CHICOS FAS INC
Form 10-K
March 14, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended February 1, 2014

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

Commission file number: 001-16435

Chico s FAS, Inc.

(Exact name of registrant as specified in its charter)

Florida	**59-2389435**
(State or other jurisdiction of incorporation)	**(IRS Employer Identification No.)**
11215 Metro Parkway, Fort Myers, Florida	**33966**
(Address of principal executive offices)	**(Zip code)**

(239) 277-6200

(Registrant s telephone number)

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

Title of Class	**Name of Exchange on Which Registered**
Common Stock, Par Value $0.01 Per Share	**New York Stock Exchange**

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x 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 x

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x 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 smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer x	Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company ¨

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

State the aggregate market value of the voting and non-voting common equity held by non-affiliates of the registrant:

Approximately $2,743,000,000 as of August 3, 2013 (based upon the closing sales price reported by the NYSE and published in the Wall Street Journal on August 5, 2013).

Indicate the number of shares outstanding of each of the registrant s classes of common stock, as of the latest practicable date:

Common Stock, par value $.01 per share 153,099,840 shares as of March 7, 2014.

Documents incorporated by reference:

Part III Definitive Proxy Statement for the Company s Annual Meeting of Stockholders presently scheduled for June 26, 2014.

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CHICO S FAS, INC.

ANNUAL REPORT ON FORM 10-K

FOR THE

YEAR ENDED FEBRUARY 1, 2014

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PART I

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934, and are subject to risks, uncertainties, and other factors which could cause actual results to differ materially from those expressed or implied by such forward-looking statements. See Item 1A. Risk Factors.

ITEM 1. BUSINESS

Overview

Chico s FAS, Inc., is a cultivator of brands serving the lifestyle needs of fashion-savvy women 35 years and older. The Company s portfolio of brands currently consists of four brands: Chico s, White House | Black Market (WH|BM), Soma Intimates (Soma), and Boston Proper. Our omni-channel brands are all specialty retailers of private label women s apparel, accessories, and related products, which are available to customers in stores, through our websites and via telephone through our call centers for our catalogs. While each of our brands has a distinct customer base, the overall portfolio caters to a broad age and economic demographic, with customer ages from 35 and older and household incomes ranging from $50,000 to well over $100,000.

Since 1983, we have grown by offering high quality and unique merchandise, supported by compelling marketing and outstanding, personalized customer service. Since 2003, we have also grown by the acquisition or organic development of other specialty retail concepts and execution of our omni-channel capabilities.

As of February 1, 2014, we operated 1,472 stores across 48 states, the District of Columbia, Puerto Rico, the U.S. Virgin Islands and Canada. We also mail catalogs and operate e-commerce websites and call centers, which sell our merchandise nationally and internationally.

Our Brands

Chico s

The Chico s brand, which began operations in 1983, primarily sells exclusively designed, private branded clothing focusing on women 40 and over with a moderate to high income level. The styling is chic, unique, and charismatic with on-trend, expressive, one-of-a-kind designs created to illuminate the women wearing them. Using generally easy-care fabrics and frequent deliveries of new and distinctive designs, Chico s emphasizes a comfortable, relaxed fit in a modern style. Accessories such as handbags, belts, scarves and jewelry, including earrings, necklaces and bracelets are designed to coordinate with the clothing assortment, allowing customers to easily individualize their wardrobe selections. Chico s controls almost all aspects of the apparel design process, including choices of pattern, prints, construction, design specifications, fabric, finishes and color through in-house designers, purchased designs, and independent suppliers.

The distinctive nature of Chico s clothing is carried through to its sizing. Chico s uses international sizing, comprising of sizes 000, 00 (size 0-2), 0 (size 4-6), 1 (size 8-10), 2 (size 12-14), 3 (size 16-18), and 4 (size 20-22). Chico s will occasionally offer half-sizes (up to 4.5), one-size-fits-all, petite sizes, and small, medium and large sizing for some items. The relaxed nature of the clothing allows us to utilize this kind of sizing and thus offer a wide selection of clothing without having to invest in a large number of different sizes within a single style.

[1] As used in this report, all references to we, us, our, and the Company, refer to Chico s FAS, Inc., a Florida corporation, and all of its wholly-owned subsidiaries.

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White House | Black Market

The WH|BM brand, which began operations in 1985 and which we acquired in September 2003, primarily sells exclusively designed, private branded clothing focusing on women who are 35 years old and over with a moderate to high income level. WH|BM offers a uniquely feminine and affordable alternative to designer apparel, selling fashionable and sophisticated clothing and accessory items, from everyday basics, to wear-to-work, to elegant occasion, primarily in black and white and related shades with seasonal color splashes. The accessories at WH|BM, such as shoes, belts, scarves and jewelry, including earrings, necklaces and bracelets, are specifically designed to coordinate with the colors and patterns of the clothing, allowing customers to easily individualize their wardrobe selections. WH|BM controls almost all aspects of the apparel design process, including choices of pattern, prints, construction, design specifications, fabric, finishes and color through in-house designers, purchased designs, and independent suppliers.

WH|BM uses American sizes in the 00-14 range (with online sizes up to size 16), including petite sizing, which we believe is appropriate for the target WH|BM customer. The fit of the WH|BM clothing is tailored to complement the figure of a body-conscious woman, while still remaining comfortable.

Soma Intimates

The Soma brand, which began operations in 2004, primarily sells exclusively designed, private branded lingerie, loungewear and beauty products focusing on women who are 35 years old and over with a moderate to high income level. Soma offers trend-right, innovative and expertly fitted lingerie and loungewear, with designer quality at affordable prices. The lingerie category includes bras, panties, shapewear and sleepwear while the loungewear category includes relaxed tops, bottoms and dresses. Bras range in size from 32A-44G. The sleepwear and loungewear offerings utilize extra small to extra-extra large sizing. The beauty category consists of the Oh My Gorgeous line of fine fragrance perfumes. The Soma brand product offerings are developed by working closely with a small number of its independent suppliers to design proprietary products in-house and, in some cases, it includes designs provided by its independent suppliers under labels other than the Soma label.

Boston Proper

The Boston Proper brand, which began operations in 1992 and which we acquired in September 2011, primarily sells women s apparel and accessories, marketed to affluent women between 35-55 years old. Boston Proper is committed to and inspired by the women that they dress women who are fearlessly feminine, enviably chic and who possess the poise and confidence to wear it like no one else . The catalog and website reflect an aesthetic and feeling that is aspirational, exotic and uniquely personal.

Boston Proper uses American sizes ranging from extra-extra small to extra large for many of its offerings, sizes 0-18 and short, regular and long lengths for pants and denim jeans.

Our Business Strategy

Our overall growth strategy is focused on building and cultivating a portfolio of high-performing retail brands serving the fashion needs of women 35 years and older. In the near term, we are focused on increasing the sales volume and profitability of our existing brands. Over the long term, we may build our brand portfolio by considering the organic development or acquisition of other specialty retail concepts when our research indicates that the opportunity complements our current brands and is appropriate and in the best interest of the shareholders.

We pursue the growth of the brands in our portfolio by building our omni-channel capabilities, which includes integrating our expanding store base (where and when appropriate) with our growing online presence, executing innovative marketing plans, effectively leveraging expenses and optimizing the potential of each of our four brands. We have invested heavily in our omni-channel capabilities in order to allow customers to experience our brands, not a channel within our brands. In essence, we view our various sales channels as a single, integrated process rather than as separate sales channels operating independently. To that end, we often refer to our brands respective websites as our largest store within the brand.

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Under this integrated, omni-channel approach, we encourage our customers to take advantage of each of our sales channels in whatever way best fits their needs and we do not differentiate or promote any particular sales channel over another. Customers may shop our products through one channel and consummate the purchase through a different channel. Customers have the option to return merchandise to a store or to our Distribution Center, regardless of the channel used for purchase. We believe this omni-channel approach meets our customers expectations, enhances the customer experience, contributes to the overall success of our brands, reflects that our customers do not differentiate between channels, and is consistent with how we have planned and managed our business for the last several years. As a result, we maintain a shared inventory platform for our operations, allowing us to fulfill orders for all channels from our distribution center in Winder, Georgia. We also fulfill in-store orders directly from other stores or our distribution center and offer online and catalog customers the option to return items in our stores.

We seek to acquire and retain omni-channel customers through targeted and innovative marketing, including e-marketing, television, catalogs and mailers. We seek to optimize the potential of our brands with improved product offerings, which includes potential new merchandise opportunities and brand extensions that complement the current offerings, as well as our continued emphasis on our Most Amazing Personal Service standard.

To support this overall strategy and the associated increase in revenues and expenses, we have continued to invest in our business. This includes investments in our omni-channel capabilities and expansion of our store base domestically for all brands. We are also testing international expansion of the Chico s and WHIBM brands. We will analyze the results of these tests over time to determine the appropriate cadence of further international expansion, if appropriate.

Our Customer Service Model

Our customers deserve outstanding and personalized customer service, and we strive to achieve this through our trademark Most Amazing Personal Service standard. We believe this service model is one of our competitive advantages and a key to the success of our omni-channel approach. As a result, we give sales associates specialized training to help meet their customers fashion and wardrobe needs, including clothing and accessory style, color selection, coordination of complete outfits, and suggestions on different ways in which to wear the clothing and accessories. Our sales associates are encouraged to develop long-term relationships with their customers, to know their customers preferences, and to assist those customers in selecting merchandise best suited to their tastes and wardrobe needs.

We also serve our customers needs and build customer loyalty through our customer rewards programs. In fiscal 2014, the Company is updating its rewards programs for all brands, including introducing a Boston Proper rewards program. Our programs are designed to reward our most loyal customers and deliver an omni-channel shopping experience by leveraging the rich data our customers share with us to deliver a relevant and engaging experience with our brands.

Chico s and Soma. The Chico s and Soma customer rewards program is known as the Passport Club and is designed to encourage repeat sales and foster customer loyalty for both brands. A Chico s or Soma customer signs up to join the Passport Club at no cost, initially as a preliminary member. Features of the club include discounts, special promotions, invitations to private sales, and advance notice regarding new Chico s and Soma merchandise. In fiscal 2014, we plan to re-launch brand-specific rewards programs for Chico s and Soma.

WH|BM. In fiscal 2014, the WH|BM rewards program re-launched as WH|BM Rewards and includes tier-based discounts, special promotions, and invitations to private sales based on annual spend. These benefits will be continuously evaluated in conjunction with our overall customer relationship management and marketing activities to ensure they remain a compelling reason for customers to shop at the WH|BM brand.

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Our Boutiques and Outlet Stores

Our boutiques are located in upscale outdoor destination shopping areas, indoor shopping malls, and some standalone street-front locations. Boutique locations are determined on the basis of various factors, including, but not limited to: geographic and demographic characteristics of the market, the location of the shopping venue, including the site within the shopping center, proposed lease terms, anchor or other co-tenants in a location, parking accommodations and convenience. We believe that we are innovative in the way we execute our real estate strategy, including obtaining occupancy cost reductions and negotiating better lease terms.

Our outlet stores are located in quality outlet centers. The Chico s and WH|BM brand outlets contain a mixture of made-for-outlet and clearance merchandise. The made-for-outlet product carries a higher margin than the clearance items from our boutique stores. Soma outlets contain a mix of boutique and clearance merchandise. We also sell clearance merchandise on our websites. We regularly review the appropriate ratio of made-for-outlet and clearance merchandise for our outlets and will adjust that ratio as appropriate.

In fiscal 2014, we currently expect to open approximately 104-118 net new stores. We expect 22-26 net openings of Chico s stores, including store openings in Canada, 26-30 net openings of WH|BM stores, including store openings in Canada, 38-42 net openings of Soma stores, and 18-20 net openings of Boston Proper stores.

As of February 1, 2014, we operated 1,472 retail stores in 48 states, the District of Columbia, the U.S. Virgin Islands, Puerto Rico and Canada. The following tables set forth information concerning our retail stores during the past five fiscal years:

	Fiscal Year[2]				
Stores	**2013**	**2012**	**2011**	**2010**	**2009**
Stores at beginning of year	1,357	1,256	1,151	1,080	1,076
Opened	135	125	137	79	40
Closed	(20)	(24)	(32)	(8)	(36)
Total Stores	**1,472**	**1,357**	**1,256**	**1,151**	**1,080**

	Fiscal Year End				
Stores by Brand	**2013**	**2012**	**2011**	**2010**	**2009**
Chico s boutique	611	606	601	597	599
Chico s outlet	110	99	83	63	44
Chico s total	721	705	684	660	643
WH|BM boutique	436	398	364	342	333
WH|BM outlet	59	45	27	21	17
WH|BM Canada	3				
WH|BM total	498	443	391	363	350

Soma Intimates boutique	232	193	164	120	83
Soma Intimates outlet	17	16	17	8	4
Soma Intimates total	249	209	181	128	87
Boston Proper boutique	4				
Total Stores	**1,472**	**1,357**	**1,256**	**1,151**	**1,080**

[2] Our fiscal years end on the Saturday closest to January 31 and are designated by the calendar year in which the fiscal year commences. The periods presented in these financial statements are the fiscal years ended February 1, 2014 (fiscal 2013 , 2013 , or current period), February 2, 2013 (fiscal 2012 , 2012 , or prior period), January 2 (fiscal 2011 , or 2011), January 29, 2011 (fiscal 2010 , or 2010), and January 30, 2010 (fiscal 2009 , or 2009) these periods had 52 weeks, except for fiscal 2012, which consisted of 53 weeks.

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Our Websites

Each of our brands has its own dedicated website, www.chicos.com, www.whbm.com, www.soma.com, and www.bostonproper.com, which provide customers the ability to browse our offerings, locate our stores, and order merchandise online. Our websites are designed to complement the in-store experience we deliver and play a vital role in our omni-channel strategy. Some items are only available online, such as extended size offerings and some clearance items. Online merchandise is also available through our call centers. We offer domestic online customers the option to return items in our stores. For fiscal 2014, we will continue to focus on our omni-channel approach to retailing by enhancing website functionality to improve the customer s experience.

Our Catalogs

We currently mail a Chico s, WH|BM, Soma and Boston Proper catalog or mailer to current and prospective customers approximately every month. These catalogs are designed to educate our customers about our products, assist with new customer acquisition, drive customers to our stores and websites and promote catalog sales.

Catalog sales for each of our brands are made through our call centers or online.

Advertising and Promotion

Our marketing program currently consists of the following omni-channel components:

- Rewards programs;
- Direct marketing activities: direct mail, e-mail, and localized calling campaigns;
- E-marketing efforts: paid search, banner marketing, affiliates and search engine optimization;
- National print and broadcast advertising;
- Social marketing; and
- Outreach programs.

Over the last few years, we expanded our e-marketing efforts for our brands. We made significant investments in paid search with well-known internet search sites and appeared on banner ads on various high-traffic websites.

National print and broadcast advertising are key components of our marketing program and serve to drive traffic to our stores and websites as well as raise brand awareness for new customers.

Social marketing is another strategy by which we can actively engage with customers by offering them unique content including exclusive offers, sneak peeks into new collections, style advice, live chats and other special promotions. We believe that there is significant opportunity to innovate and grow our social marketing efforts, including the use of websites such as Facebook, Twitter and Pinterest.

Lastly, we place great value on customer outreach programs in the communities we serve. As part of these outreach programs, we encourage our managers and sales associates to become involved in community projects. We believe that these programs, in addition to helping build and support community and charitable activities, are also effective marketing vehicles in providing introductions to new customers.

Information Technology

We are committed to having information systems that enable us to obtain, analyze and act upon information on a timely basis and to maintain effective financial and operational controls. This effort includes testing of new products and applications so that we are able to take advantage of technological developments.

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Merchandise Distribution

The distribution functions for all brands are handled from our Distribution Center (DC) in Winder, Georgia. New merchandise is generally received daily at the DC. Imported merchandise is shipped from the country of export by truck, rail, sea or air, as the circumstances require. Domestic merchandise is shipped by rail or truck. All merchandise arrives at the DC by truck. After arrival, merchandise is sorted and packaged for shipment to individual stores or is held for future store replenishment or direct shipment to customers. Merchandise is generally pre-ticketed with price and related informational tags at the point of manufacture.

During fiscal 2012, we modified our existing DC configuration to better support our anticipated omni-channel growth and to more efficiently manage our inventories and fulfill customer orders. We believe these modifications position our DC in Winder to accommodate the needs of our business over the next several years.

In fiscal 2013, our DC was granted Foreign Trade Zone status from the Department of Commerce and U.S. Customs and Border Protection. This legally permits us to move certain merchandise to the DC without paying U.S. Customs duty until the merchandise is shipped to domestic stores or online customers and to avoid paying U.S. Customs duty on certain merchandise we export internationally.

Product Sourcing

All of our brands purchase a significant percentage of their clothing and accessories from companies that manufacture merchandise in foreign countries. We may take ownership in the foreign country, at a designated point of entry into the United States, or at our DC depending on the specific terms of the sale. Approximately 23% of total purchases in fiscal 2013 were made from one supplier, compared to 21% with the same supplier in fiscal 2012.

Most of our sourcing activities are performed by one shared service group. We believe that this single group, working in concert with our key supply chain partners, will deliver higher quality goods at a lower cost while providing the opportunity to lessen freight costs through consolidation. We believe that the decision to centralize our sourcing operations has helped us mitigate the impact of higher sourcing costs.

For all of our brands, we regularly evaluate where to have our goods manufactured. Beginning in fiscal 2010, in response to decreased capacity and cost of labor increases in China, we began transitioning to suppliers located in other countries. For fiscal 2013, China sources accounted for approximately 55% of our merchandise cost compared to approximately 60% in the prior fiscal year.

Competition

The women s retail apparel and intimate apparel business is highly competitive and includes local, national and international department stores, specialty stores, boutique stores, catalog companies, and online retailers. We believe that our distinctively designed merchandise offerings and emphasis on customer service distinguish us from other retailers. Many of these competitors have greater name recognition as well as certain of these competitors may have greater financial, marketing and other resources compared to us.

Trademarks and Service Marks

We are the owner of certain registered and common law trademarks and service marks (collectively referred to as Marks).

Marks registered in the United States include, but are not limited to: CHICO S, PASSPORT, ZENERGY, WHITE HOUSE BLACK MARKET, WORKKIT, SOMA, SOMA INTIMATES, VANISHING BACK, VANISHING EDGE, VANISHING TUMMY, COOL NIGHTS, OH MY GORGEOUS, PERFECT FORM, BOSTON PROPER and WEAR IT LIKE NO ONE ELSE. We have registered or are seeking to register a number of these Marks in certain foreign countries as well.

In the opinion of management, our rights in the Marks are important to our business. Accordingly, we intend to maintain our Marks and the related registrations and applications. We are not aware of any claims of infringement or other challenges to our rights to use any registered Marks in the United States or any other jurisdiction in which the Marks have been registered.

Available Information

Our investor relations website is located at www.chicosfas.com. Through this website, we make available free of charge our Securities and Exchange Commission (SEC) filings, including our Annual Report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, as soon as reasonably practicable after those reports are electronically filed with the SEC. This website also includes recent press releases, corporate governance information, beneficial ownership reports, institutional presentations, quarterly and institutional conference calls and other quarterly financial data, including historical store square footage.

Our Code of Ethics, which is applicable to all of our associates, including the principal executive officer, the principal financial officer and the Board of Directors, is posted on our investor relations website. Any amendments to or waivers from our Code of Ethics will also be available on this website. Copies of the charters of each of the Audit Committee, Compensation and Benefits Committee and Corporate Governance and Nominating Committee as well as the Corporate Governance Guidelines, Insider Trading Policy, Terms of Commitment to Ethical Sourcing, and Stock Ownership Guidelines are available on this website or in print upon written request by any shareholder.

Employees

As of February 1, 2014, we employed approximately 23,700 people, approximately 30% of whom were full-time associates and the balance of whom were part-time associates. The number of part-time associates fluctuates during peak selling periods. As of the above date, approximately 90% of our associates worked in our boutique and outlet stores. We have no collective bargaining agreements covering any of our associates, have never experienced any material labor disruption and are unaware of any efforts or plans to organize our associates. We currently contribute a significant portion of the cost of medical, dental and vision coverage for eligible associates and also maintain a 401(k) accompanied by an employer matching contribution percentage, stock incentive and stock purchase plans. All associates are also eligible to receive substantial discounts on our merchandise. We consider employee relations with our associates to be good.

ITEM 1A. RISK FACTORS

An investment in our common stock involves certain risks. The risks and uncertainties described below are not the only risks that may have a material adverse effect on the Company and the risks described herein are *not* listed in order of the likelihood that the risk might occur or the severity of the impact if the risk should occur**.** There can be no assurance that we have identified, assessed and appropriately addressed all risks affecting our business operations**.** Additional risks and uncertainties also could adversely affect our business and our results. If any of the following risks actually occur, our business, consolidated financial condition or results of operations could be negatively affected, and the market price for our shares could decline. Further, to the extent that any of the information contained in this Annual Report on Form 10-K constitutes forward-looking statements, the risk factors set forth below also are cautionary statements, identifying important factors that could cause the Company s actual results to differ materially from those expressed in any forward-looking statements made by or on behalf of the Company. There can also be no assurance that the actual future results, performance, benefits, or achievements that we expect from our strategies, systems, initiatives, or products will occur.

Risks Associated With Our Growth Strategy.

As noted on page 3, our overall growth strategy is focused on building and cultivating a portfolio of high performing retail brands serving women 35 years and older. If we cannot successfully execute our growth strategy, our consolidated financial condition and results of operations could be materially adversely impacted. There are numerous risks associated with this strategy including, but not limited to, the following:

Our ability to effectively implement and manage our growth strategy.

Our omni-channel growth strategy is dependent upon a number of factors, including: testing of new retail concepts and products, locating new boutique sites at suitable locations with the proper customer demographics, negotiating favorable lease terms, having the infrastructure necessary to support growth, sourcing sufficient levels of inventory, hiring and training qualified associates, generating sufficient operating cash flows to fund expansion plans, and maintaining brand specific websites that offer the system functionality and security customers expect.

Our ability to identify and develop new concepts, brand extensions and new markets.

One aspect of our growth strategy involves the strategic acquisition or organic development and growth of new concepts, brand extensions and new markets. Each of these involves risks such as the failure to achieve the results that we expect, significant capital expenditures, diversion of management s attention from operational matters, difficulties integrating operations and personnel, difficulties associated with the retention of key personnel, customer acceptance, competition, product differentiation, and challenges to economies of scale in merchandise sourcing.

Our ability to effectively manage the productivity of our stores, websites and catalogs.

There is no guarantee that any new store we open will have similar operating results to those of our existing stores. Depending on the brand, new stores may take three to four years to reach planned operating levels due to inefficiencies typically associated with new stores, including demands on operational, managerial and administrative resources, and some new stores may never reach planned operating levels. The failure of existing or new stores to perform as predicted could result in impairment of long-lived assets.

In addition, we maintain inventory levels for our stores, websites and catalogs that we anticipate will be in line with projected demand. Inventory levels in excess of customer demand may result in inventory write-downs or the sale of excess inventory at discounted or closeout prices. Conversely, if we underestimate consumer demand for our merchandise, particularly higher volume styles, or if our suppliers fail to supply quality products in a timely manner, we may experience inventory shortages, which might result in missed sales, negatively impact customer relationships, diminish brand loyalty and result in lost revenues.

Our ability to effectively locate new and existing stores.

We cannot control the availability or cost of appropriate locations within existing or new shopping centers or the success of individual shopping centers. Furthermore, factors beyond our control impact shopping centers, such as general economic conditions, weather conditions, consumer acceptance of new or existing shopping centers, regional demographic shifts, and consumer spending levels. Our store sales are dependent on a certain level of shopping center traffic and any large scale decline in shopping center traffic, whether because of a slowdown in the economy, a falloff in the popularity of shopping centers among our target customers, or otherwise, could have a material adverse effect on our business.

Our ability to anticipate and remain current with fashion trends and successfully introduce new products.

Our success is principally dependent upon our ability to gauge the fashion tastes of our customers and to provide merchandise that is on-trend and satisfies customer demand in a timely manner. The failure to anticipate, identify or react appropriately and in a timely manner to changes in fashion trends or demands, could lead to lower sales, missed opportunities, excess inventories and more frequent markdowns or inventory write-downs, as well as have a negative impact on our image and result in reduced brand loyalty.

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Our ability to successfully expand internationally.

We opened 3 WH|BM stores in Canada in fiscal 2013 and plan to open Chico s stores and additional WH|BM stores in Canada and Chico s franchises in Mexico in fiscal 2014. We have limited prior international store or franchise experience, where we face numerous operational obstacles, including already established competitors and new and different employment and labor, trade, product safety, transportation and logistics, health care, tax, privacy, and environmental issues, among other things. Furthermore, consumer demand, behavior, tastes, and purchasing trends may differ from our domestic operations and, as a result, sale of our merchandise may not be successful, or the margins on those sales may not be in line with those we currently anticipate. Our consolidated results of operations and financial condition may also be adversely affected by fluctuations in currency exchange rate. Any difficulties that we encounter as we expand our geographical coverage may divert financial, operational and managerial resources from our existing operations.

Risks Associated with General Economic Conditions.

Numerous economic, all of which are outside of our control, conditions could negatively affect the level of consumer spending on the merchandise that we offer. If these economic conditions persist for a sustained period, our consolidated financial condition and results of operations could be materially adversely impacted. These economic conditions include, but are not limited to, the following:

Conditions that lead to declines in consumer spending.

The following economic conditions are among the many that can lead to declines in consumer spending on our merchandise: threatened or actual government shut downs, higher unemployment levels, low levels of consumer credit, inflation, interest rates, recessionary pressures, increasing gas and other energy costs, taxation, decreasing housing prices, higher durable and other consumer spending, volatility in the financial markets, and low consumer confidence in future economic conditions.

Fluctuations in costs of goods, energy and/or commodity costs.

Fluctuations in the price, availability and quality of fabrics and other raw materials used to manufacture our products, as well as the price for labor and transportation have contributed to, and may continue to contribute to, ongoing pricing pressures throughout our supply chain. The price and availability of such inputs to the manufacturing process may fluctuate significantly, depending on several factors, including commodity costs, such as higher cotton prices, energy costs, such as fuel, shipping costs, inflationary pressures from emerging markets, increased labor costs, weather conditions and currency fluctuations.

Impairment charges.

Periodically, we review our long-lived assets for impairment whenever economic events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We also review our goodwill and intangible assets for indicators of impairment. Significant negative industry or general economic trends, changes in customer demand for our product, disruptions to our business and unexpected significant changes or planned changes in our operating results or use of long-lived assets (such as boutique relocations or discontinuing use of certain boutique fixtures) may result in impairments to goodwill, intangible assets and other long-lived assets.

Fluctuating comparable sales and overall operating results.

Our comparable sales and overall operating results have fluctuated in the past and are expected to continue to fluctuate in the future. A variety of factors affect comparable sales and operating results, including

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changes in fashion trends, changes in our merchandise mix, customer acceptance of merchandise offerings, timing of marketing activities, calendar shifts of holiday periods, the periodic impact of a fifty-three week fiscal year, actions by competitors, new boutique openings, new competitor activity, weather conditions, and general economic conditions. Past comparable sales or operating results are not an indicator of future results.

Risks Associated With Our Online and Catalog Operations.

Our online and catalog operations are subject to numerous risks that could materially adversely impact our consolidated financial condition and results of operations. These risks include, but are not limited to, the following:

Our websites rely on technology.

We sell merchandise over the Internet through each of our brands websites. Our websites are heavily dependent on technology, which creates numerous risks including unanticipated operating problems, system failures, rapid technological change, failure of the systems that operate the websites, reliance on third party computer hardware and software providers, computer viruses, telecommunication failures, liability for online content, systems and data breaches, denial of service attacks, spamming, phishing attacks, computer hackers and other similar disruptions. Our success is dependent on our ability to implement and maintain brand specific websites that offer the system functionality and security customers expect.

Our online and catalog operations rely on the U.S. Postal Service and other shipping vendors.

We use the U.S. Postal Service to mail millions of catalogs each year to educate our customers about our products, acquire new customers, drive customers to our boutiques and website and promote catalog sales. As a result, postal rate increases and paper and printing costs will affect the cost of our order fulfillment and catalog and promotional mailings. We rely on discounts from the basic postal rate structure, such as discounts for bulk mailings and sorting. The operational and financial difficulties of the U.S. Postal Service are well documented. Any significant and unanticipated increase in postage, reduction in postal service, or slow-down in postal delivery, or increases in paper and printing costs could impair our ability to deliver catalogs in a timely or economically efficient manner and also could adversely impact our earnings if we are unable to pass such increases directly on to our customers or if we are unable to implement more efficient printing, mailing, delivery and order fulfillment systems.

We also utilize additional shipping vendors, including Federal Express, to support our online operations. Any significant and unanticipated increase in shipping costs, reduction in service, or slow-down in delivery could impair our ability to deliver merchandise in a timely or economically efficient manner and also could adversely impact our earnings if we are unable to pass such increases directly on to our customers or if we are unable to implement more efficient delivery and order fulfillment systems.

Risks Associated with Our Information Technology Systems.

We rely on various information technology systems to manage our operations. Information technology systems are subject to numerous risks including unanticipated operating problems, system failures, rapid technological change, failure of the systems that operate as anticipated, reliance on third party computer hardware and software providers, computer viruses, telecommunication failures, data breaches, denial of service attacks, spamming, phishing attacks, computer hackers and other similar disruptions, any of which could materially adversely impact our consolidated financial condition and results of operations. Additional risks include, but are not limited to, the following:

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Disruptions in current systems or difficulties in integrating new systems.

We regularly maintain, upgrade, enhance or replace our information technology systems to support our business strategies and provide business continuity. Replacing legacy systems with successor systems, making changes to existing systems or acquiring new systems with new functionality have inherent risks including disruptions, delays, or difficulties that may impair the effectiveness of our information technology systems.

Cybersecurity.

Cybersecurity refers to the combination of technologies, processes, and procedures established to protect information technology systems and data from unauthorized access, attack, or damage. We are subject to cybersecurity risks. Our business involves the storage and transmission of customers personal information, shopping preferences and credit card information. While we have implemented measures to prevent security breaches and cyber incidents, our measures may not be effective and any security breaches and cyber incidents could have a material adverse effect on our business. Furthermore, the storage and transmission of such data is regulated at the international, federal, state and local levels. Privacy and information security laws and regulation changes, and compliance with those changes, may result in cost increases due to system changes and the development of new administrative processes. If we or our associates fail to comply with these laws and regulations or experience a data security breach, our reputation could be damaged, possibly resulting in lost future business, and we could be subjected to fines, penalties, administrative orders and other legal risks as a result of a breach or non-compliance.

Risks Associated With Our Sourcing and Distribution Strategies.

Our sourcing and distribution strategies are subject to numerous risks that could materially adversely impact our consolidated financial condition and results of operations. These risks include, but are not limited to, the following:

Our significant reliance on foreign sources of production.

The majority of our clothing and accessories are produced outside the United States. As a result, our business remains subject to the various risks of doing business in foreign markets and importing merchandise from abroad, such as: geo-political instability, the requirements of the Foreign Corrupt Practices Act, imposition of new legislation relating to import quotas that may limit the quantity of goods that may be imported into the United States from countries in which we do business, imposition of new or increased duties, taxes, and other charges on imports, foreign exchange rate challenges and pressures presented by implementation of U.S. monetary policy, local business practice and political issues, including issues relating to compliance with our Terms of Commitment to Ethical Sourcing and domestic or international labor standards, transportation disruptions, including port strikes, natural disasters, delays in the delivery of cargo due to port security considerations or government funding, and seizure or detention of goods by U.S. Customs authorities. In particular, we continue to source a substantial portion of our merchandise from China. A change in the Chinese exchange rate, other policies affecting labor laws or the costs of goods in China could negatively impact our merchandise costs.

We cannot predict whether or not any of the foreign countries in which our clothing and accessories are currently, or in the future may be produced, will be subject to import restrictions by the United States government, including the likelihood, type or effect of any trade retaliation. Trade restrictions, including increased tariffs, or more restrictive quotas, including safeguard quotas, or anything similar, applicable to apparel items could affect the importation of apparel generally and, in that event, could increase the cost, or reduce the supply, of apparel available to us.

In addition, the laws and customs protecting intellectual property rights in many foreign countries can be substantially different and potentially less protective of intellectual property than those in the United States. We have taken numerous steps to protect our intellectual property overseas, but cannot guarantee that such rights are not infringed. The intentional or unintentional infringement on our intellectual property rights by one of our suppliers or any other person or entity, could diminish the uniqueness of our products, tarnish our trademarks, or damage our reputation.

Our suppliers ability to provide quality goods in a timely manner.

We do not own or operate any manufacturing facilities and depend on independent third parties to manufacture our merchandise. We are subject to the risk that a key supplier may become unable to address our merchandising needs due to payment terms, cost of manufacturing, adequacy of manufacturing capacity, quality control, or timeliness of delivery. If we were unexpectedly required to change suppliers or if a key supplier was unable to supply acceptable merchandise in sufficient quantities on acceptable terms, we could experience a significant disruption in the supply of merchandise. We could also experience operational difficulties with our suppliers, such as reductions in the availability of production capacity, supply chain disruptions, errors in complying with merchandise specifications, insufficient quality control, shortages of fabrics or other raw materials, failures to meet production deadlines or increases in manufacturing costs.

Furthermore, many of our suppliers rely on working capital financing to support their operations. Although the credit market has improved, lenders have still maintained tightened credit standards and terms. To the extent any of our suppliers are unable to obtain adequate credit or their borrowing costs increase, we may experience delays in obtaining merchandise, our suppliers increasing their prices or our suppliers modifying payment terms in a manner that is unfavorable to us.

Our significant reliance upon one supplier.

We have no material long-term or exclusive contract with any apparel or accessory manufacturer or supplier. Our business depends on our network of suppliep;

160,322

133,145

Long-term debt

145,000

122,543

Accrued rent expense

5,266

5,342

Other long-term liabilities

19,002

14,458

Long-term income taxes payable

3,437

2,902

Total liabilities

488,906

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; 38,155,910 and 38,007,537 shares issued at September 26, 2015 and March 28, 2015, respectively

382

380

Treasury Stock, 6,184,885 and 6,180,489 shares at September 26, 2015 and March 28, 2015, respectively, at cost

(95,912)

(95,638)

Additional paid-in capital

168,791

160,880

Accumulated other comprehensive loss

(4,794)

(4,584)

Retained earnings

440,397

412,524

Total shareholders' equity

508,913

473,611

Total liabilities and shareholders' equity

$

997,819

$

907,794

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

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MONRO MUFFLER BRAKE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Quarter Ended Fiscal September		Six Months Ended Fiscal September	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Sales	$ 239,155	$ 221,299	$ 475,675	$ 438,806
Cost of sales, including distribution and occupancy costs	138,430	131,827	275,232	259,311
Gross profit	100,725	89,472	200,443	179,495
Operating, selling, general and administrative expenses	66,626	60,545	132,737	121,158
Operating income	34,099	28,927	67,706	58,337
Interest expense, net of interest income	3,758	2,772	7,150	4,908
Other income, net	(97)	(227)	(203)	(305)
Income before provision for income taxes	30,438	26,382	60,759	53,734
Provision for income taxes	11,566	10,052	23,088	20,472
Net income	18,872	16,330	37,671	33,262
Other comprehensive loss, net of tax:				
Changes in pension, net of tax benefit	(105)	(62)	(210)	(123)
Comprehensive income	$ 18,767	$ 16,268	$ 37,461	$ 33,139
Earnings per share:				
Basic	$ .59	$ .51	$ 1.17	$ 1.05
Diluted	$ .57	$ .50	$ 1.14	$ 1.01

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

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MONRO MUFFLER BRAKE, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Dollars and shares in thousands)

	Preferred Stock Shares	Amount	Common Stock Shares	Amount	Treasury Stock Shares	Amount	Additional Paid-in Capital	Accumulated Other Comprehensive Loss	Retained Earnings
Balance at March 28, 2015	33	$ 49	38,008	$ 380	6,180	$ (95,638)	$ 160,880	$ (4,584)	$ 412,524
Net income									37,671
Other comprehensive loss:									
Pension liability adjustment [($337) pre-tax]								(210)	
Cash dividends (1): Preferred									(228)
Common									(9,570)
Tax benefit from exercise of stock options							1,118		
Exercise of stock options			148	2	5	(274)	4,911		
Stock-based compensation							1,882		
Balance at September 26, 2015	33	$ 49	38,156	$ 382	6,185	$ (95,912)	$ 168,791	$ (4,794)	$ 440,397

(1) Represents first and second quarter fiscal year 2016 dividend payments of $.15 per common share or common share equivalent paid on June 11, 2015 and August 27, 2015, respectively.

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

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MONRO MUFFLER BRAKE, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

	Six Months Ended Fiscal September	
	2015	2014
	(Dollars in thousands) Increase (Decrease) in Cash	
Cash flows from operating activities:		
Net income	$ 37,671	$ 33,262
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	19,666	17,074
(Gain) loss on disposal of assets	(832)	354
Stock-based compensation expense	1,882	2,300
Excess tax benefits from share-based payment arrangements	(8)	(49)
Net change in deferred income taxes	693	542
Change in operating assets and liabilities (excluding acquisitions)		
Trade receivables	(1,661)	(420)
Inventories	(4,028)	(13,506)
Other current assets	(7,577)	(6,331)
Other non-current assets	(1,420)	95
Trade payables	(5,909)	17,647
Accrued expenses	4,058	1,415
Federal and state income taxes payable	3,067	2,717
Other long-term liabilities	(660)	(760)
Long-term income taxes payable	535	336
Total adjustments	7,806	21,414
Net cash provided by operating activities	45,477	54,676
Cash flows from investing activities:		
Capital expenditures	(19,501)	(18,720)
Acquisitions, net of cash acquired	(46,971)	(64,157)
Proceeds from the disposal of assets	2,437	172
Net cash used for investing activities	(64,035)	(82,705)
Cash flows from financing activities:		

Proceeds from borrowings	196,762	194,150
Principal payments on long-term debt, capital leases and financing obligations	(179,480)	(152,995)
Exercise of stock options	4,639	1,783
Excess tax benefits from share-based payment arrangements	8	49
Dividends paid	(9,798)	(8,400)
Net cash provided by financing activities	12,131	34,587
(Decrease) increase in cash	(6,427)	6,558
Cash at beginning of period	7,730	1,205
Cash at end of period	$ 1,303	$ 7,763

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

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MONRO MUFFLER BRAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Condensed Consolidated Financial Statements

The consolidated balance sheets as of September 26, 2015 and March 28, 2015, the consolidated statements of comprehensive income for the quarters and six months ended September 26, 2015 and September 27, 2014, the consolidated statement of changes in shareholders' equity for the six months ended September 26, 2015, and the consolidated statements of cash flows for the six months ended September 26, 2015 and September 27, 2014, include financial information for Monro Muffler Brake, Inc. and its wholly-owned subsidiaries, Monro Service Corporation and Car-X, LLC (collectively, "Monro", "we", "us", "our"). These unaudited, condensed consolidated financial statements have been prepared by Monro. We believe all known adjustments (consisting of normal recurring accruals or adjustments) have been made to fairly state the financial position, results of operations and cash flows for the unaudited periods presented.

Interim results are not necessarily indicative of results for a full year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The information included in this Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended March 28, 2015.

We report our results on a 52/53 week fiscal year with the fiscal year ending on the last Saturday in March of each year. The following are the dates represented by each fiscal period reported in these condensed financial statements:

"Quarter Ended Fiscal September 2015"	June 28, 2015 – September 26, 2015 (13 weeks)
"Quarter Ended Fiscal September 2014"	June 29, 2014 – September 27, 2014 (13 weeks)
"Six Months Ended Fiscal September 2015"	March 29, 2015 – September 26, 2015 (26 weeks)
"Six Months Ended Fiscal September 2014"	March 30, 2014 – September 27, 2014 (26 weeks)

Fiscal year 2016, ending March 26, 2016, is a 52 week year.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for the reporting of discontinued operations. This guidance eliminates certain exceptions from reporting discontinued operations that exist under current guidance, and also requires several new disclosures about disposals that qualify as discontinued operations. This guidance is effective for fiscal years and interim periods within those years beginning on or after December 15, 2014, with early adoption permitted. The adoption of this guidance in the first quarter of fiscal 2016 did not have a material effect on our Consolidated Financial Statements.

In May 2014, the 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 August 2015, the FASB delayed the effective date of the standard to fiscal 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 January 2015, the FASB issued new accounting guidance related to the disclosure requirements for extraordinary items. The standard eliminates the concept of extraordinary items on the income statement. This pronouncement is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on our Consolidated Financial Statements.

In February 2015, the FASB issued new accounting guidance that is intended to improve targeted areas of consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This standard simplifies consolidation accounting by reducing the number of consolidation models and will require all entities to re-evaluate consolidation conclusions regarding variable interest entities. This pronouncement is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. The adoption of this guidance is not anticipated to have a material effect on our Consolidated Financial Statements.

In April 2015, the FASB issued new accounting guidance related to the presentation of debt issuance costs. This standard will require 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. We do not expect this pronouncement to have a material effect on our Consolidated Financial Statements.

MONRO MUFFLER BRAKE, INC.

NOTES TO 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. The new 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 standard is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The new guidance should be applied on a prospective basis. The adoption of this standard will 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 are currently evaluating the potential effect of the adoption of this guidance 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 standard 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 pronouncement is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. The adoption of this guidance is not anticipated to have a material effect on our Consolidated Financial Statements.

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

Guarantees

We have guaranteed certain lease payments, primarily related to franchisees, amounting to $11 million. This amount represents the maximum potential amount of future payments under the guarantees as of September 26, 2015. The leases are guaranteed through April 2020. In the event of default by the franchise owner, we generally retain the right to assume the lease of the related store, enabling us to re-franchise the location or to operate that location as a company-owned store. As of September 26, 2015, we do not anticipate any material defaults under the foregoing leases; therefore, no liability has been provided.

Note 2 – Acquisitions

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

Fiscal 2016

During fiscal 2016, we acquired the following businesses for an aggregate purchase price of $49.4 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.

In July and August 2015, 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 August 16, 2015, we acquired 27 retail tire and automotive repair stores located in Central 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.

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MONRO MUFFLER BRAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The acquisitions resulted in goodwill related to, among other things, growth opportunities, synergies and economies of scale expected from combining this business 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, favorable leases and franchise agreements.

We expensed all costs related to acquisitions in the six months ended September 26, 2015. The total costs related to completed acquisitions were $.3 million and $.5 million for the three and six months ended September 26, 2015, respectively. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales for the fiscal 2016 acquired entities, including franchise royalty income, for the three and six months ended September 26, 2015 totaled $5.3 million and $6.0 million, respectively, for the period from acquisition date through September 26, 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.

The preliminary fair values of identifiable assets acquired and liabilities assumed were based on preliminary valuations and estimates. The excess of the net purchase price over net tangible and intangible assets acquired was recorded as goodwill. The preliminary allocation of the aggregate purchase price as of September 26, 2015 was as follows:

	As of Acquisition Date (Dollars in thousands)
Trade receivables	$ 251

Inventories		831
Other current assets		133
Property, plant and equipment		9,876
Intangible assets		11,538
Long-term deferred income tax assets		5,583
Other non-current assets		25
Total assets acquired		28,237
Warranty reserves		161
Other current liabilities		1,706
Long-term capital leases and financing obligations		22,143
Other long-term liabilities		116
Total liabilities assumed		24,126
Total net identifiable assets acquired	$	4,111
Total consideration transferred	$	49,425
Less: total net identifiable assets acquired		4,111
Goodwill	$	45,314

The total consideration of $49.4 million is comprised of $43.4 million in cash, and a $6.0 million payable to a seller. The payable is being liquidated via equal monthly payments through August 2022.

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MONRO MUFFLER BRAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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

	Dollars in thousands	As of Acquisition Date Weighted Average Useful Life
Customer relationships	$ 1,199	7 years
Trade name	2,100	15 years
Franchise agreements	7,200	18 years
Favorable leases	1,039	15 years
Total	$ 11,538	16 years

Fiscal 2015

During fiscal 2015, we acquired the following businesses for an aggregate purchase price of $64.3 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions were included in Monro's financial results for the period from acquisition date through September 27, 2014.

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 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.

The 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 trade names, customer relationships and favorable leases.

We expensed all costs related to acquisitions in the six months ended September 27, 2014. The total costs related to completed acquisitions were $.3 million and $.7 million for the three and six months ended September 27, 2014, respectively. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales for the fiscal 2015 acquired entities for the three and six months ended September 27, 2014 totaled $9.7 million and $10.6 million, respectively, for the period from acquisition date through September 27, 2014.

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.

MONRO MUFFLER BRAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

We have recorded the identifiable assets acquired and liabilities assumed at their estimated fair value as of their respective acquisition dates, with the remainder recorded as goodwill as follows:

	As of Acquisition Date (Dollars in thousands)
Inventories	$ 4,343
Other current assets	443
Property, plant and equipment	26,005
Intangible assets	5,157
Long-term deferred income tax assets	15,111
Other non-current assets	17
Total assets acquired	51,076
Warranty reserves	733
Other current liabilities	2,762
Long-term capital leases and financing obligations	49,058
Other long-term liabilities	1,248
Total liabilities assumed	53,801
Total net identifiable liabilities acquired	$ (2,725)
Total consideration transferred	$ 64,293
Plus: gain on bargain purchase	383
Less: total net identifiable liabilities acquired	(2,725)
Goodwill	$ 67,401

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

	Dollars in thousands	As of Acquisition

		Date Weighted Average Useful Life
Trade names	$ 1,900	10 years
Customer relationships	1,529	7 years
Favorable leases	1,728	17 years
Total	$ 5,157	11 years

As a result of the updated 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 include an increase in property, plant and equipment of $3.0 million; a decrease in intangible assets of $1.9 million; an increase in long-term deferred income tax assets of $1.4 million; an increase in current liabilities of $.7 million; an increase in long-term capital leases and financing obligations of $6.7 million; and an immaterial change in various assets and liabilities netting to $.1 million. The measurement period adjustments resulted in an increase to goodwill of $4.8 million.

We continue to refine the valuation data and estimates primarily related to inventory, road hazard warranty, intangible assets, real estate and real property leases for fiscal 2015 acquisitions subsequent to September 27, 2014, and for the fiscal 2016 acquisitions, and expect to complete 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.

Note 3 – Earnings Per Share

Basic earnings per common share (“EPS”) amounts are computed by dividing income available to common shareholders, after deducting preferred stock dividends, by the average number of common shares outstanding. Diluted EPS amounts assume the issuance of common stock for all potentially dilutive equivalent securities outstanding.

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MONRO MUFFLER BRAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following is a reconciliation of basic and diluted EPS for the respective periods:

	Quarter Ended Fiscal September		Six Months Ended Fiscal September	
	2015	2014	2015	2014
	(Dollars in thousands, except per share data)			
Numerator for earnings per common share calculation:				
Net Income	$ 18,872	$ 16,330	$ 37,671	$ 33,262
Preferred stock dividends	(114)	(99)	(228)	(198)
Income available to common stockholders	$ 18,758	$ 16,231	$ 37,443	$ 33,064
Denominator for earnings per common share calculation:				
Weighted average common shares, basic	31,961	31,561	31,908	31,539
Effect of dilutive securities:				
Preferred stock	760	760	760	760
Stock options	439	457	474	484
Weighted average number of common shares, diluted	33,160	32,778	33,142	32,783
Basic Earnings per common share:	$ .59	$ .51	$ 1.17	$ 1.05
Diluted Earnings per common share:	$ .57	$ .50	$ 1.14	$ 1.01

The computation of diluted EPS excludes the effect of the assumed exercise of approximately 168,000 and 172,000 stock options for the three and six months ended fiscal September 26, 2015, respectively, and 126,000 and 125,000 for the three and six months ended September 27, 2014, respectively. Such amounts were excluded as the exercise prices of these stock options were greater than the average market value of our Common Stock for those periods, resulting in an anti-dilutive effect on diluted EPS.

Note 4 – Income Taxes

In the normal course of business, we provide for uncertain tax positions and the related interest and penalties, and adjust our unrecognized tax benefits and accrued interest and penalties accordingly. The total amounts of unrecognized tax benefits were $8.3 million and $7.5 million at September 26, 2015 and March 28, 2015, respectively, the majority of which, if recognized, would affect the effective tax rate. As of September 26, 2015, we had approximately $.5 million of interest and penalties accrued related to unrecognized tax benefits.

We file U.S. federal income tax returns and income tax returns in various state jurisdictions. Our fiscal 2012 through fiscal 2014 U.S. federal tax years and various state tax years remain subject to income tax examinations by tax authorities.

Note 5 – Fair Value

Long-term debt had a carrying amount and a fair value of $145.0 million as of September 26, 2015, 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.

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MONRO MUFFLER BRAKE, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Note 6 – Supplemental Disclosure of Cash Flow Information

The following represents non-cash investing and financing activities during the periods indicated:

Six Months Ended September 26, 2015:

In connection with the fiscal 2016 acquisitions, liabilities were assumed as follows:

	(Dollars in thousands)
Fair value of assets acquired	$ 28,237
Goodwill acquired	45,314
Cash paid, net of cash acquired	(43,425)
Less: Amount payable to the seller	(6,000)
Liabilities assumed	$ 24,126

Six Months Ended September 27, 2014:

In connection with the fiscal 2015 acquisitions, liabilities were assumed as follows:

(Dollars in thousands)

Fair value of assets acquired	$ 51,076
Goodwill acquired	67,401
Gain on bargain purchase	(383)
Cash paid, net of cash acquired	(64,293)
Liabilities assumed	$ 53,801

Note 7 – Cash Dividend

In May 2015, our Board of Directors declared its intention to pay a regular quarterly cash dividend during fiscal 2016 of $.15 per common share or common share equivalent to be paid beginning with the first quarter of fiscal 2016. However, the declaration of and any 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 credit facility restrictions, and such other factors as the Board of Directors deems relevant.

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Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Forward-Looking Statements

The statements contained in this Quarterly Report on Form 10-Q that are not historical facts, including (without limitation) statements made in the Management's Discussion and Analysis of Financial Condition and Results of Operations, 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 Quarterly Report on Form 10-Q, the words "anticipates", "believes", "contemplates", "see", "could", "estimate", "appear", "intend", "plans" and 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's stores are located, the need for and costs associated with store renovations and other capital expenditures, the effect of economic conditions, the impact of competitive services and pricing, parts supply restraints or difficulties, industry regulation, risks relating to leverage and debt service (including sensitivity to fluctuations in interest rates), continued availability of capital resources and financing, disruption or unauthorized access to our computer systems, risks relating to protection of customer and employee personal data, risks relating to litigation, risks relating to integration of acquired businesses, including goodwill impairment and the risks set forth in our Annual Report on Form 10-K for the fiscal year ended March 28, 2015. Except as required by law, we do not undertake and specifically disclaim any obligation to update any forward-looking statement to reflect the occurrence of anticipated or unanticipated events or circumstances after the date of such statements.

Results of Operations

The following table sets forth income statement data of Monro Muffler Brake, Inc. expressed as a percentage of sales for the fiscal periods indicated:

	Quarter Ended Fiscal September		Six Months Ended Fiscal September	
	2015	2014	2015	2014
Sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales, including distribution and occupancy costs	57.9	59.6	57.9	59.1

Gross profit	42.1	40.4	42.1	40.9
Operating, selling, general and administrative expenses	27.9	27.4	27.9	27.6
Operating income	14.3	13.1	14.2	13.3
Interest expense - net	1.6	1.3	1.5	1.1
Other income - net	0.0	(0.1)	0.0	(0.1)
Income before provision for income taxes	12.7	11.9	12.8	12.2
Provision for income taxes	4.8	4.5	4.9	4.7
Net income	7.9 %	7.4 %	7.9 %	7.6 %

Second Quarter and Six Months Ended September 26, 2015 Compared to Second Quarter and Six Months Ended

September 27, 2014

Sales were $239.2 million for the quarter ended September 26, 2015 as compared with $221.3 million for the quarter ended September 27, 2014. The sales increase of $17.9 million or 8.1% was partially due to a comparable store sales increase of 2.1%. Additionally, there was an increase of $18.5 million related to new stores, of which $17.5 million came from the fiscal 2015 and fiscal 2016 acquisitions. Partially offsetting this was a decrease in sales from closed stores amounting to $5.2 million. There were 91 selling days in both the quarters ended September 26, 2015 and September 27, 2014.

Barter sales of slower moving inventory totaled approximately $2.0 million and $2.9 million for the quarters ended September 26, 2015 and September 27, 2014, respectively. There were no barter sales in the first quarter of fiscal 2015 or fiscal 2016.

Sales were $475.7 million for the six months ended September 26, 2015 as compared with $438.8 million for the six months ended September 27, 2014. The sales increase of $36.9 million or 8.4%, was partially due to a comparable store sales increase of .8%. Additionally, there was an increase of $43.8 million related to new stores of which $40.7 million came from fiscal 2015 and fiscal 2016 acquisitions. Partially offsetting this was a decrease in sales from closed stores amounting to $11.3 million. There were 181 selling days in the first six months of fiscal 2016 and fiscal 2015.

At September 26, 2015, we had 1,029 company-operated stores and 143 franchised locations as compared with 1,003 company-operated stores and one franchised location at September 27, 2014. During the quarter ended September 26, 2015, we added 35 company-operated stores and closed five stores. Year-to-date, we have added 39 stores and closed nine stores.

We believe the increase in comparable store sales, including increased comparable store tire, brake and alignment sales, demonstrates that needed repairs cannot be deferred indefinitely.

Gross profit for the quarter ended September 26, 2015 was $100.7 million or 42.1% of sales as compared with $89.5 million or 40.4% of sales for the quarter ended September 27, 2014. The increase in gross profit for the quarter ended September 26, 2015, as a percentage of sales, is due to several factors, as discussed below.

Total material costs, including outside purchases, decreased as a percentage of sales as compared to the prior year. This was largely due to a decrease in oil prices and tire costs. Additionally, the barter sale in the quarter ended September 2015 had a small positive impact on gross profit as a percentage of sales, while the sale in the prior year second quarter had a small negative impact on gross profit.

Distribution and occupancy costs decreased as a percentage of sales from the prior year as we gained leverage on these largely fixed costs with higher sales. Additionally, the recording of some new leases as operating versus capital leases under generally accepted accounting principles reduced occupancy costs and increased interest expense. Labor costs decreased as a percent of sales as compared to the prior year through focused payroll control.

Gross profit for the six months ended September 26, 2015 was $200.4 million or 42.1% of sales as compared with $179.5 million or 40.9% of sales for the six months ended September 27, 2014. The year-to-date increase in gross profit as a percent of sales is largely due to decreased material costs as described above. Additionally, labor costs as a percentage of sales improved as compared to the prior year.

Operating expenses for the quarter ended September 26, 2015 were $66.6 million or 27.9% of sales as compared with $60.5 million or 27.4% of sales for the quarter ended September 27, 2014. The increase is primarily due to increased due diligence costs and increased incentive compensation (related to improved performance) as compared to the prior year quarter.

For the six months ended September 26, 2015, operating expenses increased by $11.6 million to $132.7 million from the comparable period of the prior year and were 27.9% of sales as compared to 27.6% of sales for the six months ended September 27, 2014. The increase as a percentage of sales is due primarily to an increase in due diligence and incentive compensation expense, as well as a small increase in benefits costs as a percent of sales as compared to the prior year six months.

Operating income for the quarter ended September 26, 2015 of approximately $34.1 million increased by 17.9% as compared to operating income of approximately $28.9 million for the quarter ended September 27, 2014, and increased as a percentage of sales from 13.1% to 14.3% for the reasons described above.

Operating income for the six months ended September 26, 2015 of approximately $67.7 million increased by 16.1% as compared to operating income of approximately $58.3 million for the six months ended September 27, 2014, and increased as a percentage of sales from 13.3% to 14.2% for the reasons described above.

Net interest expense for the quarter ended September 26, 2015 increased by approximately $1.0 million as compared to the same period in the prior year, and increased from 1.3% to 1.6% as a percentage of sales for the same periods. The weighted average debt outstanding for the quarter ended September 26, 2015 increased by approximately $43 million as compared to the quarter ended September 27, 2014. This increase is primarily related to an increase in capital lease debt recorded in connection with the fiscal 2015 and fiscal 2016 acquisitions. There was also an increase in the weighted average interest rate of approximately 70 basis points from the prior year, largely due to capital lease debt.

Net interest expense for the six months ended September 26, 2015 increased by approximately $2.2 million as compared to the same period in the prior year, and increased from 1.1% to 1.5% as a percentage of sales for the same periods. Weighted average debt increased by approximately $43 million and the weighted average interest rate increased by approximately 100 basis points as compared to the same period of the prior year due to an increase in capital lease debt.

The effective tax rate was 38% of pre-tax income for the quarter and six months ended September 26, 2015 and was 38.1% of pre-tax income for the same periods ended September 27, 2014.

Net income for the quarter ended September 26, 2015 of $18.9 million increased 15.6% from net income for the quarter ended September 27, 2014. Earnings per share on a diluted basis for the quarter ended September 26, 2015 of $.57 increased 14.0%.

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For the six months ended September 26, 2015, net income of $37.7 million increased 13.3% and diluted earnings per share of $1.14 increased 12.9%.

Capital Resources and Liquidity

Capital Resources

Our primary capital requirements in fiscal 2016 are the upgrading of facilities and systems and the funding of our store expansion program, including potential acquisitions of existing store chains. For the six months ended September 26, 2015, we spent approximately $66.5 million on these items. Capital requirements were met primarily by cash flow from operations and from our revolving credit facility.

In May 2015, our Board of Directors declared its intention to pay a regular quarterly cash dividend of $.15 per common share or common share equivalent beginning with the first quarter of fiscal 2016. We paid dividends of $9.8 million during the six months ended September 26, 2015. However, the declaration of and any determination as to the payment of future dividends will be at the discretion of the Board of Directors and will depend on Monro’s financial condition, results of operations, capital requirements, compliance with charter and credit facility restrictions, and such other factors as the Board of Directors deems relevant.

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

Liquidity

In June 2011, we entered into a five-year, $175 million Revolving Credit Facility agreement with seven banks (the “Credit Facility”). The Credit Facility amended and restated, in its entirety, the Credit Facility previously entered into by Monro as of July 2005 and amended from time to time. The 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 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 Facility now expires 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. There are now six banks participating in the syndication. There was $145.0 million outstanding under the Credit Facility at September 26, 2015.

Within the Credit Facility, we have a sub-facility of $40 million available for the purpose of issuing standby letters of credit. There was an outstanding letter of credit for $23.7 million at September 26, 2015.

The net availability under the Credit Facility at September 26, 2015 was $81.3 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. 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. The agreement also requires the maintenance of specified interest and rent coverage ratios. We were in compliance with all debt covenants at September 26, 2015.

We have financed certain store properties and equipment with capital leases/financing obligations, which amounted to $170.8 million at September 26, 2015 and are due in installments through fiscal year 2045.

Recent Accounting Pronouncements

In April 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for the reporting of discontinued operations. This guidance eliminates certain exceptions from reporting discontinued operations that exist under current guidance, and also requires several new disclosures about disposals that qualify as discontinued operations. This guidance is effective for fiscal years and interim periods within those years beginning on or after December 15, 2014, with early adoption permitted. The adoption of this guidance in the first quarter of fiscal 2016 did not have a material effect on our Consolidated Financial Statements.

In May 2014, the 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 August 2015, the FASB delayed the effective date of the standard to fiscal 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.

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In January 2015, the FASB issued new accounting guidance related to the disclosure requirements for extraordinary items. The standard eliminates the concept of extraordinary items on the income statement. This pronouncement is effective for fiscal years and interim periods within those years beginning after December 15, 2015. The adoption of this guidance is not expected to have a material effect on our Consolidated Financial Statements.

In February 2015, the FASB issued new accounting guidance that is intended to improve targeted areas of consolidation guidance for reporting organizations that are required to evaluate whether they should consolidate certain legal entities. This standard simplifies consolidation accounting by reducing the number of consolidation models and will require all entities to re-evaluate consolidation conclusions regarding variable interest entities. This pronouncement is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. The adoption of this guidance is not anticipated to have a material effect on our Consolidated Financial Statements.

In April 2015, the FASB issued new accounting guidance related to the presentation of debt issuance costs. This standard will require 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. We do not expect this pronouncement to 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. The new 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 standard is effective for financial statements issued for fiscal years beginning after December 15, 2016 and interim periods within those fiscal years. Early adoption is permitted. The new guidance should be applied on a prospective basis. The adoption of this standard will 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 are currently evaluating the potential effect of the adoption of this guidance 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 standard 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 pronouncement is effective for fiscal years and for interim periods within those years beginning after December 15, 2015. The adoption of this guidance is not anticipated to have a material effect on our Consolidated Financial Statements.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

We are exposed to market risk from potential changes in interest rates. There was no fixed rate debt outstanding at September 26, 2015. Our cash flow exposure on floating rate debt would result in annual interest expense fluctuations of approximately $1.5 million based upon our debt position at September 26, 2015 and $1.2 million for the fiscal year ended March 28, 2015, given a 1% change in LIBOR.

Debt financing had a carrying amount and a fair value of $145.0 million as of September 26, 2015, as compared to a carrying amount and a fair value of $122.5 million as of March 28, 2015.

Item 4. Controls and Procedures

Disclosure controls and procedures

We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that we file or submit to the Securities and Exchange Commission pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms, and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

In conjunction with the close of each fiscal quarter and under the supervision of our Chief Executive Officer and Chief Financial Officer, we conduct an update, a review and an evaluation of the effectiveness of our disclosure controls and procedures. It is the conclusion of our Chief Executive Officer and Chief Financial Officer, based upon an evaluation completed as of the end of the most recent fiscal quarter reported on herein, that our disclosure controls and procedures were effective.

Changes in internal controls over financial reporting

There were no changes in our internal control over financial reporting during the quarter ended September 26, 2015 that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

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MONRO MUFFLER BRAKE, INC.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

We are not a party or subject to any legal proceedings other than certain claims and lawsuits that arise in the normal course of our business. We do not believe that such claims or lawsuits, individually or in the aggregate, will have a material adverse effect on our financial condition or results of operations.

Item 6. Exhibits

Exhibits

31.1 – Certification of John W. Van Heel pursuant to Section 302 of the Sarbanes – Oxley Act of 2002

31.2 – Certification of Catherine D'Amico pursuant to Section 302 of the Sarbanes – Oxley Act of 2002

32.1 – Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes – Oxley Act of 2002

101.CAL - XBRL Taxonomy Extension Calculation Linkbase

101.INS - XBRL Instance Document

101.LAB - XBRL Taxonomy Extension Label Linkbase

101.PRE - XBRL Taxonomy Extension Presentation Linkbase

101.SCH - XBRL Taxonomy Extension Schema Linkbase

101.DEF - XBRL Taxonomy Extension Definition Linkbase

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SIGNATURES

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

	MONRO MUFFLER BRAKE, INC.
DATE: November 5, 2015	By: /s/ John W. Van Heel John W. Van Heel Chief Executive Officer and President
DATE: November 5, 2015	By: /s/ Catherine D'Amico Catherine D'Amico Executive Vice President-Finance, Treasurer and Chief Financial Officer (Principal Financial Officer and Principal Accounting Officer)

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EXHIBIT INDEX

Exhibit No.	Description	Page No.
31.1	Certification of John W. Van Heel pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	21
31.2	Certification of Catherine D'Amico pursuant to Section 302 of the Sarbanes-Oxley Act of 2002	22
32.1	Certification pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	23
101.CAL	XBRL Taxonomy Extension Calculation Linkbase	
101.INS	XBRL Instance Document	
101.LAB	XBRL Taxonomy Extension Label Linkbase	
101.PRE	XBRL Taxonomy Extension Presentation Linkbase	
101.SCH	XBRL Taxonomy Extension Schema Linkbase	
101.DEF	XBRL Taxonomy Extension Definition Linkbase	