is maintained throughout the Company, as we require, as a condition of employment, that employees participate in periodic training programs, including sales, management, customer service and changes in automotive technology. Additionally, purchasing, distribution, merchandising, advertising, accounting and other store support functions are centralized primarily in Monro's corporate headquarters in Rochester, New York, and are provided through our 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

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

PURCHASING AND DISTRIBUTION

Through our wholly-owned subsidiary Monro Service Corporation, we select and purchase 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 22% of all parts and tires used in fiscal 2016.

Our ten largest vendors accounted for approximately 76% of our parts and tire purchases, with the largest vendor accounting for approximately 22% of total stocking purchases in fiscal 2016. In fiscal 2016, Monro imported approximately 27% of our parts, oil and tire purchases. We purchase parts and tires from approximately 110 vendors. Management believes that our relationships with vendors are excellent and that alternative sources of supply exist, at comparable cost, for substantially all parts used in our business. We routinely obtain bids from vendors to ensure we are receiving competitive pricing and terms.

Most parts are shipped by vendors to our primary warehouse facility in Rochester, New York, and are distributed to stores by the Monro-operated tractor/trailer fleet. The majority of tires are shipped to our stores directly by vendors pursuant to orders placed by our headquarters staff. During fiscal 2013, we completed an expansion of our Rochester warehouse from 80,000 square feet to 135,000 square feet. Stores are replenished at least bi-weekly from this warehouse, and such replenishment fills, on average, 97% of all items ordered by the stores' automatic POS-driven replenishment system. The Rochester warehouse stocks approximately 3,700 SKUs. Monro also operates warehouses in Maryland, Virginia, New Hampshire and Kentucky. These warehouses carry, on average, 1,100; 200; 700 and 400 SKUs, respectively.

We enter into contracts with certain parts and tire suppliers, some of which require us to buy (at market prices) up to 100% of our annual purchases of specific products. These agreements expire at various dates through July 2017. We believe these agreements provide us with high quality, branded merchandise at preferred pricing, along with strong marketing and training support.

COMPETITION

Monro competes in the retail automotive service and tire industry. This industry is generally highly competitive and fragmented, and the number, size and strength of competitors vary widely from region to region. We believe that competition in this industry is based on customer service and reputation, store location, name awareness and price. Monro'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, independent garages and Internet tire sellers. Monro considers TBC Corporation (operating under the NTB, Merchant's Tire, Midas and Tire Kingdom brands), Firestone Complete Auto Care service stores and Meineke Discount Mufflers Inc. to be direct competitors. In most of the new markets that we have entered, at least one competitor was already present. In identifying new markets, we analyze, 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 26, 2016, Monro had 6,725 employees, of whom 6,347 were employed in the field organization, 116 were employed at the warehouses, 213 were employed at our corporate headquarters and 49 were employed in other offices. Monro's employees are not members of any union. We believe that our relations with our employees are good.

REGULATION

We are subject to various federal, state and local laws and governmental regulations relating to the operation of our business, including those governing workplace safety, zoning and the handling, storage and disposal of hazardous substances contained in the products that we sell and use in our service bays, the recycling of batteries, tires and used lubricants, and the ownership and operation of real property. We maintain programs to facilitate compliance with these laws and regulations. We believe that we are 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.

Monro 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, we also recycle oil filters. Thus, we are 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 our handling and disposal of waste. The EPA, under the Clean Air Act, also regulates the installation of catalytic converters by Monro 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 $37,500 per violation (or up to $37,500 per day for certain willful violations or failures to cooperate with authorities), for violations of RCRA and the Clean Air Act.

Monro is environmentally conscious, and takes advantage of recycling opportunities at our offices, warehouses and stores. Cardboard, plastic shrink wrap and parts’ cores are returned to the warehouse by the stores on Monro stock trucks. There, they are accumulated for sale to recycling companies or returned to parts manufacturers for credit.

SEASONALITY

Although our 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. In the tire stores, the better sales months are typically May through August, and October through December. The slowest months are typically January through April and September. As a result, profitability is typically lower during slower sales months, or months where mix is more heavily weighted toward tires, which is a lower margin category. Additionally, since our stores are primarily located in the northeastern and midwestern United States, profitability tends to be lower in the winter months when certain costs, such as utilities and snow plowing, are typically higher.

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COMPANY INFORMATION AND SEC FILINGS

Monro maintains a website at 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. Monro's SEC filings are available through this website free of charge, via a direct link to the SEC website at www.sec.gov. Monro'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

In addition to the risks discussed elsewhere in this annual report, the following are the important factors that could cause Monro'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, independent garages and Internet tire sellers. 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 and customers' use of vehicles, which may impact demand for our products and services.

Although our business is not highly seasonal, our customers typically purchase more undercar services during the period of March through October than the period of November through February, when miles driven tend to be lower. Further, customers may defer or forego vehicle maintenance at any time during periods of inclement weather. In the tire stores, the better sales months are typically May through August, and October through December. The slowest months are typically January through April and September. As a result, profitability is typically lower during slower sales months, or months where mix is more heavily weighted toward tires, which is a lower margin category.

Additionally, since our stores are primarily located in the northeastern and midwestern United States, profitability tends to be lower in the winter months when certain costs, such as utilities and snow plowing, are typically higher.

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.

Further, our industry is influenced by the number of miles driven by automobile owners. Factors that may cause the number of miles driven by automobile owners to decrease include the weather, travel patterns, gas prices and, as discussed above, fluctuations in the general economy. 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. Accordingly, a significant reduction in the number of miles driven by automobile owners could have a material adverse effect on our business and results of operations.

We depend on our relationships with our vendors, including foreign sources, for certain inventory. Our business may be negatively affected by the risks associated with such relationships and international trade.

We depend on close relationships with our vendors for parts, tires 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. These agreements expire at various dates through July 2017.

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.

Further, we depend on a number of products (e.g. brake parts, tires, oil filters) produced in foreign markets. We face risks associated with the delivery of inventory originating outside the United States, including:

- potential economic and political instability in countries where our suppliers are located;
- increases in shipping costs;
- transportation delays and interruptions;
- changes in U.S. and foreign laws affecting the importation and taxation of goods, including duties, tariffs and quotas, or changes in the enforcement of those laws;
- compliance with the United States Foreign Corrupt Practices Act, which generally prohibits U.S. companies from engaging in bribery or making other prohibited payments to foreign officials; and
- significant fluctuations in exchange rates between the U.S. dollar and foreign currencies.

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

We are subject to various federal, state and local environmental laws, building and zoning requirements, employment laws and other governmental regulations regarding the operation of our business. For example, we are subject to rules governing the handling, storage and disposal of hazardous substances contained in some of the products such as motor oil that we sell and use at our stores, the recycling of batteries, tires and used lubricants, and the ownership and operation of real property. These laws and regulations can impose fines and criminal sanctions for violations and require the installation of pollution control equipment or operational changes to decrease the likelihood of accidental hazardous substance releases. Accordingly, we could become subject to material liabilities relating to the investigation and cleanup of contaminated properties, and to claims alleging personal injury or property damage as a result of exposure to, or release of, hazardous substances. In addition, stricter interpretation of existing laws and regulations, new laws and regulations, the discovery of previously unknown contamination or the imposition of new or increased requirements could require us to incur costs or become the basis of new or increased liabilities that could have a material adverse effect on our business, financial condition and results of operations.

National automotive repair chains have also been the subject of investigations and reports by consumer protection agencies and the Attorneys General of various states. Publicity in connection with these kinds of investigations could have an adverse effect on our sales and, consequently, our business, financial condition and results of operations. State and local governments have also enacted numerous consumer protection laws with which we must comply.

The costs of operating our stores may increase if there are changes in laws governing minimum hourly wages, working conditions, overtime, workers' compensation and health insurance rates, unemployment tax rates or other laws and regulations. A material increase in these costs that we were unable to offset by increasing our prices or by other means could have a material adverse effect on our business, financial condition and results of operations.

We are involved in litigation from time to time arising from the operation of our business and, as such, we could incur substantial judgments, fines, legal fees or other costs.

We are sometimes the subject of complaints or litigation from customers, employees or other third parties for various actions. From time to time, we are involved in litigation involving claims related to, among other things, breach of contract, negligence, tortious conduct and employment law matters, including payment of wages. The damages sought against us in some of these litigation proceedings could be substantial. Although we maintain liability insurance for some litigation claims, if one or more of the claims were to greatly exceed our insurance coverage limits or if our insurance policies do not cover a claim, this could have a material adverse effect on our business, financial condition, results of operations and cash flows.

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Business interruptions may negatively impact our store operations, availability of products and/or the operability of our computer systems, which may have a material negative effect on our business and results of operations. A breach of our computer systems could damage our reputation and have a material adverse effect on our business and results of operations.

If any of our locations in a particular region are unexpectedly closed permanently or for a period of time, it could have a negative impact on our business. Such closures could occur as a result of circumstances out of our control, including war, acts of terrorism, extreme weather conditions and other natural disasters. Further, if our ability to obtain products and merchandise for use in our stores is impeded, it could have a negative impact on our business. Factors that could negatively affect our ability to obtain products and merchandise include the sudden inability to import goods into the United States, for any reason and the curtailment or delay of commercial transportation. While we do maintain business interruption insurance, there is no guarantee that we will be able to use such insurance for any particular location closure or other interruption in operations.

Additionally, given the number of individual transactions we process each year, it is critical that we maintain uninterrupted operation of our computer and communications hardware and software systems. Our systems could be subject to damage or interruption from power outages, computer and telecommunications failures, computer viruses, security breaches, including breaches of our transaction processing or other systems that result in the compromise of confidential customer data, catastrophic events such as fires, tornadoes and hurricanes, and usage errors by our employees. If our systems are breached, damaged or cease to function properly, we may have to make a significant investment to fix or replace them, we may suffer interruptions in our operations in the interim, we may face costly litigation, and our reputation with our customers may be harmed. The risk of disruption is increased in periods where complex and significant systems changes are undertaken. Any material interruption in our computer operations may have a material adverse effect on our business or results of operations.

If we experience a data security breach and confidential customer or employee information is disclosed, we may be subject to penalties and experience negative publicity, which could affect our customer relationships and have a material adverse effect on our business. We may incur increasing costs in an effort to minimize these cybersecurity risks.

The nature of our business involves the receipt and storage of personally identifiable data of our customers and employees. This type of data is subject to legislation and regulation in various jurisdictions. Data security breaches suffered by well-known companies and institutions have attracted a substantial amount of media attention, prompting state and federal legislative proposals addressing data privacy and security. We may become exposed to potential liabilities with respect to the data that we collect, manage and process, and may incur legal costs if our information security policies and procedures are not effective or if we are required to defend our methods of collection, processing and storage of personal data. Future investigations, lawsuits or adverse publicity relating to our methods of handling personal data could adversely affect our business, results of operations, financial condition and cash flows due to the costs and negative market reaction relating to such developments.

We may not have the resources or technical expertise to anticipate or prevent rapidly evolving types of cyber attacks. Attacks may be targeted at us, our customers, or others who have entrusted us with information. Actual or anticipated attacks may cause us to incur increasing costs, including costs to hire additional personnel, purchase additional protection technologies, train employees, and engage third-party experts and consultants. In addition, data and security breaches can also occur as a result of non-technical issues, including breach by us or by persons with whom we have commercial relationships that result in the unauthorized release of personal or confidential information. Any compromise or breach of our security could result in violation of applicable privacy and other laws, significant legal and financial exposure, and a loss of confidence in our security measures, which could have a material adverse effect on our results of operations and our reputation.

Our business is affected by advances in automotive technology.

The demand for our products and services could be adversely affected by continuing developments in automotive technology. Automotive manufacturers are producing cars that last longer and require service and maintenance at less frequent intervals in certain cases. Quality improvement of manufacturers' original equipment parts has in the past reduced, and may in the future reduce, demand for our products and services, adversely affecting our sales. For example, manufacturers' use of stainless steel exhaust components has significantly increased the life of those parts, thereby decreasing the demand for exhaust repairs and replacements. Longer and more comprehensive warranty or service programs offered by automobile manufacturers and other third parties also could adversely affect the demand for our products and services. We believe that a majority of new automobile owners have their cars serviced by a dealer during the period that the car is under warranty. In addition, advances in automotive technology continue to require us to incur additional costs to update our diagnostic capabilities and technical training programs.

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We may not be successful in integrating new and acquired stores.

Management believes that our continued growth in sales and profit is dependent, in large part, upon our ability to open/acquire and operate new stores on a profitable basis. In order to do so, we must find reasonably priced new store locations and acquisition candidates that meet our criteria and we must integrate any new stores (opened or acquired) into our system. Our growth and profitability could be adversely affected if we are unable to open or acquire new stores or if new or existing stores do not operate at a sufficient level of profitability. If new stores do not achieve expected levels of profitability, this may adversely impact our ability to remain in compliance with our debt covenants or to make required payments under our credit facility.

Any impairment of goodwill, other intangible assets or long-lived assets could negatively impact our results of operations.

Our goodwill, other intangible assets or long-lived assets, are subject to an impairment test on an annual basis and are also tested whenever events and circumstances indicate that goodwill, intangible assets and/or long-lived assets may be impaired. Any excess goodwill resulting from the impairment test must be written off in the period of determination. Intangible assets (other than goodwill and indefinite-lived intangible assets) and other long-lived assets are generally amortized or depreciated over the useful life of such assets. In addition, from time to time, we may acquire or make an investment in a business that will require us to record goodwill based on the purchase price and the value of the acquired tangible and intangible assets. We have significantly increased our goodwill as a result of our acquisitions. We may subsequently experience unforeseen issues with the businesses we acquire, which may adversely affect the anticipated returns of the business or value of the intangible assets and trigger an evaluation of recoverability of the recorded goodwill and intangible assets. Future determinations of significant write-offs of goodwill, intangible assets or other long-lived assets, as a result of an impairment test or any accelerated amortization or depreciation of other intangible assets or other long-lived assets could have a material negative impact on our results of operations and financial condition. We have completed our annual impairment test for goodwill, and have concluded that we do not have any impairment of goodwill for the year ended March 26, 2016.

Store closings result in acceleration of costs.

From time to time, in the ordinary course of our business, we close certain stores, generally based on considerations of store profitability, competition, strategic factors and other considerations. Closing a store could subject us to costs including the write-down of leasehold improvements, equipment, furniture and fixtures. In addition, we could remain liable for future lease obligations.

We rely on an adequate supply of skilled field personnel.

In order to continue to provide high quality services, we require an adequate supply of skilled field managers and technicians. Trained and experienced automotive field personnel are in high demand, and may be in short supply in some areas. We cannot assure that we will be able to attract, motivate and maintain an adequate skilled workforce necessary to operate our existing and future stores efficiently, or that labor expenses will not increase as a result of a shortage in the supply of skilled field personnel, thereby adversely impacting our financial performance. While the automotive repair industry generally operates with high field employee turnover, any material increases in employee turnover rates in our stores or any widespread employee dissatisfaction could also have a material adverse effect on our business, financial condition and results of operations.

If we are unable to generate sufficient cash flows from our operations, our liquidity will suffer and we may be unable to satisfy our obligations.

We currently rely on cash flow from operations and our Revolving Credit Facility to fund our business. Amounts outstanding on the Revolving Credit Facility are reported as debt on our balance sheet. While we believe that we have the ability to sufficiently fund our planned operations and capital expenditures for the foreseeable future, various risks to our business could result in circumstances that would materially affect our liquidity. For example, cash flows from our operations could be affected by changes in consumer spending habits, the failure to maintain favorable vendor payment terms or our inability to successfully implement sales growth initiatives, among other factors. We may be unsuccessful in securing alternative financing when needed on terms that we consider acceptable.

In addition, a significant increase in our leverage could have the following risks:

- our ability to obtain additional financing for working capital, capital expenditures, store renovations, acquisitions or general corporate purposes may be impaired in the future;

- our failure to comply with the financial and other restrictive covenants governing our debt, which, among other things, require us to comply with certain financial ratios and limit our ability to incur additional debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business, financial condition and results of operations; and

· our exposure to certain financial market risks, including fluctuations in interest rates associated with bank borrowings could become more significant.

If we do not perform in accordance with our debt covenants, our lenders may restrict our ability to draw on our Revolving Credit Facility. We cannot assure that we will remain in compliance with our debt covenants in the future.

We depend on the services of key executives.

Our senior executives are important to our success because they have been instrumental in setting our strategic direction, operating our business, identifying, recruiting and training key personnel, identifying expansion opportunities and arranging necessary financing. Losing the services of any of these individuals could adversely affect our business until a suitable replacement could be found. It may be difficult to replace them quickly with executives of equal experience and capabilities. Although we have employment agreements with selected executives, we cannot prevent them from terminating their employment with us. Other executives are not bound by their employment agreements with us.

New accounting guidance or changes in the interpretation or application of existing accounting guidance could affect our financial performance adversely.

New accounting guidance may require systems and other changes that could increase our operating costs and/or change our financial statements. For example, implementing future accounting guidance related to leases and other areas impacted by the current convergence project between the Financial Accounting Standards Board ("FASB") and the International Accounting Standards Board ("IASB") could require us to make significant changes to our lease management system or other accounting systems, and could result in changes to our financial statements. Additionally, implementing future accounting guidance related to leases or other items could potentially impact certain performance metrics and financial ratios, and potentially require the renegotiation of debt covenants.

Unanticipated changes in the interpretation or application of existing accounting guidance could result in material charges or restatements of our financial statements, which may further result in litigation or regulatory actions which could have an adverse effect on our financial condition and results of operations.

The effect of recent changes to U.S. healthcare laws may increase our healthcare costs and negatively impact our financial results.

We offer eligible employees the opportunity to enroll in healthcare coverage subsidized by us. For various reasons, many of our eligible employees currently choose not to participate in our healthcare plans. However, under the comprehensive U.S. healthcare reform law enacted in 2010, the Affordable Care Act, changes that became effective in 2014, and the employer mandate and employer penalties that became effective January 1, 2015, may significantly increase our labor costs. Changes in the law that took effect in 2014, including the imposition of increasing penalties on individuals who do not obtain healthcare coverage, may result in more eligible employees deciding to enroll in our healthcare plans. This may increase our healthcare costs in the future. Additionally, implementing the requirements of the Affordable Care Act has imposed some additional administrative costs on us, and those costs may increase over time. The costs and other effects of these new healthcare requirements cannot be determined with certainty, but they may have a material adverse effect on our financial and operating results.

The market price of our common stock may be volatile and could expose us to shareholder action including securities class action litigation.

The stock market and the price of our common stock may be subject to wide fluctuations based upon general economic and market conditions. Downturns in the stock market may cause the price of our common stock to decline. The market price of our stock may also be affected by our ability to meet analysts' expectations. Failure to meet such expectations, even slightly, could have an adverse effect on the price of our common stock. In the past, following periods of volatility in the market price of a company's securities, shareholder action including securities class action litigation has often been instituted against such a company. If similar litigation were instituted against us, it could result in substantial costs and a diversion of our management's attention and resources, which could have an adverse effect on our business.

Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

The Company, through Monro Service Corporation, owns its office/warehouse facility of approximately 165,000 square feet, which is located on 12.7 acres of land in Holleder Technology Park, in Rochester, New York. Monro Service Corporation also owns a second office/warehouse facility of approximately 28,000 square feet, which is located on 11.8 acres of land in Swanzey, New Hampshire. We lease additional warehouse space in Maryland, Virginia and Kentucky, and office space in Illinois for our Car-X franchise operations.

Of Monro's 1,029 Company-operated stores at March 26, 2016, 319 were owned, 610 were leased and for 100 stores, only the land was leased. In general, we lease store sites for a ten-year period with several five-year renewal options. Giving effect to all renewal options, approximately 64% of the leases (453 stores) expire after 2026. Certain of the leases provide for contingent rental payments if a percentage of annual gross sales exceeds the base fixed rental amount. The highest contingent percentage rent of any lease is 6.75%, and no such lease has adversely affected profitability of the store subject thereto. An officer of Monro or members of his family are the lessors, or such officer or family members have interests in entities that are the lessors, with respect to six of the leases. No related party leases exist, other than these six leases, and no new related party leases are contemplated.

Item 3. Legal Proceedings

Monro currently and from time to time is involved in litigation incidental to the conduct of our business, including employment-related litigation arising from claims by current and former employees. Although we diligently defend against these claims, we may enter into discussions regarding settlement of these and other lawsuits, and may enter into settlement agreements, if management believes settlement is in the best interests of Monro and our shareholders. Although the amount of liability that may result from these matters cannot be ascertained, management does not currently believe that, in the aggregate, they will result in liabilities material to Monro’s financial condition or results of operations.

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for the Company's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

MARKET INFORMATION

Monro’s common stock, par value $.01 per share, (the “Common Stock”) is traded on the NASDAQ Stock Market under the symbol "MNRO". The following table sets forth, for each quarter during the last two fiscal years, the range of high and low sales prices on the NASDAQ Stock Market for the Common Stock:

	Fiscal 2016		Fiscal 2015	
Quarter Ended	High	Low	High	Low
June	$ 66.53	$ 55.34	$ 57.99	$ 50.28
September	$ 68.81	$ 60.12	$ 55.06	$ 48.67
December	$ 77.00	$ 62.25	$ 59.17	$ 46.93
March	$ 71.03	$ 59.66	$ 67.93	$ 55.44

HOLDERS

At May 6, 2016, Monro’s Common Stock was held by approximately 40 shareholders of record. This figure does not include an estimate of the indeterminate number of beneficial holders whose shares may be held of record by brokerage firms and clearing agencies.

EQUITY COMPENSATION PLAN INFORMATION

As of March 26, 2016, Monro maintained stock option plans under which employees and non-employee directors could be granted options to purchase shares of Monro’s Common Stock. The following table contains information relating to such plans as of March 26, 2016.

Plan Category	Number of Securities To Be Issued Upon Exercise of Outstanding Options (a)	Weighted Average Exercise Price of Outstanding Options (b)	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)
Equity compensation plans approved by security holders	1,188,791	$ 41.75	1,743,429
Equity compensation plans not approved by security holders	-	-	-
Total	1,188,791	$ 41.75	1,743,429

DIVIDENDS

In May 2014, Monro's Board of Directors declared its intention to pay a regular quarterly cash dividend of $.13 per common share or common share equivalent to be paid beginning with the first quarter of fiscal 2015.

In May 2015, Monro's Board of Directors declared its intention to pay a regular quarterly cash dividend of $.15 per common share or common share equivalent to be paid beginning with the first quarter of fiscal 2016.

In May 2016, Monro's Board of Directors declared its intention to pay a regular quarterly cash dividend of $.17 per common share or common share equivalent to be paid to shareholders of record as of June 3, 2016. The dividend will be paid on June 13, 2016.

The declaration of and determination as to the payment of future dividends will be at the discretion of the Board of Directors and will depend on our financial condition, results of operations, capital requirements, compliance with charter and contractual restrictions, and such other factors as the Board of Directors deems relevant. Under our Revolving Credit Facility, we are not permitted to pay cash dividends in excess of 50% of our preceding year's net income. For additional information regarding our Revolving Credit Facility, see Note 6 to the Company's

Consolidated Financial Statements.

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Item 6. Selected Financial Data

The following table sets forth selected financial and operating data of Monro for each fiscal year in the five-year period ended March 26, 2016. The financial data and certain operating data have been derived from Monro's audited financial statements. This data should be read in conjunction with the financial statements and related notes included under Item 8 of this report and in conjunction with other financial information included elsewhere in this Form 10-K.

		Year Ended Fiscal March				
		2016	2015	2014	2013	2012
		(Amounts in thousands, except per share data)				
Income Statement Data:						
Sales		$ 943,651	$ 894,492	$ 831,432	$ 731,997	$ 686,552
Cost of sales, including distribution and occupancy costs		557,948	541,142	511,458	453,850	410,155
Gross profit		385,703	353,350	319,974	278,147	276,397
Operating, selling, general and administrative expenses		265,114	243,561	224,627	204,442	184,981
Operating income		120,589	109,789	95,347	73,705	91,416
Interest expense, net		15,542	11,342	9,470	7,213	5,220
Other income, net		(374)	(908)	(659)	(332)	(490)
Income before provision for income taxes		105,421	99,355	86,536	66,824	86,686
Provision for income taxes		38,616	37,556	32,077	24,257	32,074
Net income		$ 66,805	$ 61,799	$ 54,459	$ 42,567	$ 54,612
Earnings per share	Basic (a)	$ 2.07	$ 1.94	$ 1.72	$ 1.36	$ 1.77
	Diluted (a)	$ 2.00	$ 1.88	$ 1.67	$ 1.32	$ 1.69
Weighted average number of Common Shares and equivalents	Basic	32,026	31,605	31,394	31,067	30,716
	Diluted	33,353	32,944	32,642	32,308	32,237
		$ 0.60	$ 0.52	$ 0.44	$ 0.40	$ 0.35

Cash dividends per common share or common share equivalent					
Selected Operating Data: (b)					
Sales growth:					
Total	5.5 %	7.6 %	13.6 %	6.6 %	7.8 %
Comparable store (c)	(0.1) %	(1.4) %	(0.5) %	(7.3) %	2.0 %
Stores open at beginning of year	999	953	937	803	781
Stores open at end of year	1,029	999	953	937	803
Capital Expenditures (d)	$ 36,834	$ 34,750	$ 32,150	$ 34,185	$ 28,556
Balance Sheet Data (at period end):					
Net working capital (e)	$ 2,504	$ 5,549	$ 17,665	$ 15,126	$ 13,819
Total assets (e)	999,438	907,794	759,816	739,433	503,668
Long-term obligations	269,045	255,688	187,040	214,809	51,164
Shareholders' equity	536,195	473,611	415,984	365,042	327,499

Fiscal year 2012 reflects results based on a 53 week fiscal year. Results from all other fiscal years are based on a 52 week year.

(a) See Note 10 to the Company's Consolidated Financial Statements for calculation of basic and diluted earnings per share for fiscal years 2016, 2015 and 2014.
(b) Includes Company-operated stores only – no dealer or franchise locations.
(c) Comparable store sales data (not adjusted for days) is calculated based on the change in sales of only those stores open as of the beginning of the preceding fiscal year.
(d) Amount does not include the funding of the purchase price of acquisitions.
(e) Fiscal years 2012 - 2015 reflect reclassifications of deferred taxes.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following table sets forth income statement data of Monro expressed as a percentage of sales for the fiscal years indicated:

	Year Ended Fiscal March		
	2016	2015	2014
Sales	100.0 %	100.0 %	100.0 %
Cost of sales, including distribution and occupancy costs	59.1	60.5	61.5
Gross profit	40.9	39.5	38.5
Operating, selling, general and administrative expenses	28.1	27.2	27.0
Operating income	12.8	12.3	11.5
Interest expense, net	1.6	1.3	1.1
Other income, net	—	(0.1)	(0.1)
Income before provision for income taxes	11.2	11.1	10.4
Provision for income taxes	4.1	4.2	3.9
Net income	7.1 %	6.9 %	6.5 %

CRITICAL ACCOUNTING POLICIES

We believe that the accounting policies listed below are those that are most critical to the portrayal of our financial condition and results of operations, and that required management’s most difficult, subjective and complex judgments in estimating the effect of inherent uncertainties. This section should be read in conjunction with Note 1 to the Company’s Consolidated Financial Statements which includes other significant accounting policies.

Inventory

We evaluate whether inventory is stated at the lower of cost or net realizable value based on historical experience with the carrying value and life of inventory. The assumptions used in this evaluation are based on current market conditions and we believe inventory is stated at the lower of cost or net realizable value in the consolidated financial statements. In addition, historically we have been able to return excess items to vendors for credit or sell such inventory to wholesalers. Future changes by vendors in their policies or willingness to accept returns of excess inventory could require a revision in the estimates.

Business Combinations

We use the acquisition method in accounting for acquired businesses. Under the acquisition method, our financial statements reflect the operations of an acquired business starting from the completion of the acquisition. The assets acquired and liabilities assumed are recorded at their respective estimated fair values at the date of the acquisition. Any excess of the purchase price over the estimated fair values of the identifiable net assets acquired is recorded as goodwill. Significant judgment is often required in estimating the fair value of assets acquired, particularly intangible assets. As a result, in the case of significant acquisitions, we normally obtain the assistance of a third-party valuation specialist in estimating fair values of tangible and intangible assets. The fair value estimates are based on available historical information and on expectations and assumptions about the future, considering the perspective of marketplace participants. While we believe those expectations and assumptions are reasonable, they are inherently uncertain. Unanticipated market or macroeconomic events and circumstances may occur, which could affect the accuracy or validity of the estimates and assumptions.

Carrying Values of Goodwill and Long-Lived Assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The carrying value of goodwill is subject to annual impairment reviews, which we typically perform in the third quarter of the fiscal year. Impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business.

We have one reporting unit which encompasses all operations including new acquisitions. The goodwill impairment test consists of a two-step process, if necessary. We perform a qualitative assessment to determine if it is more likely than not that the fair value is less than the carrying value of goodwill. The qualitative assessment includes a review of business changes, economic outlook, financial trends and forecasts, growth rates, industry data, market capitalization and other relevant qualitative factors. If the qualitative factors are triggered, we perform the two-step process. The first step is to compare the fair value of our reporting unit to the book value of our reporting unit. If the fair value is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill. We believe there is little risk of impairment.

Intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses and are amortized over their estimated useful lives. All intangibles and other long-lived assets are reviewed when events or changes in circumstances indicate that the asset's carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying values.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, as discussed above, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical marketplace participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than our previously forecasted amounts.

Self-Insurance Reserves

We are largely self-insured with respect to workers' compensation, general liability and employee medical claims. In order to reduce our risk and better manage our overall loss exposure, we purchase stop-loss insurance that covers individual claims in excess of the deductible amounts, and caps total losses in a fiscal year. We maintain an accrual for the estimated cost to settle open claims as well as an estimate of the cost of claims that have been incurred but not reported. These estimates take into consideration the historical average claim volume, the average cost for settled claims, current trends in claim costs, changes in our business and workforce, and general economic factors. These accruals are reviewed on a quarterly basis, or more frequently if factors dictate a more frequent review is warranted. For more complex reserve calculations, such as workers' compensation, we use the services of an actuary on an annual basis to assist in determining the required reserve for open claims.

Stock-Based Compensation

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions. Expected volatilities are based on historical changes in the market price of the Company's Common Stock. The expected term of options granted is derived from the terms and conditions of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be outstanding. The risk-free rate is calculated using the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards. We use historical data to estimate forfeitures. The dividend yield is based on historical experience and expected future changes.

Income Taxes

Our provision for income taxes and effective tax rates are calculated by legal entity and jurisdiction and are based on a number of factors, including our income, tax planning strategies, differences between tax laws and accounting rules, statutory tax rates and credits, uncertain tax positions and valuation allowances. We use significant judgment and estimates in evaluating our tax positions.

Tax law and accounting rules often differ as to the timing and treatment of certain items of income and expense. As a result, the tax rate reflected in our tax return (the current or cash tax rate) may differ from the tax rate reflected in our Consolidated Financial Statements. Some of the differences are permanent, while other differences are temporary as they reverse over time. We record deferred tax assets and liabilities for any temporary differences between the financial statement and tax basis of assets and liabilities using enacted tax rates in effect for the year in which the differences are expected to reverse. We establish valuation allowances when we believe it is more-likely-than-not that some portion of our deferred tax assets will not be realized.

At any one time, our tax returns for several tax years are subject to examination by U.S. federal and state taxing jurisdictions. We establish tax liabilities in accordance with the accounting guidance on income taxes. Under the accounting guidance, the impact of an uncertain tax position taken or expected to be taken on an income tax return must be recognized in the financial statements at the largest amount that is more-likely-than-not to be sustained. An uncertain income tax position will not be recognized in the financial statements unless it is more-likely-than-not to be sustained. We adjust these tax liabilities, as well as the related interest and penalties, based on the latest facts and circumstances, including recently published rulings, court cases and outcomes of tax audits. To the extent our actual tax liability differs from our established tax liabilities for unrecognized tax benefits, our effective tax rate may be materially impacted. While it is often difficult to predict the final outcome of, the timing of, or the tax treatment of any particular tax position or deduction, we believe that our tax balances reflect the more-likely-than-not outcome of known tax contingencies.

RESULTS OF OPERATIONS

Fiscal 2016 As Compared To Fiscal 2015

Sales for fiscal 2016 increased $49.2 million or 5.5% to $943.7 million as compared to $894.5 million in fiscal 2015. The increase was due to an increase of $68.7 million related to new stores, of which $63.5 million came from the fiscal 2015 and fiscal 2016 acquisitions. Partially offsetting this was a decrease in sales from closed stores amounting to $19.6 million, largely related to the BJ’s store closures in fiscal 2015. Additionally, there was a decrease in comparable store sales of .1%. There were 361 selling days in both fiscal 2016 and fiscal 2015.

Barter sales of slower moving inventory totaled approximately $2.0 and $5.0 million for fiscal years 2016 and 2015, respectively.

During the year, 52 Company-operated stores were added (including seven acquired from Car-X franchisees), and 22 were closed. At March 26, 2016, we had 1,029 Company-operated stores in operation.

With regard to franchised locations, during fiscal 2016, we acquired 146, added two, and seven closed. Additionally, we purchased seven during the year from existing franchisees. At March 26, 2016, we had 135 franchised locations.

We believe that the slight decrease in comparable store sales for fiscal 2016 resulted primarily from continued weak economic conditions and lack of normal winter weather in our markets.

For the year, comparable store traffic was up slightly while average ticket was down slightly (both less than 1%). Comparable store maintenance, front end/shocks and exhaust sales declined in fiscal 2016. However, key service categories of brakes and alignments increased by approximately 2% and 7%, respectively, on a comparable store basis as compared to the prior year, demonstrating our belief that needed repairs cannot be deferred indefinitely. Although comparable store tire unit sales decreased during the year, tire category sales were relatively flat on a comparable store basis as we collected more from the consumer in average selling price per tire, and some consumers traded up to higher priced tires.

Gross profit for fiscal 2016 was $385.7 million or 40.9% of sales as compared with $353.3 million or 39.5% of sales for fiscal 2015. The increase in gross profit for fiscal 2016, as a percentage of sales, is due primarily to a decrease in total material costs as compared to the prior year. Total material costs, including outside purchases, decreased as compared to the prior year. This was largely due to a decrease in oil and tire costs.

Distribution and occupancy and labor costs were relatively flat as a percentage of sales as compared to the prior. Labor productivity, as measured by sales per man hour, improved slightly over the prior year.

Operating expenses for fiscal 2016 were $265.1 million or 28.1% of sales compared with $243.6 million or 27.2% of sales for fiscal 2015. Excluding the increase in due diligence costs and the operating expenses associated with FY15 and FY16 acquisitions, operating expenses increased only $2.7 million or approximately 1% over the prior year. As a percentage of sales, the increase is largely due to increased expenses against flat comparable store sales.

Operating income in fiscal 2016 of $120.6 million increased 9.8% compared to operating income of $109.8 million in fiscal 2015, and increased as a percentage of sales from 12.3% to 12.8% for the reasons described above.

Net interest expense for fiscal 2016 increased by approximately $4.2 million as compared to the prior year, and increased as a percentage of sales from 1.3% to 1.6%. The weighted average debt outstanding for the year ended March 26, 2016 increased by approximately $41 million from fiscal 2015. This increase is due to an increase in capital lease debt primarily related to the fiscal 2015 and fiscal 2016 acquisitions, partially offset by a decrease in debt outstanding under our Revolving Credit Facility. There was also an increase in the weighted average interest rate of approximately 80 basis points from the prior year, largely due to capital lease debt, as well as an increase in the LIBOR and prime rates versus the same time last year.

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Our effective tax rate was 36.6% and 37.8%, respectively, of pre-tax income in fiscal 2016 and 2015. The decrease in the effective income tax rate for the year ended March 26, 2016 related primarily to a net tax benefit that was recorded for $.7 million. We engaged tax specialists to assess the qualification of intercompany transactions in accordance with U.S. Treasury Regulations of Internal Revenue Code Section 482. Based on this assessment, we concluded that certain tax benefits of $.7 million should be recognized as a discrete item during the year. Excluding this net tax benefit, the effective income tax rate would have been approximately 37.3% for the year ended March 26, 2016. The remaining difference in the effective income tax rate relates primarily to the accounting for uncertain tax positions which may vary from year to year.

Net income for fiscal 2016 increased by $5.0 million, or 8.1%, from $61.8 million in fiscal 2015, to $66.8 million in fiscal 2016, and earnings per diluted share increased by 6.4% from $1.88 to $2.00 due to the factors discussed above.

Fiscal 2015 As Compared To Fiscal 2014

Sales for fiscal 2015 increased $63.1 million or 7.6% to $894.5 million as compared to $831.4 million in fiscal 2014. The increase was due to an increase of $78.8 million related to new stores, of which $70.5 million came from the fiscal 2014 and fiscal 2015 acquisitions. Partially offsetting this was a decrease in comparable store sales of 1.4%. Additionally, there was a decrease in sales from closed stores amounting to $9.4 million. There were 361 selling days in both fiscal 2015 and fiscal 2014.

During fiscal 2015, barter sales totaled approximately $5.0 million. There were no similar transactions in fiscal 2014.

During the year, 92 stores were added and 46 were closed, including 34 locations located in BJ’s Wholesale Clubs. At March 28, 2015, we had 999 Company-operated stores in operation.

We believe that the decrease in comparable store sales for fiscal 2015 resulted primarily from continued weak economic conditions.

For the year, comparable store traffic and average ticket were down slightly. Comparable store tire, maintenance and exhaust sales declined in fiscal 2015. However, other service categories, including brakes, oil changes, front end/shocks and alignments increased on a comparable store basis as compared to the prior year, demonstrating our belief that needed repairs cannot be deferred indefinitely.

Harsh winter weather also negatively impacted sales during the fourth quarter of fiscal 2015, which resulted in stores being closed for periods of time, and consumers reluctant to travel.

Gross profit for fiscal 2015 was $353.3 million or 39.5% of sales as compared with $320.0 million or 38.5% of sales for fiscal 2014. The increase in gross profit for fiscal 2015, as a percentage of sales, is due to a decrease in total material costs as compared to the prior year, particularly in tires.

Labor costs were relatively flat as a percentage of sales as compared to the prior year through focused payroll control. Labor productivity, as measured by sales per man hour, improved slightly over the prior year.

Partially offsetting the gross profit improvement was an increase in distribution and occupancy costs as compared to the prior year, in part due to increased warehousing costs related to building inventory ahead of the tariff to lower the impact on overall tire costs. Additionally, there was margin pressure due to fixed costs against a decrease in comparable store sales.

Operating expenses for fiscal 2015 were $243.6 million or 27.2% of sales compared with $224.6 million or 27.0% of sales for fiscal 2014. The increase as a percentage of sales is due to the decline in comparable store sales, as well as an increase in due diligence costs as compared to the prior year, partially offset by focused cost control.

Operating income in fiscal 2015 of $109.8 million increased 15.1% compared to operating income of $95.3 million in fiscal 2014, and increased as a percentage of sales from 11.5% to 12.3% for the reasons described above.

Net interest expense for fiscal 2015 increased by approximately $1.9 million as compared to the prior year, and increased as a percentage of sales from 1.1% to 1.3%. The weighted average debt outstanding for the year ended March 28, 2015 increased by approximately $46 million from fiscal 2014, primarily related to an increase in debt outstanding under our Revolving Credit Facility to fund the purchase of our acquisitions, as well as increased capital leases related to our fiscal 2014 and fiscal 2015 acquisitions. Partially offsetting this increase was a decrease in the weighted average interest rate of approximately 10 basis points from the prior year.

Our effective tax rate was 37.8% and 37.1%, respectively, of pre-tax income in fiscal 2015 and 2014. The difference primarily relates to the accounting for uncertain tax positions which may vary from year to year.

Net income for fiscal 2015 increased by $7.3 million, or 13.5%, from $54.5 million in fiscal 2014, to $61.8 million in fiscal 2015, and earnings per diluted share increased by 12.6% from $1.67 to $1.88 due to the factors discussed above.

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CAPITAL RESOURCES, CONTRACTUAL OBLIGATIONS AND LIQUIDITY

Capital Resources

Our primary capital requirements for fiscal 2016 were divided among the funding of acquisitions for $49.0 million, as well as the upgrading of facilities and systems and the funding of our store expansion program totaling $36.8 million. In fiscal 2015, our primary capital requirements were divided among the funding of acquisitions for $84.4 million, as well as the upgrading of facilities and systems and the funding of our store expansion program totaling $34.8 million. In both fiscal years 2016 and 2015, capital requirements were primarily met by cash flow from operations and from our revolving credit facility.

In fiscal 2017, we intend to open approximately twenty to forty new greenfield stores. Total capital required to open a new greenfield service store ranges, on average, from $360,000 to $990,000 depending on whether the store is leased, owned or land leased. Total capital required to open a new greenfield tire (land and building leased) location costs, on average, approximately $600,000, including $250,000 for equipment and $150,000 for inventory.

Monro paid dividends of $19.7 million in fiscal 2016. In May 2016, Monro's Board of Directors declared its intention to pay a regular quarterly cash dividend of $.17 per common share or common share equivalent beginning with the first quarter of fiscal 2017.

We also plan to continue to seek suitable acquisition candidates. Management believes that we have sufficient resources available (including cash flow from operations and bank financing) to expand our business as currently planned for the next several years.

Contractual Obligations

Payments due by period under long-term debt, other financing instruments and commitments are as follows:

	Total	Within 1 Year	1 to 3 Years	3 to 5 Years	After 5 Years
	(Dollars in thousands)				
Principal payments on long-term debt	$ 103,315			$ 103,315	
Capital lease commitments/financing obligations	176,974	$ 11,244	$ 25,328	29,318	$ 111,084
Operating lease commitments	158,512	34,479	49,105	26,278	48,650
Other liabilities	5,133	800	2,400	1,933	—
Total	$ 443,934	$ 46,523	$ 76,833	$ 160,844	$ 159,734

We believe that we can fulfill our contractual commitments utilizing our cash flow from operations and, if necessary, bank financing.

Liquidity

In June 2011, we entered into a five-year, $175 million Revolving Credit Facility agreement with seven banks. This Revolving Credit Facility also provided an accordion feature permitting us to request an increase in availability of up to an additional $75 million.

In December 2012, the Revolving Credit Facility was amended to include the following: the committed sum was increased by $75 million to $250 million; the term was extended for another one and a half years, such that the Revolving Credit Facility expired in December 2017; and the $75 million accordion feature was maintained. There were no other changes in terms including those related to covenants or interest rates.

On January 25, 2016, we entered into a new five-year $600 million Revolving Credit Facility agreement with nine banks (the "Credit Facility"). Interest only is payable monthly throughout the Credit Facility's term. The Credit Facility increases our current borrowing capacity from our prior financing agreement by $350 million to $600 million, and includes an accordion feature permitting us to request an increase in availability of up to an additional $100 million, an increase of $25 million from our prior financing agreement. The expanded facility bears interest at 75 to 175 basis points over LIBOR. The Credit Facility requires fees payable quarterly throughout the term between .15% and .35% of the amount of the average net availability under the Credit Facility during the preceding quarter. There was $103.3 million outstanding under the Credit Facility at March 26, 2016. We were in compliance with all debt covenants as of March 26, 2016.

At March 26, 2016 and March 28, 2015, the interest rate spread paid by the Company was 100 and 125 basis points over LIBOR, respectively.

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Within the Credit Facility, we have a sub-facility of $80 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 87.5 to 187.5 basis points over LIBOR annually of the face amount of each standby letter of credit, payable quarterly in arrears. There was $23.7 million in an outstanding letter of credit at March 26, 2016.

The net availability under the Credit Facility at March 26, 2016 was $473.0 million.

Specific terms of the Credit Facility permit the payment of cash dividends not to exceed 50% of the prior year's net income, and permit mortgages and specific lease financing arrangements with other parties with certain limitations. Other specific terms and the maintenance of specified ratios are generally consistent with our prior financing agreement. Additionally, the Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

In addition, we have financed certain store properties with capital leases/financing obligations, which amount to $177.0 million and are due in installments through 2045.

During fiscal 1995, Monro purchased 12.7 acres of land for $.7 million from the City of Rochester, New York, on which its office/warehouse facility is located. The City had provided financing for 100% of the cost of the land via a 20-year non-amortizing, non-interest bearing mortgage. The mortgage was paid in full in fiscal 2015.

INFLATION

We do not believe our operations have been materially affected by inflation. Monro has been successful, in many cases, in mitigating the effects of merchandise cost increases principally through the use of volume discounts and alternative vendors, as well as selling price increases. See additional discussion under Risk Factors.

FINANCIAL ACCOUNTING STANDARDS

See "Recent Accounting Pronouncements" in Note 1 to the Company's Consolidated Financial Statements for a discussion of the impact of recently issued accounting standards on our Consolidated Financial Statements as of March 26, 2016 and for the year then ended, as well as the expected impact on the Consolidated Financial Statements for future periods.

Item 7A. Quantitative and Qualitative Disclosures about Market Risk

Monro is exposed to market risk from potential changes in interest rates. There was no fixed rate debt outstanding at March 26, 2016. Given a 1% change in LIBOR, our cash flow exposure on floating rate debt interest expense would result in interest expense fluctuating approximately $1.0 million based upon our debt position at fiscal year ended March 26, 2016.

Debt financing had a carrying amount and a fair value of $103.3 million as of March 26, 2016, as compared to a carrying amount and a fair value of $122.5 million as of March 28, 2015.

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Item 8. Financial Statements and Supplementary Data

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of Monro Muffler Brake, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Monro Muffler Brake, Inc. and its subsidiaries at March 26, 2016 and March 28, 2015, and the results of their operations and their cash flows for each of the three years in the period ended March 26, 2016 in conformity with accounting principles generally accepted in the United States of America. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 26, 2016, based on criteria established in Internal Control - Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 9A. Our responsibility is to express opinions on these financial statements and on the Company's internal control over financial reporting based on our integrated 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audits of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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 (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 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.

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

/s/ PricewaterhouseCoopers LLP

Rochester, New York

May 25, 2016

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS

	March 26, 2016	March 28, 2015
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 7,985	$ 7,730
Trade receivables	4,301	2,561
Federal and state income taxes receivable	80	—
Inventories	129,035	129,727
Other current assets	28,674	21,324
Total current assets	170,075	161,342
Property, plant and equipment	639,936	592,206
Less - Accumulated depreciation and amortization	(288,354)	(265,454)
Net property, plant and equipment	351,582	326,752
Goodwill	400,132	349,088
Intangible assets	39,520	34,555
Other non-current assets	12,774	11,947
Long-term deferred income tax assets	25,355	24,110
Total assets	$ 999,438	$ 907,794
Liabilities and Shareholders' Equity		
Current liabilities:		
Current portion of capital leases and financing obligations	$ 11,244	$ 8,908
Trade payables	69,887	62,920
Federal and state income taxes payable	—	385
Accrued payroll, payroll taxes and other payroll benefits	23,989	22,265
Accrued insurance	35,967	32,373
Warranty reserves	10,793	10,752
Other current liabilities	15,691	18,190
Total current liabilities	167,571	155,793
Long-term capital leases and financing obligations	165,730	133,145
Long-term debt	103,315	122,543
Accrued rent expense	5,145	5,342
Other long-term liabilities	18,363	14,458
Long-term income taxes payable	3,119	2,902
Total liabilities	463,243	434,183
Commitments and contingencies		
Shareholders' equity:		
Class C Convertible Preferred Stock, $1.50 par value, $.064 conversion value; 150,000 shares authorized; 32,500 shares issued and outstanding	49	49

Common Stock, $.01 par value, 65,000,000 shares authorized; 38,556,678 and 38,007,537 shares issued at March 26, 2016 and March 28, 2015, respectively	386	380
Treasury Stock, 6,316,652 and 6,180,489 shares at March 26, 2016 and March 28, 2015, respectively, at cost	(105,856)	(95,638)
Additional paid-in capital	186,550	160,880
Accumulated other comprehensive loss	(4,576)	(4,584)
Retained earnings	459,642	412,524
Total shareholders' equity	536,195	473,611
Total liabilities and shareholders' equity	$ 999,438	$ 907,794

The accompanying notes are an integral part of these financial statements.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended Fiscal March		
	2016	2015	2014
	(Amounts in thousands, except per share data)		
Sales	$ 943,651	$ 894,492	$ 831,432
Cost of sales, including distribution and occupancy costs	557,948	541,142	511,458
Gross profit	385,703	353,350	319,974
Operating, selling, general and administrative expenses	265,114	243,561	224,627
Operating income	120,589	109,789	95,347
Interest expense, net of interest income	15,542	11,342	9,470
Other income, net	(374)	(908)	(659)
Income before provision for income taxes	105,421	99,355	86,536
Provision for income taxes	38,616	37,556	32,077
Net income	$ 66,805	$ 61,799	$ 54,459
Other comprehensive income (loss):			
Changes in pension, net of tax provision (benefit) of $65, ($888) and $556, respectively	8	(1,449)	908
Other comprehensive income (loss)	8	(1,449)	908
Comprehensive income	$ 66,813	$ 60,350	$ 55,367
Earnings per share:			
Basic	$ 2.07	$ 1.94	$ 1.72
Diluted	$ 2.00	$ 1.88	$ 1.67
Weighted average number of common shares outstanding used in computing earnings per share:			
Basic	32,026	31,605	31,394
Diluted	33,353	32,944	32,642

The accompanying notes are an integral part of these financial statements.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

	Class C Convertible Preferred Stock Shares	Amount	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Loss	Total
	(Dollars and shares in thousands)									
Balance at March 30, 2013	33	$ 49	37,328	$ 373	6,074	$ (90,064)	$ 131,460	$ 327,267	$ (4,043)	$ 365,042
Net income								54,459		54,459
Other comprehensive loss:										
Pension liability adjustment ($1,464 pre-tax)									908	908
Dividends (1):										
Preferred								(334)		(334)
Common								(13,822)		(13,822)
Tax benefit from exercise of stock options							1,866			1,866
Exercise of stock options (2)			240	3	3	(177)	4,488			4,314
Stock option compensation							3,551			3,551
Balance at March 29, 2014	33	49	37,568	376	6,077	(90,241)	141,365	367,570	(3,135)	415,984
Net income								61,799		61,799
Other comprehensive income:										
Pension liability adjustment [($2,337) pre-tax]									(1,449)	(1,449)

Dividends (1):										
Preferred								(395)		(395)
Common								(16,450)		(16,450)
Stock issuance costs							(14)			(14)
Tax benefit from exercise of stock options							2,208			2,208
Exercise of stock options (2)			440	4	103	(5,397)	14,057			8,664
Stock option compensation							3,264			3,264
Balance at March 28, 2015	33	49	38,008	380	6,180	(95,638)	160,880	412,524	(4,584)	473,611
Net income								66,805		66,805
Other comprehensive loss:										
Pension liability adjustment ($73 pre-tax)									8	8
Dividends (1):										
Preferred								(456)		(456)
Common								(19,231)		(19,231)
Tax benefit from exercise of stock options							6,677			6,677
Exercise of stock options (2)			549	6	137	(10,218)	16,243			6,031
Stock option compensation							2,750			2,750
Balance at March 26, 2016	33	$ 49	38,557	$ 386	6,317	$ (105,856)	$ 186,550	$ 459,642	$ (4,576)	$ 536,195

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(1) Dividends paid per common share or common share equivalent were $.60, $.52 and $.44, respectively, for the years ended March 26, 2016, March 28, 2015 and March 29, 2014.

(2) Includes the receipt of treasury stock in connection with the exercise of stock options and to partially satisfy tax withholding obligations.

The accompanying notes are an integral part of these financial statements.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended Fiscal March		
	2016	2015	2014
	(Dollars in thousands)		
	Increase (Decrease) in Cash		
Cash flows from operating activities:			
Net income	$ 66,805	$ 61,799	$ 54,459
Adjustments to reconcile net income to net cash provided by operating activities -			
Depreciation and amortization	39,769	35,721	31,688
Stock-based compensation expense	2,750	3,264	3,551
Excess tax benefits from share-based payment arrangements	(8)	(121)	(195)
Net change in deferred income taxes	6,589	6,338	4,520
Gain on bargain purchase	—	(386)	(217)
(Gain) loss on disposal of assets	(41)	265	373
Change in operating assets and liabilities (excluding acquisitions)			
Trade receivables	(1,477)	168	107
Inventories	1,555	805	(5,192)
Other current assets	(6,847)	2,622	5,149
Other non-current assets	2,886	(498)	1,844
Trade payables	7,079	9,599	(7,685)
Accrued expenses	2,414	2,937	3,656
Federal and state income taxes payable	6,212	4,764	2,031
Other long-term liabilities	(1,399)	(1,037)	491
Long-term income taxes payable	217	109	(637)
Total adjustments	59,699	64,550	39,484
Net cash provided by operating activities	126,504	126,349	93,943
Cash flows from investing activities:			
Capital expenditures	(36,834)	(34,750)	(32,150)
Acquisitions, net of cash acquired	(49,018)	(84,367)	(27,467)
Proceeds from the disposal of assets	2,625	409	3,916
Net cash used for investing activities	(83,227)	(118,708)	(55,701)
Cash flows from financing activities:			
Proceeds from borrowings	336,942	343,561	304,321
Principal payments on long-term debt, capital leases and financing obligations	(366,707)	(336,617)	(333,174)
Exercise of stock options	8,602	8,664	4,314
Excess tax benefits from share-based payment arrangements	8	121	195
Dividends paid	(19,687)	(16,845)	(14,156)
Deferred financing costs	(2,180)	—	—

Net cash used for financing activities	(43,022)	(1,116)	(38,500)
Increase (decrease) in cash	255	6,525	(258)
Cash at beginning of year	7,730	1,205	1,463
Cash at end of year	$ 7,985	$ 7,730	$ 1,205

The accompanying notes are an integral part of these financial statements.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

Background

Monro Muffler Brake, Inc. and its wholly owned subsidiaries, Monro Service Corporation and Car-X, LLC (together, “Monro”, the “Company”, “we”, “us”, or “our”), are engaged principally in providing automotive undercar repair and tire services in the United States. Monro had 1,029 Company-operated stores, 135 franchised locations and 14 dealer-operated automotive repair centers located in 25 states as of March 26, 2016. Monro’s operations are organized and managed in one operating segment.

Accounting estimates

The accompanying Consolidated Financial Statements have been prepared in accordance with generally accepted accounting principles. The preparation of financial statements in conformity with such principles requires the use of estimates by management during the reporting period. Actual results could differ from those estimates.

Fiscal year

Monro reports its results on a 52/53 week fiscal year ending on the last Saturday of March of each year. The following are the dates represented by each fiscal period:

“Year ended Fiscal March 2016”: March 29, 2015 – March 26, 2016 (52 weeks)

“Year ended Fiscal March 2015”: March 30, 2014 – March 28, 2015 (52 weeks)

“Year ended Fiscal March 2014”: March 31, 2013 – March 29, 2014 (52 weeks)

Consolidation

The Consolidated Financial Statements include Monro Muffler Brake, Inc. and its wholly owned subsidiaries, Monro Service Corporation and Car-X, LLC, after the elimination of intercompany transactions and balances.

Reclassifications

Certain amounts in these financial statements have been reclassified to maintain comparability among the periods presented.

Revenue recognition

Sales are recorded upon completion of automotive undercar repair and tire services provided to customers. The following was Monro's sales mix for fiscal 2016, 2015 and 2014:

	Year Ended Fiscal March		
	2016	2015	2014
Brakes	15 %	15 %	15 %
Exhaust	3	3	4
Steering	10	10	9
Tires	45	44	44
Maintenance	27	28	28
Total	100 %	100 %	100 %

Revenue from the sale of tire road hazard warranty agreements is recognized on a straight-line basis over the contract period or other method when costs are not incurred ratably.

Cash equivalents

We consider all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Inventories

Our inventories consist of automotive parts and tires. Inventories are valued at the lower of cost or net realizable value using the first-in, first-out (FIFO) method.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Barter credits

We value barter credits at the fair market value of the inventory exchanged, as determined by reference to price lists for buying groups and jobber pricing. We use these credits primarily to pay vendors for purchases (mainly inventory vendors for the purchase of parts and tires) or to purchase other goods or services from the barter company such as advertising and travel.

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on a straight-line basis. Buildings and improvements related to owned locations are depreciated over lives varying from 10 to 39 years; machinery, fixtures and equipment over lives varying from 3 to 15 years; and vehicles over lives varying from 4 to 10 years. Computer hardware and software is depreciated over lives varying from 3 to 7 years. Buildings and improvements related to leased locations are depreciated over the shorter of the asset's useful life or the reasonably assured lease term, as defined in the accounting guidance on leases. When property is sold or retired, the cost and accumulated depreciation are eliminated from the accounts and a gain or loss is recorded in the Consolidated Statements of Comprehensive Income. Expenditures for maintenance and repairs are expensed as incurred. (See Note 4.)

Long-lived assets

We evaluate the ability to recover long-lived assets whenever events or circumstances indicate that the carrying value of the asset may not be recoverable. In the event assets are impaired, losses are recognized to the extent the carrying value exceeds the fair value. In addition, we report assets to be disposed of at the lower of the carrying amount or the fair market value less costs to sell.

Store opening and closing costs

New store opening costs are charged to expense in the fiscal year when incurred. When we close a store, the estimated unrecoverable costs, including the remaining lease obligation net of sublease income, if any, are charged to expense.

Leases

Financing Obligations –

We are often involved in the construction of leased stores. In some cases, we are responsible for construction cost overruns or non-standard tenant improvements. As a result of this involvement, we are deemed the “owner” for accounting purposes during the construction period, requiring us to capitalize the construction costs on our Consolidated Balance Sheet. Upon completion of the project, we perform a sale-leaseback analysis pursuant to guidance on accounting for leases to determine if we can remove the assets from our Consolidated Balance Sheet. For some of these leases, we are considered to have “continuing involvement”, which precludes us from derecognizing the assets from our Consolidated Balance Sheet when construction is complete (“failed sale-leaseback”). In conjunction with these leases, we capitalize the construction costs on our Consolidated Balance Sheet and also record financing obligations representing payments owed to the landlord. We do not report rent expense for the properties which are owned for accounting purposes. Rather, rental payments under the lease are recognized as a reduction of the financing obligation and as interest expense.

Additionally, since we often assume leases in acquisition transactions, the accounting for a seller who was involved in the construction of leased stores passes to us.

Capital Leases –

Some of our property is held under capital leases. These assets are included in property, plant and equipment and depreciated over the term of the lease. We do not report rent expense for capital leases. Rather, rental payments under the lease are recognized as a reduction of the capital lease obligation and interest expense.

Operating Leases –

All other leases are considered operating leases. Rent expense, including rent escalations, is recognized on a straight-line basis over the reasonably assured lease term, as defined in the accounting guidance on leases. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably assured.

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Goodwill and intangible assets

We have a history of growth through acquisitions. Assets and liabilities of acquired businesses are recorded at their estimated fair values as of the date of acquisition. Goodwill represents costs in excess of fair values assigned to the underlying net assets of acquired businesses. The carrying value of goodwill is subject to annual impairment reviews in accordance with accounting guidance on goodwill, which we typically perform in the third quarter of the fiscal year. Impairment reviews may also be triggered by any significant events or changes in circumstances affecting our business.

We have one reporting unit which encompasses all operations including new acquisitions. The goodwill impairment test consists of a two-step process, if necessary. We perform a qualitative assessment to determine if it is more likely than not that the fair value is less than the carrying value of goodwill. The qualitative assessment includes a review of business changes, economic outlook, financial trends and forecasts, growth rates, industry data, market capitalization and other relevant qualitative factors. If the qualitative factors are triggered, we perform the two-step process. The first step is to compare the fair value of our reporting unit to the book value of our reporting unit. If the fair value is less than its carrying value, the second step of the impairment test must be performed in order to determine the amount of impairment loss, if any. The second step compares the implied fair value of goodwill with the carrying amount of that goodwill. If the carrying amount of goodwill exceeds its implied fair value, an impairment charge is recognized in an amount equal to that excess. The loss recognized cannot exceed the carrying amount of goodwill.

Intangible assets primarily represent allocations of purchase price to identifiable intangible assets of acquired businesses and are amortized over their estimated useful lives. All intangibles and other long-lived assets are reviewed when events or changes in circumstances indicate that the asset’s carrying value may not be recoverable. If such indicators are present, it is determined whether the sum of the estimated undiscounted future cash flows attributable to such assets is less than their carrying amounts. No such indicators were present in fiscal 2016, 2015 or 2014.

A deterioration of macroeconomic conditions may not only negatively impact the estimated operating cash flows used in our cash flow models, but may also negatively impact other assumptions used in our analyses, including, but not limited to, the estimated cost of capital and/or discount rates. Additionally, as discussed above, in accordance with accounting guidance, we are required to ensure that assumptions used to determine fair value in our analyses are consistent with the assumptions a hypothetical market participant would use. As a result, the cost of capital and/or discount rates used in our analyses may increase or decrease based on market conditions and trends, regardless of whether our actual cost of capital has changed. Therefore, we may recognize an impairment of an intangible asset or assets even though realized actual cash flows are approximately equal to or greater than its previously forecasted amounts.

As a result of our annual qualitative assessment performed in the third quarter of fiscal 2016, there were no impairments. There have been no triggering events during the fourth quarter of fiscal 2016.

Self-insurance reserves

We are largely self-insured with respect to workers' compensation, general liability and employee medical claims. In order to reduce our risk and better manage our overall loss exposure, we purchase stop-loss insurance that covers individual claims in excess of the deductible amounts, and caps total losses in a fiscal year. We maintain an accrual for the estimated cost to settle open claims as well as an estimate of the cost of claims that have been incurred but not reported. These estimates take into consideration the historical average claim volume, the average cost for settled claims, current trends in claim costs, changes in our business and workforce, and general economic factors. These accruals are reviewed on a quarterly basis, or more frequently if factors dictate a more frequent review is warranted. For more complex reserve calculations, such as workers' compensation, we use the services of an actuary on an annual basis to assist in determining the required reserve for open claims.

Warranty

We provide an accrual for estimated future warranty costs for parts that we install based upon the historical relationship of warranty costs to sales. Warranty expense related to all product warranties at and for the years ended March 2016, 2015 and 2014 was not material to our financial position or results of operations. See additional discussion of tire road hazard warranty agreements under the "Revenue recognition" section of this footnote.

Comprehensive income

As it relates to Monro, comprehensive income is defined as net earnings as adjusted for pension liability adjustments and is reported net of related taxes in the Consolidated Statements of Comprehensive Income and in the Consolidated Statements of Changes in Shareholders' Equity.

Income taxes

Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases of assets and liabilities and are measured using tax rates based on currently enacted rules and legislation and anticipated rates that will be in effect when the differences are expected to reverse. The accounting guidance for uncertainties in income tax prescribes a comprehensive model for the financial statement recognition, measurement, presentation, and disclosure of uncertain tax positions taken or expected to be taken in income tax returns. Monro recognizes a tax benefit from an uncertain tax position in the financial statements only when it is more likely than not that the position will be sustained upon examination, including resolution of any related appeals or litigation processes, based on the technical merits and a consideration of the relevant taxing authority's administrative practices and precedents. (See Note 7.)

Treasury stock

Treasury stock is accounted for using the par value method. During the year ended March 26, 2016, Monro's Chief Executive Officer surrendered 32,000 shares of Monro's Common Stock at fair market value to pay the exercise price and the related taxes on the exercise of 89,000 stock options. Additionally, Monro's Executive Chairman surrendered 100,000 shares of Common Stock at fair market value to pay the exercise price and to satisfy tax withholding obligations on the exercise of 150,000 stock options. During the year ended March 28, 2015, Monro's Chief Executive Officer surrendered 77,000 shares of Monro's Common Stock at fair market value to pay the exercise price on the exercise of 113,000 stock options. There was no activity for the Chief Executive Officer or Executive Chairman during the year ended March 29, 2014.

Stock-based compensation

We measure compensation cost arising from the grant of share-based payments to an employee at fair value, and recognize such cost in income over the period during which the employee is required to provide service in exchange for the award, usually the vesting period. Forfeitures are estimated on the grant date and revised in subsequent periods if actual forfeitures differ from those estimates.

We recognize compensation expense related to stock options using the straight-line approach. Option awards generally vest equally over the service period established in the award, typically four years. We estimate fair value using the Black-Scholes valuation model. Assumptions used to estimate the compensation expense are determined as follows:

· Expected life of an award is based on historical experience and on the terms and conditions of the stock awards granted to employees;

· Expected volatility is measured using historical changes in the market price of Monro's Common Stock;

· Risk-free interest rate is equivalent to the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards;

· Forfeitures are based substantially on the history of cancellations of similar awards granted by Monro in prior years; and

· Dividend yield is based on historical experience and expected future changes.

The weighted average fair value of options granted during fiscal 2016, 2015 and 2014 was $13.10, $11.27 and $10.10, respectively. The fair values of the options granted were estimated on the date of their grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended Fiscal March		
	2016	2015	2014
Risk-free interest rate	1.25 %	1.23 %	.86 %
Expected life, in years	4	4	4
Expected volatility	27.2 %	27.7 %	29.7 %
Expected dividend yield	.96 %	.99 %	.97 %

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Total stock-based compensation expense included in cost of sales and selling, general and administrative expenses in Monro's Consolidated Statements of Comprehensive Income for the years ended March 26, 2016, March 28, 2015 and March 29, 2014 was $2.8 million, $3.3 million and $3.6 million, respectively. The related income tax benefit was $1.0 million, $1.2 million and $1.3 million, respectively.

Earnings per share

Basic earnings per share is calculated by dividing net income less preferred stock dividends by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of Common Stock and equivalents outstanding during the year. Common Stock equivalents represent shares issuable upon the assumed exercise of stock options. (See Note 10.)

Advertising

We expense the production costs of advertising the first time the advertising takes place, except for direct response advertising which is capitalized and amortized over its expected period of future benefits.

Direct response advertising consists primarily of coupons for Monro's services. The capitalized costs of this advertising are amortized over the period of the coupon's validity, which is typically two months.

Prepaid advertising at March 26, 2016 and March 28, 2015, and advertising expense for the years ended March 2016, 2015 and 2014, were not material to these financial statements.

Vendor rebates and cooperative advertising credits

We account for vendor rebates and cooperative advertising credits as a reduction of the cost of products purchased, except where the rebate or credit is a reimbursement of costs incurred to sell the vendor's product, in which case it is offset against the costs incurred.

Guarantees

At the time we issue a guarantee, we recognize an initial liability for the fair value, or market value, of the obligation we assume under that guarantee. Monro has guaranteed certain lease payments, primarily related to franchisees, amounting to $10.4 million. This amount represents the maximum potential amount of future payments under the guarantees as of March 26, 2016. The leases are guaranteed through April 2020. In the event of default by the franchise owner, Monro generally retains the right to assume the lease of the related store, enabling Monro to re-franchise the location or to operate that location as a Company-operated store. As of March 26, 2016, and in conjunction with purchase accounting, we have recorded a liability of $.7 million related to anticipated defaults under the foregoing leases.

Recent accounting pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for the reporting of revenue from contracts with customers. This guidance provides guidelines a company will apply to determine the measurement of revenue and timing of when it is recognized. In March 2016, the FASB finalized its amendments to this guidance on assessing whether an entity is a principal or an agent in a revenue transaction. The amendment provides clarification on principal versus agent considerations by providing indicators that suggest control. The guidance impacts whether an entity records revenue on a gross versus net basis. In August 2015, the FASB delayed the effective date of the guidance to fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption is permitted, but not before the original effective date for public entities. We are currently evaluating the potential effect of the adoption of this guidance on our Consolidated Financial Statements.

In April 2015, the FASB issued new accounting guidance related to the presentation of debt issuance costs. This guidance requires debt issuance costs related to a recognized debt liability to be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. These costs will continue to be amortized to interest expense using the effective interest method. This pronouncement is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. Retrospective adoption is required. In September 2015, the FASB issued guidance clarifying that debt issuance costs related to revolver and line of credit arrangements can be recorded as an asset and amortized over the term of the arrangement, which is consistent with Monro's current presentation. This guidance did not have a material effect on our Consolidated Financial Statements.

In April 2015, the FASB issued new accounting guidance related to the measurement date of an employer's defined benefit obligation and plan assets. This guidance permits a reporting entity with a fiscal year-end that does not coincide with a month-end to measure defined benefit plan assets and obligations using the month-end that is closest to the entity's fiscal year-end and apply that practical expedient consistently from year to year. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. The new guidance is consistent with Monro's current presentation. This guidance did not have a material impact on our Consolidated Financial Statements.

In July 2015, the FASB issued new accounting guidance for the reporting of inventory. This guidance requires that inventory within the scope of the guidance be measured at the lower of cost and net realizable value. This guidance is effective for fiscal years beginning after December 15, 2016, with early adoption permitted. We have elected early adoption of this guidance during the fourth quarter of fiscal 2016. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In September 2015, the FASB issued new accounting guidance that is intended to simplify the accounting for adjustments made to provisional amounts recognized in a business combination by eliminating the requirement to retrospectively account for those adjustments. This guidance requires an entity to present separately on the face of the income statement or disclose in the notes the amount recorded in current period earnings by line item that would have been recorded in previous reporting periods if the adjustment to the provisional amounts had been recognized as of the acquisition date. This guidance is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. We have adopted this guidance during the fourth quarter of fiscal 2016. Adoption of this guidance did not have a material effect on our Consolidated Financial Statements.

In November 2015, the FASB issued new accounting guidance related to the balance sheet classification of deferred taxes. This guidance will require that deferred tax assets and liabilities be classified as noncurrent in a classified balance sheet. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016, with early adoption permitted. We have elected early adoption of this guidance during the fourth quarter of fiscal 2016, utilizing retrospective application as permitted. As a result, we have presented all net deferred tax assets and liabilities as noncurrent on our consolidated balance sheet as of March 26, 2016 and March 28, 2015. For the classified balance sheet as of March 28, 2015, we have reclassified current deferred tax assets of $13,942,000 as noncurrent deferred tax assets.

In February 2016, the FASB issued new accounting guidance related to leases. This guidance establishes a right of use (ROU) model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. The standard is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. Early adoption is permitted. We are currently evaluating the effect of the adoption of this guidance on our Consolidated Financial Statements.

In March 2016, the FASB issued new accounting guidance intended to simplify various aspects related to accounting for share-based payments and their presentation in the financial statements. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

Other recent authoritative guidance issued by the FASB (including technical corrections to the Accounting Standards Codification) and the Securities and Exchange Commission did not, or are not expected to have a material effect on our Consolidated Financial Statements.

NOTE 2 – ACQUISITIONS

Monro’s acquisitions are strategic moves in our plan to fill in and expand our presence in our existing and contiguous markets, and leverage fixed operating costs such as distribution and advertising.

Subsequent Events

On May 1, 2016, we acquired 29 retail/commercial tire and automotive repair stores and one retread plant located in Florida from McGee Tire Stores, Inc. These stores will operate primarily under The Tire Choice name. The acquisition was financed through our existing credit facility.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

Fiscal 2016

During fiscal 2016, we acquired the following businesses for an aggregate purchase price of $51.1 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in Monro's financial results from the respective acquisition dates.

- During fiscal 2016, we acquired three retail tire and automotive repair stores located in Illinois and Indiana from two former Car-X franchisees. These stores operate under the Car-X name.

- On January 31, 2016, we acquired one retail tire and automotive repair store located in Georgia from Marietta Tire & Service, Inc. This store operates under the Mr. Tire name.

- On December 13, 2015, we acquired four retail tire and automotive repair stores located in Wisconsin from McMar, Inc., a former Car-X franchisee. These stores operate under the Car-X name.

- On December 13, 2015, we acquired one retail tire and automotive repair store located in Florida from Host Tires of Lakeland, Inc. This store operates under The Tire Choice name.

- On August 16, 2015, we acquired 27 retail tire and automotive repair stores located in New York and Pennsylvania from Kost Tire. These stores operate under the Mr. Tire name.

- On July 12, 2015, we acquired four retail tire and automotive repair stores located in Massachusetts from Windsor Tire Co., Inc. These stores operate under the Monro Brake & Tire name.

- On April 25, 2015, we acquired the Car-X Brand, as well as the franchise rights for 146 auto service centers from Car-X Associates Corp., a subsidiary of Tuffy Associates Corp. At the time of acquisition, the Car-X stores were owned and operated by 32 independent Car-X franchisees in Illinois, Indiana, Iowa, Kentucky, Minnesota, Missouri, Ohio, Tennessee, Texas and Wisconsin. The franchise locations operate under the Car-X name. Monro operates as the franchisor through a standard royalty agreement, while Car-X remains a separate and independent brand and business through Car-X, LLC, Monro's wholly-owned subsidiary, with franchise operations based in Illinois.

These acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining these businesses with ours, and unidentifiable intangible assets. All of the goodwill is expected to be deductible for tax purposes. We have recorded finite-lived intangible assets at their estimated fair value related to customer relationships, trade name, franchise agreements and favorable leases.

We expensed all costs related to acquisitions during fiscal 2016. The total costs related to completed acquisitions were $.7 million for the year ended March 26, 2016. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales, including franchise royalty income, and net income for the fiscal 2016 acquired entities totaled $24.8 million and approximately $1.4 million, respectively, for the period from acquisition date through March 26, 2016.

Supplemental pro forma information for the current or prior reporting periods has not been presented due to the impracticability of obtaining detailed, accurate or reliable data for the periods the acquired entities were not owned by Monro.

The preliminary fair values of identifiable assets acquired and liabilities assumed were based on preliminary valuation data and estimates. The excess of the net purchase price over the net tangible and intangible assets acquired was recorded as goodwill. The preliminary allocation of the aggregate purchase price as of March 26, 2016 was as follows:

	As of Acquisition Date (Dollars in thousands)
Trade receivables	$ 263
Inventories	922
Other current assets	502
Property, plant and equipment	11,177
Intangible assets	11,270
Other non-current assets	24
Long-term deferred income tax assets	5,465
Total assets acquired	29,623
Warranty reserves	162
Other current liabilities	1,617
Long-term capital leases and financing obligations	22,142
Other long-term liabilities	845
Total liabilities assumed	24,766
Total net identifiable assets acquired	$ 4,857
Total consideration transferred	$ 51,104
Less: total net identifiable assets acquired	4,857
Goodwill	$ 46,247

The total consideration of $51.1 million is comprised of $45.1 million in cash, and a $6.0 million payable to a seller. The payable is being liquidated via equal monthly payments through August 2022.

The following are the intangible assets acquired and their respective fair values and weighted average useful lives.

	As of Acquisition Date	
	Dollars in thousands	Weighted Average Useful Life
Franchise agreements	$ 7,200	18 years
Trade name	2,100	15 years
Favorable leases	1,281	15 years
Customer lists	689	7 years
Total	$ 11,270	16 years

We continue to refine the valuation data and estimates related to road hazard warranty, intangible assets, real estate and real property leases for the fiscal 2016 acquisitions and expect to complete the valuations no later than the first anniversary date of the respective acquisition. We anticipate that adjustments will continue to be made to the fair values of identifiable assets acquired and liabilities assumed and those adjustments may or may not be material.

Fiscal 2015

During fiscal 2015, we acquired the following businesses for an aggregate purchase price of $87.5 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in Monro’s financial results from the respective acquisition dates.

- On March 1, 2015, we acquired eight retail tire and automotive repair stores located in Florida from Martino Tire Stores. These stores operate under The Tire Choice name.

- On December 7, 2014, we acquired nine retail tire and automotive repair stores located in Florida from Gold Coast Tire & Auto Centers. These stores operate under The Tire Choice name.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

- During July and December 2014 and March 2015, we acquired five retail tire and automotive repair stores located in New York, Georgia and New Jersey through five separate transactions. These stores operate under the Mr. Tire name.

- On September 28, 2014, we acquired nine retail tire and automotive repair stores located in Georgia from Wood & Fullerton Stores, LLC. These stores operate under the Mr. Tire name.

- On August 8, 2014, we acquired 35 retail tire and automotive repair stores located in Florida from Hennelly Tire & Auto, Inc. These stores operate under The Tire Choice name.

- On June 15, 2014, we acquired ten and nine retail tire and automotive repair stores located in Michigan from Lentz U.S.A. Service Centers, Inc. and Kan Rock Tire Company, Inc., respectively. Two of the acquired stores were never opened. These stores operate under the Monro Brake & Tire name.

- On April 13, 2014, we acquired two retail tire and automotive repair stores located in New Hampshire from Bald Tire & Auto, Inc. These stores were previously Tire Warehouse franchise locations and continue to operate under the Tire Warehouse name.

These acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining these businesses with ours, and unidentifiable intangible assets. All of the goodwill is expected to be deductible for tax purposes. We have recorded finite-lived intangible assets at their estimated fair value related to customer relationships, trade name and favorable leases.

We expensed all costs related to acquisitions during fiscal 2015. The total costs related to completed acquisitions were $1.1 million for the year ended March 28, 2015. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales and net income for the fiscal 2015 acquired entities totaled $52.2 million and approximately $.5 million, respectively, for the period from acquisition date through March 28, 2015.

Supplemental pro forma information for the current or prior reporting periods has not been presented due to the impracticability of obtaining detailed, accurate or reliable data for the periods the acquired entities were not owned by

Monro.

We finalized the purchase accounting relative to the fiscal 2015 acquisitions during fiscal 2016. As a result of the final purchase price allocations, certain of the fair value amounts previously estimated were adjusted during the measurement period. These measurement period adjustments related to updated valuation reports and appraisals received from our external valuation specialists, as well as revisions to internal estimates. The changes in estimates recorded in fiscal 2016 include an increase in property, plant and equipment of $4.1 million; a decrease in intangible assets of $.6 million; an increase in the long-term deferred income tax assets of $2.3 million; an increase in other current assets of $.4 million; an increase in the current portion of capital leases and financing obligations of $.8 million; an increase in long-term capital leases and financing obligations of $9.5 million; and an increase in other liabilities of $.2 million. The measurement period adjustments resulted in an increase to goodwill of $4.3 million.

These adjustments were not material to the Consolidated Statements of Comprehensive Income for the years ended March 26, 2016 and March 28, 2015.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

We have recorded the identifiable assets acquired and liabilities assumed at their fair values as of their respective acquisition dates (including any measurement period adjustments), with the remainder recorded as goodwill as follows:

	As of Acquisition Date (Dollars in thousands)
Inventories	$ 5,588
Other current assets	567
Property, plant and equipment	35,355
Intangible assets	8,608
Other non-current assets	129
Long-term deferred income tax assets	17,649
Total assets acquired	67,896
Warranty reserves	990
Other current liabilities	3,719
Long-term capital leases and financing obligations	57,292
Other long-term liabilities	1,703
Total liabilities assumed	63,704
Total net identifiable assets acquired	$ 4,192
Total consideration transferred	$ 87,451
Plus: gain on bargain purchase	383
Less: total net identifiable assets acquired	4,192
Goodwill	$ 83,642

The following are the intangible assets acquired and their respective fair values and weighted average useful lives.

As of Acquisition Date

	Dollars in thousands	Weighted Average Useful Life
Trade name	$ 1,900	10 years
Favorable leases	4,482	14 years
Customer lists	2,226	7 years
Total	$ 8,608	11 years

NOTE 3 – OTHER CURRENT ASSETS

The composition of other current assets is as follows:

	Year Ended Fiscal March	
	2016	2015
	(Dollars in thousands)	
Vendor rebates receivable	$ 11,984	$ 10,530
Other	16,690	10,794
	$ 28,674	$ 21,324

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 4 – PROPERTY, PLANT AND EQUIPMENT

The major classifications of property, plant and equipment are as follows:

	March 26, 2016			March 28, 2015		
	Assets Owned	Assets Under Capital Lease/ Financing Obligations	Total	Assets Owned	Assets Under Capital Lease/ Financing Obligations	Total
	(Dollars in thousands)					
Land	$ 80,195		$ 80,195	$ 77,499		$ 77,499
Buildings and improvements	212,421	$ 112,969	325,390	204,523	$ 89,148	293,671
Equipment, signage and fixtures	208,204		208,204	196,039		196,039
Vehicles	23,608		23,608	21,803		21,803
Construction-in-progress	2,539		2,539	3,194		3,194
	526,967	112,969	639,936	503,058	89,148	592,206
Less - Accumulated depreciation and amortization	258,516	29,838	288,354	239,474	25,980	265,454
	$ 268,451	$ 83,131	$ 351,582	$ 263,584	$ 63,168	$ 326,752

Depreciation expense totaled $36.0 million, $32.1 million and $28.6 million for the fiscal years ended March 2016, 2015 and 2014, respectively.

Amortization expense recorded under capital leases and financing obligations and included in depreciation expense above totaled $7.5 million, $5.7 million and $5.2 million for the fiscal years ended March 2016, 2015 and 2014, respectively.

NOTE 5 – GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during fiscal 2016 and 2015 were as follows:

	Dollars in thousands
Balance at March 29, 2014	$ 270,039
Fiscal 2015 acquisitions	79,316
Adjustments to fiscal 2014 purchase accounting	(267)
Balance at March 28, 2015	349,088
Fiscal 2016 acquisitions	46,247
Adjustments to fiscal 2015 purchase accounting	4,326
Other adjustments	471
Balance at March 26, 2016	$ 400,132

In fiscal 2016, the other adjustments relate to an immaterial correction of an out of period error related to the lease liability for a fiscal 2013 acquisition.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The composition of other intangible assets is as follows:

	Year Ended Fiscal March			
	2016		2015	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
	(Dollars in thousands)			
Customer lists	$ 22,490	$ 13,283	$ 23,648	$ 11,024
Favorable leases	18,418	5,996	15,074	4,925
Trade names	18,002	6,960	17,550	5,791
Franchise agreements	7,320	487	120	120
Other intangible assets	540	524	540	517
Total intangible assets	$ 66,770	$ 27,250	$ 56,932	$ 22,377

Monro’s intangible assets are being amortized over their estimated useful lives. The weighted average useful lives of Monro’s intangible assets are approximately nine years for customer lists, 14 years for favorable leases, 14 years for trade names, 18 years for franchise agreements and five years for other intangible assets.

Amortization of intangible assets, excluding amortization of favorable leases included in rent expense, during fiscal 2016, 2015 and 2014 totaled $3.8 million, $3.6 million and $3.1 million, respectively.

Estimated future amortization of intangible assets is as follows:

Customer
lists/

Year Ending Fiscal March	Trade names/ Franchise agreements/ Other	Favorable Leases
	(Dollars in thousands)	
2017	$ 3,941	$ 1,320
2018	3,796	1,285
2019	3,495	1,247
2020	2,579	1,204
2021	1,860	1,139

NOTE 6 – LONG-TERM DEBT, CAPITAL LEASES AND FINANCING OBLIGATIONS

Long-term debt, capital leases and financing obligations consist of the following:

	March 26, 2016	March 28, 2015
	(Dollars in thousands)	
Revolving Credit Facility, LIBOR-based (a)	$ 103,315	$ 122,543
Long-term debt	$ 103,315	$ 122,543
Obligations under capital leases and financing obligations at various interest rates, due in installments through 2045	$ 176,974	$ 142,053
Less – Current portion of capital leases and financing obligations	(11,244)	(8,908)
Long-term capital leases and financing obligations	$ 165,730	$ 133,145

(a) The London Interbank Offered Rate (LIBOR) at March 26, 2016 was .43%.

In June 2011, we entered into a five-year, $175 million Revolving Credit Facility agreement with seven banks. This Revolving Credit Facility also provided an accordion feature permitting us to request an increase in availability of up to an additional $75 million.

In December 2012, the Revolving Credit Facility was amended to include the following: the committed sum was increased by $75 million to $250 million; the term was extended for another one and a half years, such that the Revolving Credit Facility was to expire in December 2017; and the $75 million accordion feature was maintained. There were no other changes in terms including those related to covenants or interest rates.

On January 25, 2016, we entered into a new five-year $600 million Revolving Credit Facility agreement with nine banks (the "Credit Facility"). Interest only is payable monthly throughout the Credit Facility's term. The Credit Facility increases our current borrowing capacity from our prior financing agreement by $350 million to $600 million, and includes an accordion feature permitting us to request an increase in availability of up to an additional $100 million, an increase of $25 million from our prior financing agreement. The expanded facility bears interest at 75 to 175 basis points over LIBOR. The Credit Facility requires fees payable quarterly throughout the term between .15% and .35% of the amount of the average net availability under the Credit Facility during the preceding quarter. There was $103.3 million outstanding under the Credit Facility at March 26, 2016. We were in compliance with all debt covenants as of March 26, 2016.

At March 26, 2016 and March 28, 2015, the interest rate spread paid by the Company was 100 and 125 basis points over LIBOR, respectively.

Within the Credit Facility, we have a sub-facility of $80 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 87.5 to 187.5 basis points over LIBOR annually of the face amount of each standby letter of credit, payable quarterly in arrears. There was $23.7 million in an outstanding letter of credit at March 26, 2016.

The net availability under the Credit Facility at March 26, 2016 was $473.0 million.

Specific terms of the Credit Facility permit the payment of cash dividends not to exceed 50% of the prior year's net income, and permit mortgages and specific lease financing arrangements with other parties with certain limitations. Other specific terms and the maintenance of specified ratios are generally consistent with our prior financing agreement. Additionally, the Credit Facility is not secured by our real property, although we have agreed not to encumber our real property, with certain permissible exceptions.

Long-term debt had a carrying amount and a fair value of $103.3 million as of March 26, 2016, as compared to a carrying amount and a fair value of $122.5 million as of March 28, 2015. The fair value of long-term debt was estimated based on discounted cash flow analyses using either quoted market prices for the same or similar issues, or the current interest rates offered to Monro for debt with similar maturities.

In addition, we have financed certain store properties and vehicles with capital leases/financing obligations, which amount to $177.0 million and are due in installments through 2045.

During fiscal 1995, Monro purchased 12.7 acres of land for $.7 million from the City of Rochester, New York, on which its office/warehouse facility is located. The City had provided financing for 100% of the cost of the land via a 20-year non-amortizing, non-interest bearing mortgage. The mortgage was paid in full in fiscal 2015.

Aggregate debt maturities over the next five years are as follows:

	Capital Leases/ Financing Obligations			
Year Ending Fiscal March	Aggregate Amount	Imputed Interest	All Other Debt	Total
	(Dollars in thousands)			
2017	$ 24,042	$ (12,798)		$ 11,244
2018	24,279	(12,042)		12,237
2019	24,289	(11,198)		13,091
2020	24,197	(9,724)		14,473
2021	24,034	(9,189)	$ 103,315	118,160

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 7 – INCOME TAXES

The components of the provision for income taxes are as follows:

	Year Ended Fiscal March		
	2016	2015	2014
	(Dollars in thousands)		
Current -			
Federal	$ 29,202	$ 28,262	$ 25,978
State	2,825	2,956	1,579
	32,027	31,218	27,557
Deferred -			
Federal	6,216	6,194	4,793
State	373	144	(273)
	6,589	6,338	4,520
Total	$ 38,616	$ 37,556	$ 32,077

Deferred tax (liabilities) assets consist of the following:

	March 26, 2016	March 28, 2015
	(Dollars in thousands)	
Goodwill	$ (31,075)	$ (24,167)
Other	(981)	(939)
Total deferred tax liabilities	(32,056)	(25,106)
Property and equipment	28,085	20,592
Insurance reserves	11,626	10,813
Warranty and other reserves	4,671	4,538

Stock options	3,040	3,729
Other	9,989	9,544
Total deferred tax assets	57,411	49,216
Net deferred tax assets	$ 25,355	$ 24,110

We have $4.3 million of state net operating loss carryforwards available as of March 26, 2016. The carryforwards expire in varying amounts through 2036. Based on all available evidence, we have determined that it is more likely than not that sufficient taxable income of the appropriate character within the carryforward period will exist for the realization of the tax benefits on existing state net operating loss carryforwards.

We believe it is more likely than not that all other future tax benefits will be realized as a result of current and future income.

A reconciliation between the U. S. federal statutory tax rate and the effective tax rate reflected in the accompanying financial statements is as follows:

	Year Ended Fiscal March					
	2016		2015		2014	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Federal income tax based on statutory tax rate applied to income before taxes	$ 36,897	35.0	$ 34,774	35.0	$ 30,287	35.0
State income tax, net of federal income tax benefit	2,306	2.2	2,170	2.2	2,097	2.4
Other	(587)	(0.6)	612	0.6	(307)	(0.3)
	$ 38,616	36.6	$ 37,556	37.8	$ 32,077	37.1

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following is a rollforward of Monro's liability for income taxes associated with unrecognized tax benefits:

	Dollars in thousands
Balance at March 30, 2013	$ 5,704
Tax positions related to current year:	
Additions	1,678
Reductions	
Tax positions related to prior years:	
Additions	
Reductions	(88)
Settlements	(381)
Lapses in statutes of limitations	(1,013)
Balance at March 29, 2014	5,900
Tax positions related to current year:	
Additions	2,066
Reductions	
Tax positions related to prior years:	
Additions	164
Reductions	33
Settlements	
Lapses in statutes of limitations	(668)
Balance at March 28, 2015	7,495
Tax positions related to current year:	
Additions	1,116
Reductions	
Tax positions related to prior years:	
Additions	
Reductions	(922)
Settlements	
Lapses in statutes of limitations	(760)
Balance at March 26, 2016	$ 6,929

The total amount of unrecognized tax benefits was $6.9 million at March 26, 2016, the majority of which, if recognized, would affect the effective tax rate.

In the normal course of business, Monro provides for uncertain tax positions and the related interest and penalties, and adjusts its unrecognized tax benefits and accrued interest and penalties accordingly. During the year ended March 28, 2015, we recognized interest and penalties of approximately $.1 million, in income tax expense; and during the year ended March 29, 2014, we recorded a benefit from the reversal of accrued interest and penalties of approximately $.1 million in income tax expense. Additionally, we had approximately $.4 million of interest and penalties associated with uncertain tax benefits accrued as of March 26, 2016 and March 28, 2015.

We file U.S. federal income tax returns and income tax returns in various state jurisdictions. Monro's fiscal 2013 through 2015 U.S. federal tax years and various state tax years remain subject to income tax examinations by tax authorities.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

NOTE 8 – STOCK OWNERSHIP

A summary of the changes in the number of shares of Common Stock, Class C preferred stock and treasury stock is as follows:

	Common Stock Shares Issued	Class C Convertible Preferred Stock Shares Issued	Treasury Stock Shares
Balance at March 30, 2013	37,327,967	32,500	6,073,836
Stock options exercised	239,935		3,115
Balance at March 29, 2014	37,567,902	32,500	6,076,951
Stock options exercised	439,635		103,538
Balance at March 28, 2015	38,007,537	32,500	6,180,489
Stock options exercised	549,141		136,163
Balance at March 26, 2016	38,556,678	32,500	6,316,652

Holders of at least 60% of the Class C preferred stock must approve any action authorized by the holders of Common Stock. In addition, there are certain restrictions on the transferability of shares of Class C preferred stock. In the event of a liquidation, dissolution or winding-up of Monro, the holders of the Class C preferred stock would be entitled to receive $1.50 per share out of the assets of Monro before any amount would be paid to holders of Common Stock. The conversion value of the Class C convertible preferred stock was $.064 per share at March 26, 2016 and March 28, 2015.

NOTE 9 – SHARE BASED COMPENSATION

Monro currently grants stock option awards under the 2007 Incentive Stock Option Plan (the "2007 Plan"). The 2007 Plan was authorized by the Board of Directors in June 2007, initially reserving 873,000 shares (as retroactively adjusted for stock splits) of Common Stock for issuance to eligible employees and all non-employee directors. The

2007 Plan was approved by shareholders in August 2007. Prior to fiscal 2008, Monro had options outstanding under three other stock option plans: the 1994 Non-Employee Directors Stock Option Plan (the “1994 Plan”) (which was approved by shareholders in August 1995); the 1998 Incentive Stock Option Plan (the “1998 Plan”) (which was approved by shareholders in August 1999); and the 2003 Non-Employee Directors Stock Option Plan (the “2003 Plan”) (which was approved by shareholders in August 2003), collectively the “Prior Plans”. Upon shareholder approval of the 2007 Plan, all shares of Common Stock available for award under the 1998 and 2003 Plans were transferred to, and made available for award under the 2007 Plan. The 1994 Plan had no options available for grant upon adoption of the 2007 Plan. No further option grants may be made under the Prior Plans, although outstanding awards under the Prior Plans will remain outstanding in accordance with the terms of those plans and the stock option agreements entered into under those plans.

The 1994 Plan had a total of 675,345 common shares authorized for issuance; the 1998 Plan had a total of 4,016,250 shares authorized for issuance; and the 2003 Plan had a total of 315,000 shares authorized for issuance (all as retroactively adjusted for stock splits). Upon authorization of the 2007 Plan by shareholders, 628,620 shares (as retroactively adjusted for stock splits) were transferred from the 1998 and 2003 Plans into the 2007 Plan, bringing the total authorized shares to 1,501,620 (as retroactively adjusted for stock splits). In addition, in May 2013 and 2010, the Compensation Committee of the Board of Directors authorized an additional 2,000,000 and 1,500,000 shares (as retroactively adjusted for stock splits), respectively, of common stock for grant under the 2007 Plan, which were approved by shareholders in August 2013 and August 2010, respectively. At March 26, 2016, there was a total of 5,001,620 shares authorized for grant under the 2007 Plan (as retroactively adjusted for stock splits), including the shares transferred from the 1998 and 2003 Plans.

Generally, employee options vest over a four year period, and have a duration of six to ten years. Outstanding options are exercisable for various periods through March 2022.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

A summary of changes in outstanding stock options is as follows:

	Weighted Average Exercise Price	Options Outstanding
At March 30, 2013	$ 28.66	1,864,114
Granted	$ 45.38	181,400
Exercised	$ 18.73	(239,935)
Canceled	$ 35.48	(32,178)
At March 29, 2014	$ 31.58	1,773,401
Granted	$ 52.73	211,225
Exercised	$ 31.98	(439,635)
Canceled	$ 43.04	(26,661)
At March 28, 2015	$ 34.21	1,518,330
Granted	$ 62.28	243,410
Exercised	$ 29.59	(549,141)
Canceled	$ 50.69	(23,808)
At March 26, 2016	$ 41.75	1,188,791

The total shares exercisable at March 26, 2016, March 28, 2015 and March 29, 2014 was 789,422, 1,098,601 and 1,160,572, respectively. The weighted average exercise price of all shares exercisable at March 26, 2016 was $36.75. There were 1,743,429 shares available for grant at March 26, 2016.

The weighted average contractual term of all options outstanding at March 26, 2016 and March 28, 2015 was 3.0 years and 2.7 years, respectively. The aggregate intrinsic value of all options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) outstanding at March 26, 2016 and March 28, 2015 was $33.2 million and $46.7 million, respectively.

The weighted average contractual term of all options exercisable at March 26, 2016 and March 28, 2015 was 2.5 years and 2.2 years, respectively. The aggregate intrinsic value of all options exercisable at March 26, 2016 and March 28, 2015 was $26.0 million and $37.2 million, respectively.

A summary of the status of and changes in nonvested stock options granted is as follows:

	Options	Weighted Average Grant-Date Fair Value (per Option)
Non-vested at March 30, 2013	879,197	$ 8.52
Granted	181,400	$ 10.11
Vested	(417,743)	$ 8.66
Canceled	(30,025)	$ 8.90
Non-vested at March 29, 2014	612,829	$ 8.88
Granted	211,225	$ 11.27
Vested	(382,197)	$ 9.22
Canceled	(22,128)	$ 10.37
Non-vested at March 28, 2015	419,729	$ 9.70
Granted	243,410	$ 13.10
Vested	(242,841)	$ 10.38
Canceled	(20,929)	$ 10.18
Non-vested at March 26, 2016	399,369	$ 11.26

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS — (Continued)

The following table summarizes information about fixed stock options outstanding at March 26, 2016:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Under Option	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
\$11.76 - \$33.64	489,924	2.26	\$ 27.90	414,799	\$ 26.86
\$33.65 - \$44.46	204,877	1.92	\$ 39.57	177,217	\$ 39.61
\$44.47 - \$53.09	239,710	3.57	\$ 50.57	122,281	\$ 50.41
\$53.10 - \$79.76	254,280	4.88	\$ 61.89	75,125	\$ 62.33

During the fiscal years ended March 26, 2016, March 28, 2015 and March 29, 2014, the fair value of awards vested under Monro's stock plans was \$2.5 million, \$3.5 million and \$3.6 million, respectively.

The aggregate intrinsic value is based on Monro's closing stock price of \$69.68, \$64.96 and \$56.51 as of the last trading day of the periods ended March 26, 2016, March 28, 2015 and March 29, 2014, respectively. The aggregate intrinsic value of options exercised during the fiscal years ended March 26, 2016, March 28, 2015 and March 29, 2014 was \$22.3 million, \$10.3 million and \$7.4 million, respectively. As of March 26, 2016, there was \$3.3 million of unrecognized compensation expense related to non-vested fixed stock options that is expected to be recognized over a weighted average period of approximately two years.

Cash received from option exercises under all stock option plans was \$8.6 million, \$8.7 million and \$4.3 million for the fiscal years ended March 26, 2016, March 28, 2015 and March 29, 2014, respectively. The actual tax benefit realized for the tax deductions from option exercises was \$6.7 million, \$2.2 million and \$1.9 million for the fiscal years ended March 26, 2016, March 28, 2015 and March 29, 2014, respectively.

Monro issues new shares of Common Stock upon the exercise of stock options.

NOTE 10 – EARNINGS PER COMMON SHARE

The following is a reconciliation of basic and diluted earnings per common share for the respective years:

	Year Ended Fiscal March		
	2016	2015	2014
	(Amounts in thousands, except per share data)		
Numerator for earnings per common share calculation:			
Net Income	$ 66,805	$ 61,799	$ 54,459
Less: Preferred stock dividends	(456)	(395)	(334)
Income available to common stockholders	$ 66,349	$ 61,404	$ 54,125
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	32,026	31,605	31,394
Effect of dilutive securities:			
Preferred stock			