MONRO MUFFLER BRAKE INC
Form 10-K
June 14, 2007

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SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-K

(MARK ONE)

þ	**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)**
	For Fiscal Year Ended March 31, 2007
	OR
o	**TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (NO FEE REQUIRED)**

Commission File Number 0-19357

MONRO MUFFLER BRAKE, INC.
(Exact name of registrant as specified in its charter)

New York	**16-0838627**
(State of incorporation)	*(I.R.S. Employer Identification No.)*
200 Holleder Parkway, Rochester, New York	**14615**
(Address of principal executive offices)	*(Zip code)*

Registrant s telephone number, including area code:
(585) 647-6400

Securities registered pursuant to Section 12(b) of the Act:
Common Stock, par value $.01 per share

Securities registered pursuant to Section 12(g) of the Act:
NONE
(Title of Class)

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 o No þ

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

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

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. o

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

Large Accelerated Filer o Accelerated Filer þ Non-Accelerated Filer o

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

As of June 1, 2007, the aggregate market value of voting stock held by non-affiliates of the registrant was $492,480,000.

As of June 1, 2007, 14,378,133 shares of the registrant s Common Stock, par value $.01 per share, were outstanding.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the registrant s definitive proxy statement (to be filed pursuant to Regulation 14A) for the 2007 Annual Meeting of Shareholders (the Proxy Statement) are incorporated by reference into Part III hereof.

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PART I

Item 1. Business

GENERAL

Monro Muffler Brake, Inc. (Monro or the Company) is a chain of 698 Company-operated stores (as of March 31, 2007) and 14 dealer-operated stores providing automotive undercar repair and tire services in the United States. At March 31, 2007, Monro operated Company stores in New York, Pennsylvania, Ohio, Connecticut, Massachusetts, West Virginia, Virginia, Maryland, Vermont, New Hampshire, New Jersey, North Carolina, South Carolina, Indiana, Rhode Island, Delaware and Maine under the names Monro Muffler Brake & Service , Tread Quarters Discount Tire and Mr. Tire (together, the Company Stores). The Company s Stores typically are situated in high-visibility locations in suburban areas and small towns, as well as in major metropolitan areas. The Company Stores serviced approximately 3,528,000 vehicles in fiscal 2007. (References herein to fiscal years are to the Company s year ended fiscal March [e.g., references to fiscal 2007 are to the Company s fiscal year ended March 31, 2007].)

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

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

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

The Company provides a broad range of services on passenger cars, light trucks and vans for brakes (estimated at 23% of fiscal 2007 sales); mufflers and exhaust systems (8%); and steering, drive train, suspension and wheel alignment (14%). The Company also provides other products and services including tires (24%) and routine maintenance services including state inspections (31%). Monro specializes in the repair and replacement of parts which must be periodically replaced as they wear out. Normal wear on these parts generally is not covered by new car warranties. The Company typically does not perform under-the-hood repair services except for oil change services, various flush and fill services and some minor tune-up services. The Company does not sell parts or accessories to the do-it-yourself market.

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

The Company s sales mix for fiscal 2007 and 2006 is as follows:

	Service Stores		Tire Stores		Total Company	
	FY07	**FY06**	**FY07**	**FY06**	**FY07**	**FY06**

Brakes	28%	30%	11%	11%	23%	24%
Exhaust	12	15	1	1	8	11
Steering	15	15	11	11	14	14
Tires	10	8	54	57	24	23
Maintenance	35	32	23	20	31	28
Total	100%	100%	100%	100%	100%	100%

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

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

INDUSTRY OVERVIEW

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

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

EXPANSION STRATEGY

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

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

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

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

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

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

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

With the Mr. Tire Acquisition, the Company has 51 stores in the Baltimore, Maryland area. To further solidify the Company s leading position in this large metropolitan area, in the first quarter of fiscal 2005, the Company s

existing Speedy locations were converted to Monro branded stores and the Kimmel stores were converted to Monro and Mr. Tire branded stores. The Company believes that this initiative has increased brand awareness and raised visibility of its two dominant brands in the market. In connection with this re-branding effort, the Company closed one existing Kimmel store in fiscal 2005.

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

On November 1, 2005, the Company acquired a 13% interest in R&S Parts and Service, Inc. (R&S), a privately owned automotive aftermarket parts and service chain, for $2.0 million from GDJ Retail LLC. As part of the transaction, the Company also loaned R&S $5.0 million under a secured subordinated debt agreement that had a five-year term and carried an 8% interest rate. The loan was repaid in full in December 2006.

On August 11, 2006, the Company announced that it would not exercise its option to purchase the remaining 87% of R&S, originally negotiated for an additional $12.0 million in cash and $1.0 million of Monro stock. In addition, the Company recorded an after-tax impairment charge of $1.7 million with respect to the original 13% equity investment, as well as due diligence costs related to R&S. Management reached this conclusion after learning that R&S had filed petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. The impairment charge has been reflected within Other Expenses on the Consolidated Statement of Income for the year ended March 31, 2007.

Under the terms of the R&S debtor-in-possession financing, the Bankruptcy Court ordered the repayment to Monro of the $5 million secured loan, plus a portion of legal and other fees incurred by Monro in connection with the issuance and repayment of the loan. In February 2007, the Creditors Committee appointed in R&S s bankruptcy commenced an action seeking repayment of the $5 million. In response, the Company filed a complaint against GDJ Retail, LLC and its principal, Glen Langberg, for breach of contract, contractual indemnification and negligent misrepresentation arising from the Company s purchase of a 13% interest in R&S in November 2005.

In May 2007, the Bankruptcy Court approved a global settlement of both actions. As a result of the settlement, the Company received $325,000 from R&S. All claims against the Company, GDJ Retail, LLC, Glen Langberg and R&S have been dismissed.

On April 29, 2006, the Company acquired substantially all of the assets of ProCare Automotive Service Solutions LLC (the ProCare Acquisition) for $14.7 million in cash. The Company acquired 75 ProCare locations that offer automotive maintenance and repair services. The stores are located in eight metropolitan areas throughout Ohio and Pennsylvania. The Company converted 31 of the acquired ProCare stores to tire stores which operate under the Mr. Tire brand. The remaining stores operate as service stores under the Monro brand. In April 2007, the Company closed three of the acquired locations in accordance with its plan for this acquisition, leaving it with 43 service stores and 29 tire stores.

During fiscal 2007, the Company opened three full-service, Monro branded stores within BJ s Wholesale Clubs in Pennsylvania (2), and Massachusetts (1), bringing the total number of stores that the Company operates in BJ s Wholesale Clubs to 37 at March 31, 2007.

As of March 31, 2007, Monro had 698 Company-operated stores and 14 dealer locations located in 18 states. The following table shows the growth in the number of Company-operated stores over the last five fiscal years:

Store Additions and Closings

	Year Ended Fiscal March				
	2007	**2006**	**2005**	**2004**	**2003**
Stores open at beginning of year	625	626	595	560	514
Stores added during year	84(f)	10(e)	35(d)	40(c)	50(b)
Stores closed during year(a)	(11)	(11)	(4)	(5)	(4)
Stores open at end of year	698	625	626	595	560
Service (including BJ s) stores	584	544	546	525	516
Tire stores	114	81	80	70	44

(a) Generally, stores were closed because they failed to achieve or maintain an acceptable level of profitability or because a new Monro store was opened in the same market at a more favorable location. Store closures in fiscal 2003 include the sale of two commercial tire stores and a retread plant that were acquired in the purchase of Kimmel in the first quarter of fiscal 2003.

(b) Includes 37 stores acquired in the Kimmel Acquisition and 10 stores acquired in the Frasier Acquisition.

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

(d) Includes 15 stores acquired in the Henderson and Rice Acquisitions and 16 stores opened in BJ s Wholesale Club locations.

(e) Includes four stores opened in BJ s Wholesale Club locations.

(f) Includes 75 stores acquired in the ProCare Acquisition and three stores opened in BJ s Wholesale Club locations.

The Company plans to add approximately 16 new stores in fiscal 2008, including 10 in BJ s Wholesale Clubs, and to continue to search for appropriate acquisition candidates or opportunities to operate stores within host retailers locations. In future years, should the Company find that there are no suitable acquisition or retail partnership candidates, it might increase its new store (greenfield) openings.

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

As a result of extensive analysis of its historical and projected store opening strategy, the Company has established major market profiles, as defined by market awareness: mature, existing and new markets. Over the next several years, the Company expects to build a greater percentage of stores in mature and existing markets in order to capitalize on the Company s market presence and consumer awareness. During fiscal 2007, 61 of the 84 stores added were in existing markets with the balance in new, but contiguous markets.

The Company believes that management and operating improvements implemented over the last several fiscal years has enhanced its ability to sustain its growth. The Company has a chain-wide computerized inventory control and electronic point-of-sale (POS) management information system, which has increased management s ability to monitor operations as the number of stores has grown. The Company has customized the POS system to specific service and tire store requirements and deploys the appropriate version in each type of store. Being Windows-based, the system has simplified training of new employees. Additionally, the system includes electronic mail and electronic cataloging, which allows store managers to electronically research the specific parts needed for the make and model of the car being serviced. This enhanced system includes software which contains data that mirrors the

scheduled maintenance requirements in vehicle owners manuals, specifically by make, model, year and mileage for every automobile. Management believes that this software facilitates the presentation and sale of scheduled maintenance services to customers. Other enhancements include the streamlining of estimating and other processes; graphic catalogs; a feature which facilitates tire searches by size; direct mail support; appointment scheduling; customer service history; a thermometer graphic which guides store managers on the profitability of each job; and expanded monitoring of price changes. This latter change requires more specificity on the reason for a discount, which management believes has helped to control discounting. Enhancements will continue to be made to the POS system annually in an effort to increase efficiency, improve the quality and timeliness of store reporting and enable the Company to better serve its customers.

The financing to open a new greenfield service store location may be accomplished in one of three ways: a store lease for the land and building (in which case, land and building costs will be financed primarily by the lessor), a land lease with the building constructed by the Company (with building costs paid by the Company), or a land purchase with the building constructed by the Company. In all three cases, each new store also will require approximately $125,000 for equipment (including a POS system and a truck) and approximately $60,000 in inventory. Because Monro generally does not extend credit to its customers, stores generate almost no receivables and a new store s actual net working capital investment is nominal. Total capital required to open a new greenfield service store ranges, on average (based upon the last five fiscal years openings, excluding the BJ s locations and the acquired stores), from $300,000 to $1,000,000 depending on the location and which of the three financing methods is used. In general, tire stores are larger and have more service bays than Monro s traditional service stores and, as a result, construction costs are at the high end of the range of new store construction costs. In instances where Monro acquires an existing business, it may pay additional amounts for intangible assets such as customer lists, covenants not-to-compete, trade names and goodwill.

Total capital required to open a store within a BJ s Wholesale Club is substantially less than opening a greenfield store.

At March 31, 2007, the Company leased the land and/or the building at approximately 73% of its store locations and owned the land and building at the remaining locations. Monro s policy is to situate new stores in the best locations, without regard to the form of ownership required to develop the locations.

New service stores, excluding acquired stores and BJ s locations, have average sales of approximately $360,000 in their first 12 months of operation, or $60,000 per bay.

OPERATING STRATEGY

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

Products and Services

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

All stores provide many of the routine maintenance services (except engine diagnostic), which automobile manufacturers suggest or require in the vehicle owners manuals, and which fulfill manufacturers requirements for new car warranty compliance. The Company offers Scheduled Maintenance services in all of its stores whereby the

aforementioned services are packaged and offered to consumers based upon the year, make, model and mileage of each specific vehicle. Management believes that the Company is able to offer this service in a more convenient and cost competitive fashion than auto dealers can provide.

Included in maintenance services are oil change services, heating and cooling system flush and fill service, belt installation, and a transmission flush and fill service. Additionally, all stores replace and service batteries, starters and alternators. Stores in New York, West Virginia, New Hampshire, Maryland, Rhode Island, New Jersey,

Pennsylvania, North Carolina, Virginia and Vermont also perform annual state inspections. Approximately 40% of the Company s stores also offer air conditioning services.

Customer Satisfaction

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

Total Customer Satisfaction

Respect, Recognize and Reward (employees who are committed to these values)

Unparalleled Quality and Integrity

Superior Value and

Teamwork

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

Competitive Pricing, Advertising and Co-branding Initiatives

The Company seeks to set competitive prices for quality services and products. The Company supports its pricing strategy by advertising through direct mail coupon inserts and in-store promotional signage and displays. In addition, the Company advertises through radio, yellow pages, newspapers, service reminders and electronic mail to increase consumer awareness of the services offered. The Company also maintains websites for the Monro and Mr. Tire/Treadquarters brands which allow customers to search for a location, print coupons, make service appointments, search tires for their vehicle and access information and tips on vehicle services offered at the Company s stores.

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

Centralized Control

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

subsidiary, Monro Service Corporation. The centralization of these functions results in efficiencies and gives management the ability to closely monitor and control costs.

Comprehensive Training

The Company provides ongoing, comprehensive training to its store employees. Monro believes that such training provides a competitive advantage by enabling its technicians to provide quality service to its customers in

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all areas of undercar repair and tire service. (See additional discussion under Store Operations: Store Personnel and Training .)

STORE OPERATIONS

Store Format

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

	Average Number of Bays	Average Square Feet	Average Inventory	Average Number of Stock Keeping Units (SKUs)
Service stores (excluding BJ s and ProCare)	6	4,400	$ 86,000	3,200
Tire stores	7	5,600	$ 125,000	1,700

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

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

Inventory Control and Management Information System

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

Quality Control and Warranties

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

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

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

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

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

Store Personnel and Training

The Company supervises store operations primarily through its Divisional Vice Presidents who oversee Zone Managers who, in turn, oversee Market Managers. The typical service store is staffed by a Store Manager and four to six technicians, one of whom serves as the Assistant Manager. The typical tire store is staffed by a Store Manager, an Assistant Manager and/or Service Manager, and four to eight technicians. Larger volume tire stores may also have one or two sales people. The higher staffing level at many tire stores is necessary to support their higher sales volume. All Store Managers receive a base salary, and Assistant Managers receive hourly compensation. In addition, Store Managers and Assistant Managers may receive other compensation based on their store s customer relations, gross profit, labor cost controls, safety, sales volume and other factors via a monthly or quarterly bonus based on performance in these areas.

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

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

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

Management training courses are developed and delivered by the Company s dedicated training department and Operations management, and are supplemented with live and online vendor training courses. Management training covers customer service, sales, human resources (counseling, recruiting, interviewing, etc.), leadership, scheduling, financial and operational areas, and is delivered on a quarterly basis. During the second half of fiscal 2007, this program replaced the Company s Monro University training program, which was a week long course delivered in Rochester, New York by the training department and other headquarters staff to only a portion of the Company s store managers annually. The Company believes that involving Operations management in the development and delivery of these sessions results in more relevant and actionable training for store managers and that more frequent training covering all managers each year will improve overall performance and staff retention.

The Company s training department develops and delivers technical training courses on critical areas of automotive repair to technicians in every store, every year (e.g. ABS brake repair, drivability, TPMS, etc.) and also conducts required technical training to maintain compliance with inspection licenses, where applicable, and MAP accreditation. Additionally, the Company s training department holds in-house technical clinics for store personnel and coordinates technician attendance at technical clinics offered by the Company s vendors. Each service store

maintains a library of 20 to 25 instructional videos. The Company issues technical bulletins to all stores on innovative or complex repair processes, and maintains a centralized data base for technical repair problems. In addition, the Company has established a telephone technical hotline to provide assistance to store personnel in resolving problems encountered while diagnosing and repairing vehicles. The help line is available during all hours of store operation.

PURCHASING AND DISTRIBUTION

The Company, through its wholly-owned subsidiary Monro Service Corporation, selects and purchases parts and supplies for all Company-operated stores on a centralized basis through an automatic replenishment system. Although purchases outside the centralized system (outside purchases) are made when needed at the store level, these purchases are low by industry standards, and accounted for approximately 13% of all parts used in fiscal 2007.

The Company s ten largest vendors accounted for approximately 76% of its parts and tire purchases, with the largest vendor accounting for approximately 19% of total purchases in fiscal 2007. The Company purchases parts and tires from over 100 vendors. Management believes that the Company s relationships with vendors are excellent and that alternative sources of supply exist, at comparable cost, for substantially all parts used in the Company s business. The Company routinely obtains bids from vendors to ensure it is receiving competitive pricing and terms.

Most parts are shipped by vendors to the Company s primary warehouse facility in Rochester, New York, and are distributed to stores through the Company-operated tractor/trailer fleet. Stores are replenished either on a weekly or bi-weekly basis from this warehouse, and such replenishment fills, on the average, 96% of all items ordered by the stores automatic POS-driven replenishment system. The Rochester warehouse stocks approximately 7,700 SKUs. The Company also operates warehouses in Baltimore and Virginia that service the tire and service stores in those markets. These warehouses carry, on average, 4,900 and 2,100 SKUs, respectively.

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

COMPETITION

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

EMPLOYEES

As of March 31, 2007, Monro had 3,885 employees, of whom 3,641 were employed in the field organization, 76 were employed at the warehouses, 145 were employed at the Company s corporate headquarters and 23 were employed in its Baltimore office and warehouse. Monro s employees are not members of any union. The Company believes that its

relations with its employees are good.

REGULATION

The Company stores new oil and recycled antifreeze and generates and/or handles used tires and automotive oils, antifreeze and certain solvents, which are disposed of by licensed third-party contractors. In certain states, as

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

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

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

SEASONALITY

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

COMPANY INFORMATION AND SEC FILINGS

The Company maintains a website at www.monro.com and makes its annual, quarterly and periodic Securities and Exchange Commission (SEC) filings available through the Investor Information section of that website. The Company s SEC filings are available through this website free of charge, via a direct link to the SEC website at www.sec.gov. The Company s filings with the SEC are also available to the public at the SEC Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549 or by calling the SEC at 1-800-SEC-0330.

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

RISKS RELATED TO OUR BUSINESS

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

We operate in the highly competitive automotive repair industry.

The automotive repair industry in which we operate is generally highly competitive and fragmented, and the number, size and strength of our competitors varies widely from region to region. We believe that competition in the industry is based primarily on customer service, reputation, store location, name awareness and price. Our primary competitors

include national and regional undercar, tire specialty and general automotive service chains, both franchised and company-operated, car dealerships, mass merchandisers operating service centers and, to a lesser extent, gas stations and independent garages. Some of our competitors have greater financial resources, are more geographically diverse and have better name recognition than we do, which might place us at a competitive disadvantage to those competitors. Because we seek to offer competitive prices, if our competitors reduce prices, we may be forced to reduce our prices, which could have a material adverse effect on our business, financial condition and results of operations. We cannot assure that we or any of our stores will be able to compete effectively. If we are

unable to compete successfully in new and existing markets, we may not achieve our projected revenue and profitability targets.

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

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

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

We depend on our relationships with our vendors.

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

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

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

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

costs or become the basis of new or increased liabilities that could have a material adverse effect on our business, financial condition and results of operations.

National automotive repair chains have also been the subject of investigations and reports by consumer protection agencies and the Attorneys General of various states. Publicity in connection with these investigations could have an adverse effect on our sales and, consequently, our business, financial condition and results of

operations. State and local governments have also enacted numerous consumer protection laws that we must comply with.

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

Our business is affected by advances in automotive technology.

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

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

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

Store closings result in costs.

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

We rely on an adequate supply of skilled field personnel.

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

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

We currently rely on cash flow from operations and our revolving credit facility to fund our business. Amounts outstanding on the revolving credit facility are reported as debt on our balance sheet. While we believe that we have

the ability to sufficiently fund our planned operations and capital expenditures for the foreseeable future, the risks to our business could result in circumstances that would materially affect our liquidity. For example, cash flows from our operations could be affected by changes in consumer spending habits, the failure to maintain favorable vendor payment terms or our inability to successfully implement sales growth initiatives, among other factors. We may be unsuccessful in securing alternative financing when needed on terms that we consider acceptable.

In addition, a significant increase in our leverage could have important consequences to an investment in our common stock, including the following risks:

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

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

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

If we do not perform in accordance with our debt covenants, the institutions providing the funds have the option to withdraw their funding support. We cannot assure that we will remain in compliance with our debt covenants in the future. In addition, our current financing agreement expires in January 2012, and we cannot assure that we will be able to refinance our existing credit facility when it expires.

We depend on the services of key executives.

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

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

The Company, through Monro Service Corporation, owns its office/warehouse facility of approximately 95,000 square feet, which is located on 12.7 acres of land in Holleder Technology Park, in Rochester, New York.

Of Monro s 698 Company-operated stores at March 31, 2007, 191 were owned, 377 were leased and for 130, the land only was leased. In general, the Company leases store sites for a ten-year period with several five-year renewal options. Giving effect to all renewal options, approximately 57% of the operating leases (281 stores) expire after 2017. Certain of the leases provide for contingent rental payments if a percentage of annual gross sales exceeds the base fixed rental amount. The highest contingent percentage rent of any lease is 6.75%, and no such lease has

adversely affected profitability of the store subject thereto. An officer of the Company or members of his family are the lessors, or have interests in entities that are the lessors, with respect to six of the leases. No related party leases, other than the six assumed as part of the Mr. Tire Acquisition in March 2004, have been entered into, and no new related party leases are contemplated.

As of March 31, 2007, there was $.7 million outstanding under a mortgage held by the City of Rochester, New York, secured by the land on which the headquarters office and warehouse is located.

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Item 3. *Legal Proceedings*

The Company is not a party or subject to any legal proceedings other than certain routine claims and lawsuits that arise in the normal course of its business. The Company does not believe that such routine claims or lawsuits, individually or in the aggregate, will have a material adverse effect on its financial condition or results of operations.

Item 4. *Submission of Matters to a Vote of Security Holders*

No matters were submitted to a vote of security holders during the fourth quarter of fiscal 2007.

PART II

Item 5. *Market for the Company s Common Equity and Related Stockholder Matters*

MARKET INFORMATION

The Common Stock is traded on the over-the-counter market and is quoted on the NASDAQ National Market System under the symbol MNRO . The following table sets forth, for the Company s last two fiscal years, the range of high and low sales prices on the NASDAQ National Market System for the Common Stock:

	Fiscal 2007		Fiscal 2006	
Quarter Ended	**High**	**Low**	**High**	**Low**
June	$ 39.60	$ 32.03	$ 29.79	$ 24.52
September	$ 34.74	$ 29.58	$ 31.77	$ 25.47
December	$ 38.31	$ 32.16	$ 32.63	$ 25.94
March	$ 38.26	$ 33.00	$ 40.58	$ 29.47

HOLDERS

At June 1, 2007, the Company s Common Stock was held by approximately 4,200 shareholders of record or through nominee or street name accounts with brokers.

TREASURY STOCK

In January 2007, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to $30 million of its common stock at market prices. The share repurchase program has a term of 12 months. The amount and timing of any purchase will depend upon a number of factors, including the price and availability of the Company s shares and general market conditions. The Company s purchases of common stock are recorded as Treasury Stock and result in a reduction of Shareholders Equity . Through the end of fiscal 2007, the Company repurchased 2,500 shares through this program for approximately $86,000, or an average price of $34.53 per share. All repurchases were made in the fourth quarter of fiscal 2007.

DIVIDENDS

On September 16, 2003, the Company s Board of Directors declared a three-for-two stock split in the form of a 50% stock dividend payable to shareholders of record on October 21, 2003. Information regarding the number of shares of Common Stock outstanding, as set forth in this Form 10-K, reflect the impact of this stock split.

In May 2005, 2006 and 2007, respectively, the Company s Board of Directors declared its intention to pay a regular quarterly cash dividend beginning with the first quarter of fiscal 2006, 2007 and 2008 of $.05, $.07 and $.09, respectively. 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 the Company s financial condition, results of operations, capital requirements, compliance with charter and contractual restrictions, and such other factors as the Board of Directors deems relevant. The terms of the Company s Credit Facility permit the payment of cash dividends not to exceed 25% of the preceding year s net income. See additional dividend disclosure in Note 16 to the consolidated financial statements.

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Item 6. *Selected Financial Data*

The following table sets forth selected financial and operating data of the Company for each year in the five-year period ended March 31, 2007. The financial data and certain operating data have been derived from the Company s audited financial statements. This data should be read in conjunction with the financial statements and related notes included under Item 8 of this report and in conjunction with other financial information included elsewhere in this Form 10-K.

	Year Ended Fiscal March				
	2007	2006	2005	2004	2003
	(Amounts in thousands, except per share data)				
Income Statement Data:					
Sales	$ 417,226	$ 368,727	$ 337,409	$ 279,457	$ 258,026
Cost of sales, including distribution and occupancy costs	250,804	220,915	200,616	165,412	153,073
Gross profit	166,422	147,812	136,793	114,045	104,953
Operating, selling, general and administrative expenses	126,439	108,030	102,379	84,708	81,040
Operating income	39,983	39,782	34,414	29,337	23,913
Interest expense, net	4,564	3,478	2,549	2,613	2,601
Other expense (income), net	734	(502)	463	48	(211)
Income before provision for income taxes	34,685	36,806	31,402	26,676	21,523
Provision for income taxes	12,414	14,140	11,733	10,136	8,179
Net income	$ 22,271	$ 22,666	$ 19,669	$ 16,540	$ 13,344
Earnings per share Basic(a)	$ 1.59	$ 1.67	$ 1.50	$ 1.28	$ 1.05
Diluted(a)	$ 1.46	$ 1.51	$ 1.35	$ 1.15	$ .95
Weighted average number of Common Stock and equivalents Basic(b)	13,878	13,531	13,102	12,954	12,699
Diluted(b)	15,252	15,022	14,562	14,400	14,105
Cash dividends per common share or common share equivalent	$ .26	$ .15			
Selected Operating Data(c):					
Sales growth:					
Total	13.2%	9.3%	20.7%	8.3%	14.8%
Comparable store(d)	3.2%	1.7%	2.0%	4.7%	2.9%
Stores open at beginning of year	625	626	595	560	514

Stores open at end of year	698	625	626	595	560
Capital expenditures(e)	$ 22,319	$ 16,005	$ 18,586	$ 14,327	$ 14,822
Balance Sheet Data (at period end):					
Net working capital	$ 28,328	$ 31,392	$ 27,158	$ 29,611	$ 22,630
Total assets	340,023	303,395	284,985	259,343	206,984
Long-term debt	52,525	46,327	55,438	68,763	36,183
Shareholders equity	215,119	192,990	167,489	138,993	120,051

(a) See Note 10 for calculation of basic and diluted earnings per share.

(b) Adjusted in fiscal year 2003 for the effect of the Company s October 2003 three-for-two stock split.

(c) Includes Company-operated stores only no dealer locations.

(d) Comparable store sales data is calculated based on the change in sales of only those stores open as of the beginning of the preceding fiscal year.

(e) Amount does not include the funding of the purchase price related to the Kimmel or Frasier Acquisitions in fiscal year 2003, the Mr. Tire Acquisition in fiscal 2004, the Rice and Henderson Acquisitions in fiscal 2005, or the ProCare Acquisition in fiscal 2007.

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

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

	Year Ended Fiscal March		
	2007	**2006**	**2005**
Sales	100.0%	100.0%	100.0%
Cost of sales, including distribution and occupancy costs	60.1	59.9	59.5
Gross profit	39.9	40.1	40.5
Operating, selling, general and administrative expenses	30.3	29.3	30.3
Operating income	9.6	10.8	10.2
Interest expense, net	1.1	.9	.8
Other expense (income), net	.2	(.1)	.1
Income before provision for income taxes	8.3	10.0	9.3
Provision for income taxes	3.0	3.8	3.5
Net income	5.3%	6.2%	5.8%

FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K that are not historical facts, including (without limitation) statements made in this Item and in Item 1 Business , may contain statements of future expectations and other forward-looking statements made pursuant to the Safe Harbor provisions of the Private Securities Litigation Reform Act of 1995. 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 the Company 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, product development, 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, risks relating to integration of acquired businesses, the risks set forth in Item 1A. Risk Factors and other factors set forth or incorporated elsewhere herein and in the Company s other SEC filings. The Company does not undertake to update any forward-looking statement that may be made from time to time by or on behalf of the Company.

CRITICAL ACCOUNTING POLICIES

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

Inventory

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

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Carrying Values of Goodwill and Long-Lived Assets

Goodwill represents the amount paid in consideration for an acquisition in excess of the net assets acquired. In accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets , the Company does not amortize goodwill for acquisitions made after June 30, 2001. The Company conducts tests for impairment of goodwill annually, typically during the third quarter of the fiscal year, or more frequently if circumstances indicate that the asset might be impaired. These impairment tests include management estimates of future cash flows that are dependent upon subjective assumptions regarding future operating results including growth rates, discount rates, capital requirements and other factors that impact the estimated fair value. An impairment loss is recognized to the extent that an asset s carrying amount exceeds its fair value.

The Company evaluates the carrying values of its long-lived assets to be held and used in the business by reviewing undiscounted cash flows by operating unit. Such evaluations are performed whenever events and circumstances indicate that the carrying amount of an asset may not be recoverable. In such instances, the carrying values are adjusted for the differences between the fair values and the carrying values. Additionally, in the case of fixed assets related to locations that will be closed or sold, the Company shortens the depreciable life of the related assets to coincide with the planned sale or closing date.

Self-Insurance Reserves

The Company is largely self-insured with respect to workers compensation, general liability and employee medical claims. In order to reduce its risk and better manage its overall loss exposure, the Company purchases stop-loss insurance that covers individual claims in excess of the deductible amounts. The Company maintains an accrual for the estimated cost to settle open claims as well as an estimate of the cost of claims that have been incurred but not reported. These estimates take into consideration the historical average claim volume, the average cost for settled claims, current trends in claim costs, changes in the Company s business and workforce, and general economic factors. These accruals are reviewed on a quarterly basis, or more frequently if factors dictate a more frequent review is warranted.

Warranty

The Company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales, except for tire road hazard warranties which are accounted for in accordance with Financial Accounting Standards Board (FASB) Technical Bulletin 90-1 Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts . The warranty reserve and warranty expense related to all product warranties at and for the fiscal years ended March 2007, 2006 and 2005 were not material to the Company s financial position or results of operations.

Stock-Based Compensation

The Company accounts for its stock options in accordance with Statement of Financial Accounting Standards No. 123R (SFAS 123R), Share-Based Payment , as interpreted by FASB Staff Positions No. 123R-1, 123R-2, 123R-3, 123R-4, 123R-5, and 123R-6, using the fair value recognition provisions of SFAS No. 123, Accounting for Stock-Based Compensation , effective March 26, 2006.

The fair value of each option award is estimated on the date of grant using the Black-Scholes option valuation model that uses the following assumptions. Expected volatilities are based on historical changes in the market price of the Company s common stock. The expected term of options granted is derived from the vesting period of the award, as well as historical exercise behavior, and represents the period of time that options granted are expected to be

outstanding. The risk-free rate is calculated using the implied yield on zero-coupon U.S. Treasury bonds with a remaining maturity equal to the expected term of the awards. The Company uses historical data to estimate forfeitures. The dividend yield is based on historical experience and expected future changes.

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RESULTS OF OPERATIONS

FISCAL 2007 AS COMPARED TO FISCAL 2006

Sales for fiscal 2007 increased $48.5 million, or 13.2% to $417.2 million as compared to $368.7 million in fiscal 2006. The increase was due to an increase of approximately $43.1 million from new stores (which are defined as stores added since March 26, 2005), including $35.3 million from the Acquired ProCare stores, as well as a comparable store sales increase of 3.2%. Fiscal 2007 was a 53-week year, and, therefore, there were 312 selling days in fiscal year 2007 as compared to 308 selling days in fiscal year 2006. Adjusting for days, comparable store sales increased 1.9%.

During the year, 84 stores were added and 11 were closed. At March 31, 2007, the Company had 698 stores in operation.

As occurred in fiscal 2006, the Company completed the bulk sale of approximately $3.9 million of slower moving inventory to Icon International, a barter company. The bulk sales of inventory to Icon are important transactions for the Company. The sales help to improve inventory turns, which becomes a higher priority as interest rates continue to rise, and in light of the accounting rules of Emerging Issues Task Force Issue No. 02-16 (EITF 02-16), Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor, which require that vendor rebates be recognized as inventory turns. As new vendor agreements fall under these rules, inventory turns have a more direct impact on cost of goods sold and gross profit than in the past.

Management believes that the improvement in sales resulted from several factors, including an increase in tire sales, scheduled maintenance services and alignments. Price increases in several product categories also contributed to the sales improvement. Comparable store traffic improved as did average ticket. Management believes that soft economic conditions resulted in consumers deferring repairs to their vehicles, especially in the first half of the Company s fiscal year, which typically accounts for slightly more than 50% of its sales and 65 75% of its earnings. In the first half of fiscal 2007, the Company s comparable store sales declined .9%. However, most repairs can only be deferred for a period of time. When customers did come in to have their vehicles repaired, it is management s belief that they spent more on average because the problem with their vehicle had worsened due to additional wear.

The Company introduced Scheduled Maintenance services in all of its stores late in fiscal 2001. These services are required by vehicle manufacturers to comply with warranty schedules, and are offered by Monro in a more convenient and cost competitive fashion than auto dealers typically provide. Management believes that these services, which are offered both in bundled packages and individually, will continue to contribute positively to comparable store sales in future years, and have helped to mitigate the decline in exhaust which negatively impacted recent fiscal years. The exhaust decline resulted primarily from manufacturers use of non-corrosive stainless steel exhaust systems on most new cars beginning in the mid-1980s and completed in the mid-1990s.

Additionally, the Company continued to reward store employees with pay programs focused on high customer service scores. Management believes that, in spite of the sluggish economic environment, it is continuing to build the trust of its customers, through quality, integrity and fair pricing, and is gaining an advantage over some of its competitors.

The new ProCare stores acquired on April 29, 2006 were purchased out of bankruptcy. These stores suffered significant sales declines in recent years and did not perform at a profitable level in fiscal 2007. The ProCare stores lost approximately $.09 in diluted earnings per share in fiscal 2007. However, sales improved over the course of fiscal 2007, efforts were made to reduce costs and improve margins, and management believes these stores will be solidly profitable in fiscal 2008.

Gross profit for fiscal 2007 was $166.4 million or 39.9% of sales, as compared with $147.8 million or 40.1% of sales for fiscal 2006. The ProCare stores increased consolidated cost of sales and reduced gross profit by .7% as a percentage of sales during fiscal 2007. The decrease in consolidated gross profit occurred primarily in the areas of labor and material costs. Even in times of declining sales, technicians receive a minimum base wage when they are not fully productive. This subsidization of wages in the ProCare stores raised labor costs as a percentage of consolidated sales. Higher than normal outside purchases of parts by the ProCare stores increased total material

costs. However, the Company saw declines in outside purchases over the course of the year as it added to, and rebalanced, the inventory at these locations. The Company expects to see more improvement in this expense line as it continues to refine the types and level of inventory which is carried at these stores, and as these stores continue to improve their level of transfers of product from neighboring stores. Additionally, due to negative comparable store sales at these locations, fixed occupancy costs created pressure on gross margin.

Without the ProCare stores, gross profit was 40.6% of sales for fiscal 2007, as compared to 40.1% in the prior year. The improvement in gross profit as a percentage of sales is due to a couple of factors. One reason is the shift of vendor rebates or cooperative advertising credits from Operating, Selling, General and Administrative Expenses (SG&A) to cost of sales. Additionally, the Company earned more vendor rebates in fiscal 2007 than it did in fiscal 2006. These rebates offset the negative impact of the shift in mix to the lower margin tire and maintenance services categories. Decreases in technician labor and occupancy costs also contributed to the improvement in gross margin as compared to the prior year. Technician labor costs decreased due to better operational control and improved productivity. Additionally, the increase in tire sales, which carry lower labor costs as compared to other service categories, helped to decrease labor costs as a percent of sales in fiscal 2007 as compared to fiscal 2006.

Distribution and occupancy costs as a percentage of sales in fiscal 2007 also decreased as compared to fiscal 2006, as the Company, with improved sales, was able to better leverage these largely fixed costs. Additionally, expenditures for building maintenance in fiscal 2007 were slightly less than the prior year.

Operating, selling, general and administrative expenses for fiscal 2007 increased by $18.4 million to $126.4 million, and increased as a percentage of sales to 30.3% compared to 29.3% in 2006. The ProCare stores accounted for a .5% increase in store direct cost (included in SG&A) as compared to the prior year. Manager pay and benefits are included in store direct costs, and being largely fixed, put adverse pressure on margins against negative comparable store sales in these locations. In addition to the percentage increase attributable to the ProCare stores, a shift in cooperative advertising credits from SG&A to cost of sales in connection with the accounting for new vendor agreements under EITF 02-16 caused SG&A expenses to increase approximately one percentage point as compared to the prior year. Partially offsetting these increases, however, was a decrease in management bonus expense due to the Company not attaining minimum profit goals.

The Company experienced an unplanned charge of $1.3 million in workers compensation and garage liability insurance expense in the fourth quarter of fiscal 2007, and these expenses also increased $1.9 million over the same quarter of last year. However, benefits expense in total, which includes workers compensation expense, was flat for the year as a percent of sales when compared to the prior year because of an offsetting decline in health insurance expense which had occurred over the course of fiscal 2007. General insurance expense for the full year, which includes garage liability insurance, increased only slightly over the prior year.

The Company adopted SFAS 123R in fiscal 2007 and recognized approximately $.5 million of expense related to stock options issued in fiscal 2007. In the fourth quarter of fiscal 2006, the Company accelerated the vesting of all outstanding stock options and recognized a charge of approximately $.3 million just prior to adoption. (See additional discussion under the section Fiscal 2006 as Compared to Fiscal 2005.) Most of this expense is included in SG&A in both years.

Operating income in fiscal 2007 of $40.0 million, or 9.6% of sales, increased by $.2 million from the fiscal 2006 level of $39.8 million, due to the factors discussed above.

Interest expense, net of interest income, increased as a percent of sales from .9% in fiscal 2006 to 1.1% in fiscal 2007. The weighted average debt outstanding for the year ended March 31, 2007 increased by approximately $11.0 million from fiscal 2006, primarily related to $20.2 million of capital leases assumed in connection with the ProCare

acquisition, involving 45 locations, partially offset by net payments on the Company s revolving credit facility. Additionally, there was an increase in the weighted average interest rate for the year ended March 31, 2007 of approximately 60 basis points from the year ended March 25, 2006, resulting in an increase in expense between the two years. The increase was also largely due to the interest rates associated with the capital leases which are generally much higher than the Company s incremental borrowing rate under its revolving credit facility.

Other expense, net, for fiscal 2007 was $.7 million, consisting of $2.8 million related to the loss on investment in R&S Parts and Service, Inc. and $1.0 million of amortization expense. Partially offsetting these expenses was

$2.8 million in gains on the sale of fixed assets and $.3 million of miscellaneous income. As discussed elsewhere in this Form 10-K, during fiscal 2007, the Company recorded an impairment charge with respect to its original 13% equity investment as well as due diligence costs related to R&S, upon learning that R&S had filed petitions for relief under Chapter 11 of the U.S. Bankruptcy Code, and deciding that it would not exercise its option to purchase the remaining 87% of R&S.

In fiscal 2006, the Company reported other income, net, of $.5 million, consisting of gains on sale of fixed assets of $1.0 million, consulting fees from Strauss of $.3 million and miscellaneous income of $.1 million, partially offset by $.9 million of amortization expense.

The Company s effective tax rate was 35.8% and 38.4% of pre-tax income in fiscal 2007 and 2006, respectively. During the first quarter of fiscal 2007, the Company recognized $.4 million of income tax benefit primarily related to the favorable resolution of state income tax issues. Additionally, in the fourth quarter of fiscal 2007, in connection with finalization of its full year tax provision, the Company reduced income tax reserves by $.2 million.

Net income for fiscal 2007 decreased by $.4 million, or 1.7%, from $22.7 million in fiscal 2006, to $22.3 million in fiscal 2007, and earnings per diluted share decreased by 3.3% from $1.51 to $1.46 due to the factors discussed.

FISCAL 2006 AS COMPARED TO FISCAL 2005

Sales for fiscal 2006 increased $31.3 million, or 9.3% to $368.7 million as compared to $337.4 million in fiscal 2005. The increase was due to an increase of approximately $26.6 million from stores added since March 27, 2004, and a comparable store sales increase of 1.7%. The Company also sold some slower moving inventory for approximately $4.1 million to ICON International, a barter company. There were 308 selling days in fiscal year 2006 compared to 307 selling days in fiscal year 2005. Adjusting for days, comparable store sales increased 1.4%.

During the year, 10 stores were added and 11 were closed. At March 25, 2006, the Company had 625 stores in operation.

Management believes that the improvement in sales resulted from several factors, including an increase in tire sales and scheduled maintenance services. Price increases in several product categories also contributed to the sales improvement. While comparable store traffic declined slightly, average ticket increased.

Gross profit for fiscal 2006 was $147.8 million or 40.1% of sales, as compared with $136.8 million or 40.5% of sales for fiscal 2005. The decrease in gross profit as a percentage of sales is primarily attributable to an increase in material costs due to a shift in mix to the lower margin categories of tires and maintenance services. On a consolidated basis, tires represented 22.5% of sales in fiscal 2006 as compared to 20.2% of sales in fiscal 2005. Maintenance services increased from 26.8% of sales to 28.4% of sales, while the core services of brakes, exhaust and steering all decreased as a percent of sales from the prior year.

The Company also experienced cost increases in oil and tires. Additionally, the bulk sale of inventory to ICON was at a lower margin than Monro s typical sales, although there were no labor costs, and accounted for a slight decrease in gross margin.

However, price increases, as well as the recognition of vendor rebates against cost of goods in concert with inventory turns in accordance with EITF 02-16, helped to partially offset the aforementioned margin pressures.

Partially offsetting these increases were decreases in technician labor and occupancy costs, which are included in cost of sales. Technician labor costs decreased due to better operational control and improved productivity. Additionally,

the increase in tire sales, which carry lower labor costs as compared to other service categories, helped to decrease labor costs as a percent of sales in fiscal 2006 as compared to fiscal 2005.

Distribution and occupancy costs as a percentage of sales in fiscal 2006 also decreased as compared to fiscal 2005, as the Company, with improved sales, was able to leverage these largely fixed costs.

Operating, selling, general and administrative (OSG&A) expenses for fiscal 2006 increased by $5.7 million to $108.0 million, but decreased as a percentage of sales to 29.3% compared to 30.3% in 2005. The decrease is

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partially due to the leveraging of fixed costs against sales, including the bulk inventory sale. Additionally, the Company experienced lower costs in health and other insurance as a percent of sales. It also reduced advertising expense as a percent of sales from fiscal 2005.

Effective March 24, 2006, the Compensation Committee of the Board of Directors approved the accelerated vesting of all 220,000 stock options held by the Company s employees. The Company s executive officers and certain senior level managers agreed that they would hold the shares related to the accelerated vesting at least through the original vesting date of the corresponding options, other than with respect to sales of such shares necessary to pay withholding taxes incurred as a result of the exercise of such options. Except for the accelerated vesting, all other material terms and conditions of the previously granted awards remain unchanged.

The decision to accelerate the vesting of these stock options was made to reduce non-cash compensation expense that otherwise would have been recorded in future periods following the Company s adoption of SFAS 123R, which became effective for the Company on March 26, 2006. The accelerated vesting resulted in a one-time non-cash stock based compensation charge of approximately $.3 million, or $.02 per share, in the fourth quarter of fiscal 2006. As a result of the vesting acceleration, the Company estimates it eliminated the recognition of approximately $900,000 to $1,000,000 of non-cash expense over the four fiscal years 2007 through 2010, with more than half of the expense reduction attributable to fiscal 2007. Most of the $.3 million is included in OSG&A expense.

Operating income in fiscal 2006 of $39.8 million, or 10.8% of sales, increased by $5.4 million from the fiscal 2005 level of $34.4 million, due to the factors discussed above.

Interest expense, net of interest income, increased as a percent of sales from .8% in fiscal 2005 to .9% in fiscal 2006. The weighted average debt outstanding for the year ended March 25, 2006 decreased by approximately $6.4 million from fiscal 2005. However, offsetting this decrease was an increase in the weighted average interest rate for the year ended March 25, 2006 of 260 basis points from the year ended March 26, 2005, resulting in an increase in expense between the two years.

Other income, net, for fiscal 2006 was $.5 million, consisting of $1.4 million in gains on sale of fixed assets and miscellaneous income, partially offset by $.9 million of amortization expense. In fiscal 2005, the Company reported other expense, net, of $.5 million, consisting of amortization expense of $.8 million offset by gains on sale of fixed assets and miscellaneous income of $.3 million.

The Company s effective tax rate was 38.4% and 37.4% of pre-tax income in fiscal 2006 and 2005, respectively.

Net income for fiscal 2006 increased by $3.0 million, or 15.2%, to $22.7 million as compared to $19.7 million in fiscal 2005, due to the factors discussed.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

The Company s primary capital requirements for fiscal 2007 were divided among the funding of the acquisitions for $13.1 million, the upgrading of facilities and systems and the funding of its store expansion program totaling $22.3 million. In fiscal 2006, the Company s primary capital requirements were the upgrading of facilities and systems and the funding of its store expansion program. The Company spent $16.0 million, principally for equipment and leasehold improvements. It also spent $2.0 million and $5.0 million, respectively, for the investments in and loan to R&S Parts and Service, Inc.

In both fiscal years 2007 and 2006, these capital requirements were primarily met by cash flow from operations.

In fiscal 2008, the Company intends to open approximately 16 new stores, of which 10 are expected to be stores located within BJ s Wholesale Clubs. Total capital required to open a new service store ranges, on average (based upon the last five fiscal years openings excluding the acquired stores and BJ s locations), from $300,000 to

$1,000,000 depending on whether the store is leased, owned or land leased. Total capital required to open a store within a BJ s Wholesale Club is substantially less than for a greenfield store.

The Company also plans to continue to seek suitable acquisition candidates. Management believes that the Company has sufficient resources available (including cash flow from operations and bank financing) to expand its business as currently planned for the next several years.

Contractual Obligations

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

	Total	Within 1 Year	Within 2 to 3 Years	Within 4 to 5 Years	After 5 Years
			(Dollars in thousands)		
Long-term debt	$ 21,178	$ 18		$ 20,500	$ 660
Capital lease commitments	32,715	1,350	$ 3,002	3,050	25,313
Operating lease commitments	100,414	21,542	34,413	18,268	26,191
Purchase obligations	144,677	37,419	76,339	30,919	
Total	$ 298,984	$ 60,329	$ 113,754	$ 72,737	$ 52,164

In March 2003, the Company renewed its existing credit facility agreement. The amended financing arrangement consisted of an $83.4 million Revolving Credit facility and a non-amortizing credit loan (formerly synthetic lease financing) totaling $26.6 million.

In July 2005, the Company amended its existing credit terms by entering into a five-year, $125 million Revolving Credit Facility agreement (the Credit Facility) with five banks in the lending syndicate that provided the Company s prior financing arrangement. Interest only is payable monthly throughout the Credit Facility s term. The Credit Facility increased the Company s borrowing capacity by $15 million to $125 million and included a provision allowing the Company to expand the amount of the overall facility to $160 million, subject to existing or new lender(s) commitments at that time. The terms of the Credit Facility immediately reduced the spread the Company pays on LIBOR-based borrowings by 50 basis points and permit the payment of cash dividends not to exceed 25% of the preceding year s net income. Additionally, the amended Credit Facility is not secured by the Company s real property, although the Company has entered into an agreement not to encumber its real property, with certain permissible exceptions. Other terms of the Credit Facility are generally consistent with the Company s prior financing agreement.

In January 2007, the Company amended the Credit Facility to: 1) allow stock buybacks subject to the Company being able to meet its existing financial covenants; 2) extend the termination date by 18 months to January 2012; and 3) increase the accordion feature by $40 million, which allows the Company to expand the amount of the overall facility to $200 million.

Within the aforementioned $125 million Revolving Credit facility, the Company has available a sub-facility of $20 million for the purpose of issuing standby letters of credit. The line requires fees aggregating .88% annually of the face amount of each standby letter of credit, payable quarterly in arrears. There were $11.6 million in outstanding letters of credit under this line at March 31, 2007.

In addition, the Company has financed certain store properties and vehicles with capital leases, which amount to $32.7 million and are due in installments through 2026.

During fiscal 1995, the Company purchased 12.7 acres of land for $.7 million from the City of Rochester, New York, on which its office/warehouse facility is located. The City has provided financing for 100% of the cost of the land via a 20-year non-interest bearing mortgage, all due and payable in 2015.

To finance its office/warehouse building, the Company obtained permanent mortgage financing in fiscal 1996 consisting of a 10-year mortgage for $2.9 million and an eight-year term loan in the amount of $.7 million. In October 2005, the Company paid the remaining $1.5 million outstanding on the mortgage for the headquarters office/warehouse building.

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Certain of the Company s long-term debt agreements require, among other things, the maintenance of specified interest and rent coverage ratios and amounts of net worth. They also contain restrictions on dividend payments. The Company is in compliance with these requirements at March 31, 2007. These agreements permit mortgages and specific lease financing arrangements with other parties with certain limitations.

From time to time, the Company enters into interest rate hedge agreements, which involve the exchange of fixed and floating rate interest payments periodically over the life of the agreement without the exchange of the underlying principal amounts. The differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements as an offsetting adjustment to interest expense. Currently the Company has no hedge agreements. The most recent hedge agreement expired in October 2005.

INFLATION

The Company does not believe its operations have been materially affected by inflation. The Company has been successful, in many cases, in mitigating the effects of merchandise cost increases principally through the use of volume discounts and alternative vendors.

FINANCIAL ACCOUNTING STANDARDS

See Recent Accounting Pronouncements in Note 1 to the consolidated financial statements for a discussion of the impact of recently issued accounting standards on the Company s consolidated financial statements as of March 31, 2007 and for the year then ended, as well as the expected impact on the Company s consolidated financial statements for future periods.

Item 7A. *Quantitative and Qualitative Disclosures about Market Risk*

The Company is exposed to market risk from potential changes in interest rates. At year end March 2007 and 2006, approximately 3% of the Company s long-term debt, excluding capital leases, was at fixed interest rates and therefore, the fair value is affected by changes in market interest rates. The Company s cash flow exposure on floating rate debt, which is not supported by interest rate swap agreements, would result in interest expense fluctuating approximately $.2 million based upon the Company s debt position at fiscal year ended March 31, 2007 and $.3 million for fiscal year ended March 25, 2006, given a 1% change in LIBOR.

The Company regularly evaluates these risks and has in the past entered and may in the future enter into interest rate swap agreements, all of which prior agreements had expired by October 2005. The Company believes the amount of risk and the use of derivative financial instruments described above are not material to the Company s financial condition or results of operations.

Long-term debt, including current portion, had a carrying amount of $21.2 million and a fair value of $20.9 million as of March 31, 2007, as compared to a carrying amount of $35.2 million and a fair value of $34.9 million as of March 25, 2006.

Item 8. ***Financial Statements and Supplementary Data***

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

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

We have completed integrated audits of Monro Muffler Brake, Inc. s consolidated financial statements and of its internal control over financial reporting as of March 31, 2007, in accordance with the standards of the Public Company Accounting Oversight Board (United States). Our opinions, based on our audits, are presented below.

Consolidated Financial Statements

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Monro Muffler Brake, Inc. and its subsidiaries at March 31, 2007 and March 25, 2006, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2007 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit of financial statements includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in *Note 1 Significant Accounting Policies* and *Note 9 Employee Stock Plans* to the consolidated financial statements, the Company changed the manner in which it accounts for share-based compensation effective March 26, 2006.

As discussed in *Note 1 Significant Accounting Policies* and *Note 12 Employee Retirement and Profit Sharing Plans* to the consolidated financial statements, the Company changed the manner in which it accounts for defined benefit pension and other postretirement plans effective March 31, 2007.

Internal Control over Financial Reporting

Also, in our opinion, management s assessment, included in Management s Report on Internal Control Over Financial Reporting appearing under Item 9A, that the Company maintained effective internal control over financial reporting as of March 31, 2007 based on criteria established in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), is fairly stated, in all material respects, based on those criteria. Furthermore, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of March 31, 2007, based on criteria established in *Internal Control Integrated Framework* issued by the COSO. The Company s management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express opinions on management s assessment and on the effectiveness of the Company s internal control over financial reporting based on our audit. We conducted our audit of internal control over financial reporting in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. An audit of internal control over financial reporting includes obtaining an understanding of internal control over financial reporting, evaluating management s

assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we consider necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions.

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

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

PricewaterhouseCoopers LLP

Rochester, New York
June 14, 2007

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET

	March 31, 2007	March 25, 2006
	(Dollars in thousands)	
ASSETS		
Current assets:		
Cash and equivalents	$ 965	$ 3,780
Trade receivables	2,225	1,726
Inventories	62,398	60,378
Deferred income tax asset	4,378	1,133
Other current assets	18,870	18,091
Total current assets	88,836	85,108
Property, plant and equipment	327,303	291,789
Less Accumulated depreciation and amortization	(143,054)	(128,164)
Net property, plant and equipment	184,249	163,625
Goodwill	52,897	37,766
Intangible assets and other non-current assets	14,041	16,896
Total assets	$ 340,023	$ 303,395
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Current portion of long-term debt	$ 1,368	$ 525
Trade payables	27,211	25,802
Federal and state income taxes payable	1,580	1,937
Accrued payroll, payroll taxes and other payroll benefits	10,697	10,255
Accrued insurance	7,387	5,536
Other current liabilities	12,265	9,661
Total current liabilities	60,508	53,716
Long-term debt	52,525	46,327
Accrued rent expense	6,937	7,362
Other long-term liabilities	4,514	2,924
Deferred income tax liability	420	76
Total liabilities	124,904	110,405
Commitments		
Shareholders equity:		
Class C Convertible Preferred Stock, $1.50 par value, $.144 conversion value at March 31, 2007 and March 25, 2006, 150,000 shares authorized; 65,000 shares issued	97	97

and outstanding		
Common Stock, $.01 par value, 20,000,000 shares authorized; 14,342,051 and 13,976,630 shares issued at March 31, 2007 and March 25, 2006, respectively	143	140
Treasury Stock, 334,128 and 331,628 shares at March 31, 2007 and March 25, 2006, respectively, at cost	(2,143)	(2,056)
Additional paid-in capital	62,866	57,661
Accumulated other comprehensive income	(1,478)	
Retained earnings	155,634	137,148
Total shareholders equity	215,119	192,990
Total liabilities and shareholders equity	$ 340,023	$ 303,395

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

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF INCOME

	Year Ended Fiscal March		
	2007	2006	2005
	(Amounts in thousands, except per share data)		
Sales	$ 417,226	$ 368,727	$ 337,409
Cost of sales, including distribution and occupancy costs	250,804	220,915	200,616
Gross profit	166,422	147,812	136,793
Operating, selling, general and administrative expenses	126,439	108,030	102,379
Operating income	39,983	39,782	34,414
Interest expense, net of interest income of $387 in 2007, $65 in 2006, and $50 in 2005	4,564	3,478	2,549
Other expense (income), net	734	(502)	463
Income before provision for income taxes	34,685	36,806	31,402
Provision for income taxes	12,414	14,140	11,733
Net income	$ 22,271	$ 22,666	$ 19,669
Earnings per share:			
Basic	$ 1.59	$ 1.67	$ 1.50
Diluted	$ 1.46	$ 1.51	$ 1.35
Weighted average number of common shares outstanding used in computing earnings per share:			
Basic	13,878	13,531	13,102
Diluted	15,252	15,022	14,562

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

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

	Class C Convertible Preferred Stock	Common Stock	Treasury Stock	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income	Total
	(Dollars in thousands)						
Balance at March 27, 2004	$ 97	$ 133	$ (1,831)	$ 44,057	$ 96,950	$ (413)	$ 138,993
Net income					19,669		19,669
Other comprehensive income:							
SFAS 133 adjustment(1)						58	58
Minimum pension liability adjustment(1)						338	338
Total comprehensive income							20,065
Tax benefit from exercise of stock options				644			644
Issuance of stock: payment for acquisition		2		6,430			6,432
Exercise of stock options		2		1,353			1,355
Balance at March 26, 2005	97	137	(1,831)	52,484	116,619	(17)	167,489
Net income					22,666		22,666
Other comprehensive income:							
SFAS 133 adjustment(1)						17	17
Total comprehensive income							22,683
Cash dividends: Preferred					(102)		(102)
Common					(2,035)		(2,035)
Tax benefit from exercise of stock options				711			711
Exercise of warrants		1		2,232			2,233
Exercise of stock options		2		1,917			1,919
Stock issuance costs				20			20
Stock option compensation				297			297
Purchase of treasury shares			(225)				(225)
Balance at March 25, 2006	97	140	(2,056)	57,661	137,148	0	192,990
Net income					22,271		22,271
Other comprehensive income:							
Adjustment to initially apply SFAS 158 for pension benefits(1)						(1,478)	(1,478)

Total comprehensive income							20,793
Cash dividends: Preferred					(175)		(175)
Common					(3,610)		(3,610)
Tax benefit from exercise of stock options				1,076			1,076
Exercise of stock options		3		3,606			3,609
Stock option compensation				523			523
Purchase of treasury shares			(87)				(87)
Balance at March 31, 2007	$ 97	$ 143	$ (2,143)	$ 62,866	$ 155,634	$ (1,478)	$ 215,119

(1) Components of comprehensive income are reported net of related taxes of $985, $11 and $242 in fiscal years 2007, 2006 and 2005, respectively.

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

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended Fiscal March		
	2007	**2006**	**2005**
	(Dollars in thousands) Increase (Decrease) in Cash		
Cash flows from operating activities:			
Net income	$ 22,271	$ 22,666	$ 19,669
Adjustments to reconcile net income to net cash provided by operating activities			
Depreciation and amortization	20,322	17,776	15,724
Loss on investment in R&S Parts and Services, Inc.	2,796		
Stock-based compensation expense	523	297	
Excess tax benefits from share-based payment arrangements	(511)		
Net change in deferred income taxes	816	(806)	1,939
(Gain) loss on disposal of property, plant and equipment	(1,916)	(959)	197
Gain from relocation of tire store	(900)		
(Increase) decrease in trade receivables	(499)	436	(187)
Increase in inventories	(974)	(3,543)	(4,870)
Increase in other current assets	(1,581)	(2,924)	(3,368)
Increase in other noncurrent assets	(7,935)	(1,377)	(531)
Increase in trade payables	1,250	1,906	7,087
Increase in accrued expenses	4,108	1,024	2,178
Increase in income taxes payable	719	1,966	281
Decrease in other long-term liabilities	(152)	(680)	(478)
Total adjustments	16,066	13,116	17,972
Net cash provided by operating activities	38,337	35,782	37,641
Cash flows from investing activities:			
Capital expenditures	(22,319)	(16,005)	(18,586)
Acquisitions, net of cash acquired	(13,109)		(4,539)
Proceeds from the disposal of property, plant and equipment	3,999	3,015	1,986
Proceeds from relocation of tire store	450	450	
Debtor in-possession financing to ProCare		(900)	
Deposit on acquisition of ProCare		(700)	
Repayment of loan receivable from (loan to) R&S Parts and Services, Inc.	5,000	(5,000)	
Investment in R&S Parts and Services, Inc.		(2,000)	
Net cash used for investing activities	(25,979)	(21,140)	(21,139)
Cash flows from financing activities:			

Proceeds from borrowings	127,338	206,450	122,514
Principal payments on long-term debt and capital lease obligations	(142,759)	(219,990)	(141,016)
Purchase of common stock	(87)	(225)	
Exercise of stock options	3,609	1,919	1,355
Exercise of warrants		2,233	
Excess tax benefits from share-based payment arrangements	511		
Dividends paid	(3,785)	(2,137)	
Net cash used for financing activities	(15,173)	(11,750)	(17,147)
(Decrease) increase in cash	(2,815)	2,892	(645)
Cash at beginning of year	3,780	888	1,533
Cash at end of year	$ 965	$ 3,780	$ 888

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

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 SIGNIFICANT ACCOUNTING POLICIES

Background

Monro Muffler Brake, Inc. and its wholly owned subsidiary, Monro Service Corporation (the Company), is engaged principally in providing automotive undercar repair services in the United States. The Company had 698 Company-operated stores and 14 dealer-operated automotive repair centers located primarily in the northeast region of the United States as of March 31, 2007. The Company s operations are organized and managed in one operating segment.

Accounting estimates

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

Fiscal year

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

Year ended Fiscal March 2007 : March 26, 2006 March 31, 2007 (53 weeks)

Year ended Fiscal March 2006 : March 27, 2005 March 25, 2006 (52 weeks)

Year ended Fiscal March 2005 : March 28, 2004 March 26, 2005 (52 weeks)

Consolidation

The consolidated financial statements include the Company and its wholly owned subsidiary, Monro Service Corporation for fiscal year 2007 and its wholly owned subsidiaries, Monro Service Corporation and Monro Leasing, LLC for fiscal years 2006 and 2005, after the elimination of intercompany transactions and balances.

Revenue recognition

Sales are recorded upon completion of automotive undercar repair and tire services provided to customers. The following was the Company s sales mix for fiscal 2007, 2006 and 2005:

	Year Ended Fiscal March		
	2007	**2006**	**2005**
Brakes	23%	24%	26%
Exhaust	8	11	13

Steering	14	14	14
Tires	24	23	20
Maintenance	31	28	27
Total	100%	100%	100%

Sales of tire road hazard warranties are accounted for in accordance with Financial Accounting Standards Board (FASB) Technical Bulletin 90-1, Accounting for Separately Priced Extended Warranty and Product Maintenance Contracts . Revenue from the sale of these agreements is recognized on a straight-line basis over the contract period or other method where costs are not incurred ratably.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Cash equivalents

The Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

Inventories

The Company s inventories consist of automotive parts and tires. Inventories are valued at the lower of cost or market value using the first-in, first-out (FIFO) method.

Barter credits

The Company accounts for the receipt of barter credits in accordance with Emerging Issues Task Force (EITF) Issue No. 93-11, Accounting for Barter Transactions .

Property, plant and equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on the straight-line basis. Buildings and improvements related to owned locations are depreciated over lives varying from 10 to 39 years; machinery, fixtures and equipment over lives varying from 5 to 15 years; and vehicles over lives varying from 3 to 8 years. Computer software is depreciated over lives varying from 3 to 7 years. Buildings and improvements related to leased locations are depreciated over the shorter of the asset s useful life or the reasonably assured lease term, as defined in Statement of Financial Accounting Standards No. 98 (SFAS 98), Accounting for Leases . When property is sold or retired, the cost and accumulated depreciation are eliminated from the accounts and a gain or loss is recorded in the Statement of Income. Expenditures for maintenance and repairs are expensed as incurred.

Certain leases have been capitalized and are classified on the balance sheet as fixed assets. These assets are being amortized on a straight-line basis over their estimated lives, which coincide with the terms of the leases. (See Note 4.)

Long-lived assets

The Company accounts for impaired long-lived assets in accordance with Statement of Financial Accounting Standards No. 144 (SFAS 144), Accounting for the Impairment or Disposal of Long-Lived Assets . This standard prescribes the method for asset impairment evaluation for long-lived assets and certain identifiable intangibles that are either held and used or to be disposed of. The Company evaluates the ability to recover long-lived assets whenever events or circumstances indicate that the carrying value of the asset may not be recoverable. In the event assets are impaired, losses are recognized to the extent the carrying value exceeds the fair value. In addition, the Company reports assets to be disposed of at the lower of the carrying amount or the fair market value less selling costs.

Store opening and closing costs

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

Leases

The Company recognizes rent expense, including rent escalations, on a straight-line basis over the reasonably assured lease term, as defined in SFAS 98. Generally, the lease term is the base lease term plus certain renewal option periods for which renewal is reasonably assured.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Goodwill and intangible assets

The Company has adopted Statement of Financial Accounting Standards No. 141 (SFAS 141), Business Combinations . All business combinations consummated on or after July 1, 2001 are accounted for in accordance with that pronouncement. In addition, in accordance with Statement of Financial Accounting Standards No. 142 (SFAS 142), Goodwill and Other Intangible Assets , effective March 31, 2002, the Company no longer amortizes goodwill.

The value of intangibles, such as customer lists and trade names, is determined during the initial purchase accounting for acquisitions via the use of experts, or by the Company applying similar methodologies on smaller acquisitions. The Company analyzes goodwill and other intangible assets for impairment on an annual basis as well as when events and circumstances indicate that an impairment may have occurred. Certain factors that may occur and indicate that an impairment exists include, but are not limited to, operating results that are lower than expected and adverse industry or market economic trends. The impairment testing requires management to estimate the fair value of the assets or reporting unit and record an impairment loss for the excess of the carrying value over the fair value. The estimate of fair value of intangible assets is generally determined on the basis of discounted future cash flows supplemented by the market approach. In estimating the fair value, management must make assumptions and projections regarding such items as future cash flows, future revenues, future earnings and other factors. The assumptions used in the estimates of fair value are generally consistent with past performance and are also consistent with the projections and assumptions that are used in current operating plans. Such assumptions are subject to change as a result of changing economic and competitive conditions. If these estimates or their related assumptions change in the future, the Company may be required to record an impairment loss for these assets.

Warranty

The Company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales. The warranty reserve and warranty expense related to all product warranties at and for the fiscal years ended March 2007, 2006 and 2005 were not material to the Company s financial position or results of operations.

Derivative financial instruments

The Company reports derivatives and hedging activities in accordance with Statement of Financial Accounting Standards No. 133 (SFAS 133), Accounting for Derivative Instruments and Hedging Activities , as amended. This statement requires that all derivative instruments be recorded on the balance sheet at fair value. Changes in the fair value of derivatives are recorded each period in current earnings or other comprehensive income, depending on whether the derivative is designated as part of a hedge transaction, and if it is, depending on the type of hedge transaction.

Comprehensive income

Comprehensive income is reported in accordance with Statement of Financial Accounting Standards No. 130 (SFAS 130), Reporting Comprehensive Income . As it relates to the Company, comprehensive income is defined as net earnings as adjusted for minimum pension liability, unrealized gains on financial instruments qualifying for cash flow hedge accounting and the adjustment to initially apply SFAS 158 for pension benefits, and is reported net of related

taxes in the Consolidated Statement of Changes in Shareholders Equity.

Income taxes

The Company accounts for income taxes using the liability method in accordance with Statement of Financial Accounting Standards No. 109 (SFAS 109), Accounting for Income Taxes . The liability method provides that deferred tax assets and liabilities are determined based on differences between the financial reporting and tax bases

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

of assets and liabilities and are measured using tax rates based on currently enacted rules and legislation and anticipated rates that will be in effect when the differences are expected to reverse.

Treasury stock

In January 2007, the Board of Directors approved a share repurchase program authorizing the Company to purchase up to $30 million of its common stock at market prices. The share repurchase program has a term of 12 months. The amount and timing of any purchase will depend upon a number of factors, including the price and availability of the Company s shares and general market conditions. The Company s purchases of common stock are recorded as Treasury Stock and result in a reduction of Shareholders Equity .

Stock-based compensation

In December 2004, the Financial Accounting Standards Board (FASB) issued Statement of Financial Accounting Standards No. 123R, Share-Based Payments , (SFAS 123R), which replaced SFAS No. 123 Accounting for Stock-Based Compensation , (SFAS 123) and superseded Accounting Principles Board Opinion No. 25, Accounting for Stock Issued to Employees , (APB 25). SFAS 123R requires companies to measure compensation cost arising from the grant of share-based payments to employees at fair value and to recognize such cost in income over the period during which the employee is required to provide service in exchange for the award, usually the vesting period. The Company adopted SFAS 123R effective March 26, 2006 under the modified prospective transition method. In accordance with the modified-prospective transition method of SFAS 123R, the Company has not restated prior periods. Accordingly, the Company has recognized compensation expense for all awards granted or modified after March 25, 2006.

Outstanding awards at the date of adoption were fully vested and, therefore, there was no future expense associated with these awards. SFAS 123R requires forfeitures to be estimated on the grant date and revised in subsequent periods if actual forfeitures differ from those estimates. Prior to the adoption of SFAS 123R, the Company accounted for forfeitures as they occurred. Upon adoption of SFAS 123R, the Company elected to calculate its historical pool of windfall tax benefits using the long-form method described in FASB Staff Position No. 123R-3, Transition Election Related to Accounting for the Tax Effects of Share-Based Payment Awards .

Prior to the adoption of SFAS 123R, the Company used the intrinsic value method prescribed in APB 25 and also followed the disclosure requirements of SFAS 123, as amended by SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure , which required certain disclosures on a pro forma basis as if the fair value method had been followed for accounting for such compensation.

Effective March 24, 2006, the Board of Directors approved the accelerated vesting of all 220,000 stock options held by the Company s employees. Except for the accelerated vesting, all other material terms and conditions of the previously granted awards remain unchanged.

The decision to accelerate the vesting of these stock options was made to reduce non-cash compensation expense that would otherwise have been recorded in future periods following the Company s adoption of SFAS 123R, which became effective for the Company on March 26, 2006. The accelerated vesting resulted in a one-time non-cash stock-based compensation charge of approximately $272,000 after tax, or $.02 per diluted share, in the fourth quarter of fiscal 2006. As a result of the vesting acceleration, the Company estimates it eliminated the recognition of

approximately $900,000 to $1,000,000 of non-cash expense from fiscal 2007 through fiscal 2011, beginning March 26, 2006, with more than half of the expense reduction attributable to fiscal 2007.

Option awards granted subsequent to the Board s action are not included in the acceleration and will vest equally over the service period established in the award, typically four years.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table illustrates the effect on net income if the fair value-based method had been applied to all outstanding and unvested awards in each period.

	Year Ended Fiscal March	
	2006	2005
	(Dollars in thousands, except per share data)	
Net income, as reported	$ 22,666	$ 19,669
Add: Total stock-based employee compensation expense recorded in accordance with APB 25, net of tax effect	272	
Deduct: Total stock-based employee compensation expense determined under fair value-based method for all awards, net of related tax effects expense determined under fair value-based method for all awards, net of tax effect	(1,740)	(1,059)
Pro forma net income	$ 21,198	$ 18,610
Earnings per share:		
Basic as reported	$ 1.67	$ 1.50
Basic pro forma	$ 1.57	$ 1.42
Diluted as reported	$ 1.51	$ 1.35
Diluted pro forma	$ 1.41	$ 1.28

Upon adoption of SFAS 123R, the Company elected to recognize compensation expense using the straight-line approach. The Company estimates fair value using the Black-Scholes valuation model. Assumptions used to estimate the compensation expense are determined as follows:

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

Expected volatility is measured using historical changes in the market price of the Company s common stock;

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

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

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

The weighted average fair value of options granted during fiscal 2007, 2006 and 2005 was $11.26, $7.81 and $11.06, respectively. The fair values of the options granted were estimated on the date of their grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

	Year Ended Fiscal March		
	2007	**2006**	**2005**
Risk-free interest rate	4.98%	4.14%	4.53%
Expected life	6 years	6 years	9 years
Expected volatility	28.6%	28.4%	28.7%
Expected dividend yield	1.37%	1.53%	0%

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Total stock-based compensation expense included in selling, general and administrative and distribution expenses in the Company s statement of operations for the year ended March 31, 2007 was $523,000. The related income tax benefit was $210,000. The Company had stock-based compensation expense under APB 25 of $272,000 for the year ended March 25, 2006, and none for the year ended March 26, 2005.

As a result of adopting SFAS 123R on March 26, 2006, the Company s income before provision for income taxes and net income for the year ended March 31, 2007, were $523,000 and $313,000 lower, respectively, than if the Company had continued to account for stock-based compensation under APB 25. The related impact to basic and diluted earnings per share for the year ended March 31, 2007 was $.02 per share.

Prior to the adoption of SFAS 123R, the Company reported all income tax benefits resulting from the exercise of stock options as operating cash inflows in its consolidated statements of cash flow. In accordance with SFAS 123R, the Company revised its statement of cash flows presentation to include the excess tax benefits from the exercise of stock options as financing cash inflows. Accordingly, for the year ended March 31, 2007, the Company reported $511,000 of excess tax benefits as a financing cash inflow.

Earnings per share

Earnings per share for all periods have been calculated in accordance with Statement of Financial Accounting Standards No. 128 (SFAS 128), Earnings Per Share . Basic earnings per share is calculated by dividing net income less preferred stock dividends by the weighted average number of shares of Common Stock outstanding during the year. Diluted earnings per share is calculated by dividing net income by the weighted average number of shares of Common Stock and equivalents outstanding during the year. Common Stock equivalents represent shares issuable upon assumed exercise of stock options and stock purchase warrants. (See Note 10.)

Advertising

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

Direct response advertising consists primarily of coupons for the Company s services. The capitalized costs of this advertising are amortized over the period of the coupon s validity, which ranges from six weeks to one year.

Prepaid advertising at fiscal year end March 2007 and 2006, and advertising expense for the fiscal years ended March 2007, 2006 and 2005, were not material to these financial statements.

Vendor Rebates and Cooperative Advertising Credits

In accordance with Emerging Issues Task Force Issue No. 02-16 (EITF 02-16), Accounting by a Customer (Including a Reseller) for Cash Consideration Received from a Vendor , for vendor agreements entered into or modified after December 31, 2002, the Company accounts for vendor rebates and cooperative advertising credits as a reduction of the cost of products purchased, except where the rebate or credit is a reimbursement of costs incurred to sell the vendor s product, in which case it is offset against the costs incurred. Vendor rebates and credits associated with vendor agreements entered into prior to December 31, 2002 are recognized as cooperative advertising income as earned and are classified as a reduction of selling, general and administrative expenses.

Pension Expense

The Company reports all information on its pension plan benefits in accordance with Statement of Financial Accounting Standards No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans (an amendment of FASB Statements No. 87, 88, 106 and 132(R)) .

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Guarantees

In accordance with FASB Interpretation No. 45 (FIN 45), Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others , at the time the Company issues a guarantee, it recognizes an initial liability for the fair value, or market value, of the obligations it assumes under that guarantee.

Reclassifications

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

Recent accounting pronouncements

In February 2006, the FASB issued Statement of Financial Accounting Standards No. 155 (SFAS 155), Accounting for Certain Hybrid Financial Instruments (an amendment of FASB Statements No. 133 and 140). This Statement permits fair value measurement for any hybrid financial instrument that contains an embedded derivative that otherwise would require bifurcation. SFAS 155 is effective for all financial instruments acquired, issued, or subject to a remeasurement event occurring after the beginning of an entity s first fiscal year that begins after December 15, 2006 (fiscal year 2008 for the Company). Additionally, the fair value may also be applied upon adoption of this Statement for hybrid financial instruments that had been bifurcated under previous accounting guidance prior to the adoption of this Statement. The adoption of SFAS 155 will have no effect on the financial statements.

In June 2006, the FASB ratified the consensus reached on EITF Issue No. 06-03, How Sales Taxes Collected from Customers and Remitted to Governmental Authorities Should Be Presented in the Income Statement (that is, Gross Versus Net Presentation) (EITF 06-03). The EITF reached a consensus that the presentation of taxes on either a gross or net basis is an accounting policy decision that requires disclosure. EITF 06-03 is effective for the Company s fiscal year beginning April 1, 2007. Sales tax amounts collected from customers have been recorded on a net basis. The adoption of EITF 06-03 will have no effect on the Company s financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes (FIN 48). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company s financial statements in accordance with Statement of Financial Accounting Standards No. 109, Accounting for Income Taxes. Specifically, the pronouncement prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. The accounting provisions of FIN 48 will be effective for the Company beginning April 1, 2007. The Company is in the process of determining the effect, if any, the adoption of FIN 48 will have on its financial statements. The Company believes the adoption will not have a material impact on its financial statements.

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 157 (SFAS 157), Fair Value Measurements. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles (GAAP), and expands disclosures about fair value measurements. This Statement applies under other accounting pronouncements that require or permit fair value measurements, the FASB having previously concluded in those accounting pronouncements that fair value is the relevant measurement attribute.

Accordingly, this Statement does not require any new fair value measurements. SFAS 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. The Company does not expect the adoption of SFAS 157 to have a material impact on the financial results or existing debt covenants of the Company.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In September 2006, the FASB issued Statement of Financial Accounting Standards No. 158 (SFAS 158), Employers Accounting for Defined Benefit Pension and Other Postretirement Plans An Amendment of FASB Statements No. 87, 88, 106 and 132(R) . This standard requires an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset or liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur as a component of comprehensive income. SFAS 158 does not change the amount of actuarially determined expense that is recorded in the Consolidated Statement of Income. The standard also requires an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, which is consistent with the Company s present measurement date. SFAS 158 was effective as of the fiscal year ended March 31, 2007. The impact of adopting the provisions of SFAS 158 is shown in the table below:

	Before Adoption of SFAS 158	SFAS 158 Adoption Adjustments	After Adoption of SFAS 158
		(Dollars in Thousands)	
Deferred income tax asset	$ 3,393	$ 985	$ 4,378
Total current assets	87,851	985	88,836
Intangible Assets and other non-current assets	16,504	(2,463)	14,041
Total assets	341,501	(1,478)	340,023
Accumulated other comprehensive income	0	1,478	1,478
Total shareholders equity	216,597	1,478	215,119
Total liabilities and shareholder s equity	341,501	1,478	340,023

The adoption of SFAS 158 had no impact on financial covenant compliance included in the Company s debt agreements. See additional discussion in Note 12.

In September 2006, the SEC staff issued Staff Accounting Bulletin No. 108 (SAB 108), Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements . SAB 108 eliminates the diversity of practice surrounding how public companies quantify financial statement misstatements. It establishes an approach that requires quantification of financial statement misstatements based on the effects of the misstatements on each of the Company s financial statements and the related financial statement disclosures. SAB 108 must be applied to annual financial statements for their first fiscal year ending after November 15, 2006. The adoption of this bulletin had no material impact on the Company s financial condition or results of operations.

In February 2007, the FASB issued Statement of Financial Accounting Standards No. 159 (SFAS 159), The Fair Value Option for Financial Assets and Financial Liabilities , which permits entities to choose to measure, on an item-by-item basis, specified financial instruments and certain other items at fair value. Unrealized gains and losses on items for which the fair value option has been elected are required to be reported in earnings at each reporting date. SFAS 159 is effective for fiscal years beginning after November 15, 2007. The provisions of this statement are required to be applied prospectively. The Company does not expect SFAS 159 to have a material impact on its financial condition or results of operations.

NOTE 2 ACQUISITIONS

Fiscal 2007

On April 29, 2006, the Company acquired 75 automotive maintenance and repair service stores located in eight metropolitan areas throughout Ohio and Pennsylvania from ProCare Automotive Service Solutions LLC (ProCare). The Company acquired the business and substantially all of the operating assets of these stores, which consist primarily of inventory and equipment, and assumed certain liabilities. The purchase price was $14.7 million

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

in cash which was financed through the Company s existing bank facility. The excess of the purchase price over the fair values of assets acquired and liabilities assumed was allocated to goodwill. The Company converted 31 of the acquired ProCare stores to tire stores which are operating under the Mr. Tire brand name. The remaining stores are operating as service stores under the Monro brand name. The purchase price will be adjusted post-closing to reflect the completion of the Company s purchase accounting procedures by the first quarter of fiscal 2008. The results of operations of the acquired ProCare stores are included in the Company s results from April 29, 2006. In connection with the acquisition, the Company recorded a reserve for accrued restructuring costs of approximately $1.6 million. This reserve relates to costs associated with the closing of three duplicative or poorly performing ProCare stores, and includes charges for rent and real estate taxes (net of anticipated sublease income) since the April 2007 closure date, as well as the write down of assets to their fair market value. The closures brought the number of ProCare service stores down to 43 and the ProCare tire stores down to 29 stores.

Fiscal 2006

On November 1, 2005, the Company acquired a 13% interest in R&S Parts and Service, Inc. (R&S), a privately owned automotive aftermarket parts and service chain, for $2.0 million from GDJ Retail LLC. As part of the transaction, the Company also loaned R&S $5.0 million under a secured subordinated debt agreement that had a five-year term and carried an 8% interest rate. The loan was repaid in full in December 2006.

On August 11, 2006, the Company announced that it would not exercise its option to purchase the remaining 87% of R&S, originally negotiated for an additional $12.0 million in cash and $1.0 million of Monro stock . In addition, the Company recorded an after-tax impairment charge of $1.7 million with respect to the original 13% equity investment, as well as due diligence costs related to R&S. Management reached this conclusion after learning that R&S had filed petitions for relief under Chapter 11 of the U.S. Bankruptcy Code. The impairment charge has been reflected within Other Expenses on the Consolidated Statement of Income for the year ended March 31, 2007.

Under the terms of the R&S debtor-in-possession financing, the Bankruptcy Court ordered the repayment to Monro of the $5 million secured loan, plus a portion of legal and other fees incurred by Monro in connection with the issuance and repayment of the loan. In February 2007, the Creditors Committee appointed in R&S s bankruptcy commenced an action seeking repayment of the $5 million. In response, the Company filed a complaint against GDJ Retail, LLC and its principal, Glen Langberg, for breach of contract, contractual indemnification and negligent misrepresentation arising from the Company s purchase of a 13% interest in R&S in November 2005.

In May 2007, the Bankruptcy Court approved a global settlement of both actions. As a result of the settlement, the Company received $325,000 from R&S. All claims against the Company, GDJ Retail, LLC, Glen Langberg and R&S have been dismissed.

Fiscal 2005

<u>Rice Tire and Henderson Holdings</u>

Effective October 17, 2004, the Company acquired five retail tire and automotive repair stores located in and around Frederick, Maryland from Donald B. Rice Tire Co., Inc. (the Rice Tire Acquisition) and on March 6, 2005, the Company acquired 10 retail tire and automotive repair stores located in southern Maryland from Henderson Holdings, Inc. (the Henderson Acquisition). These stores produce approximately $19 million in sales annually. The Company

operates 14 of these retail locations under the Mr. Tire brand name and one under the Tread Quarters brand name. The Company purchased all of the operating assets of these stores, including fixed assets and certain inventory, and assumed certain liabilities, including obligations pursuant to the real property leases for certain of the retail store locations. The total purchase price of these stores was approximately $11.4 million which was funded through $5.1 million in cash and the assumption of liabilities and the issuance of 240,206 shares of the Company s common stock, which was valued at $6.5 million. In addition, the Company recorded buildings and capital lease

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

obligations in the amount of approximately $6.1 million in connection with new leases with the seller of Henderson Holdings for nine of the properties acquired, and $.9 million in connection with a Rice Tire lease. The results of operation of these stores are included in the Company s income statement from their respective dates of acquisition.

NOTE 3 OTHER CURRENT ASSETS

The composition of other current assets is as follows:

	Year Ended Fiscal March	
	2007	2006
	(Dollars in thousands)	
Prepaid pension asset		$ 4,885
Other receivables	$ 1,125	971
Vendor rebates receivable	6,374	2,771
Prepaid real estate taxes	1,601	1,452
Prepaid insurance	2,071	1,642
Prepaid rent	2,283	71
Debtor-in-possession financing due from ProCare		905
Barter credit receivable	1,850	1,108
Prepaid advertising	1,484	897
Vendor debit balances	1,275	2,047
Other	807	1,342
	$ 18,870	$ 18,091

NOTE 4 PROPERTY, PLANT AND EQUIPMENT

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

	March 31, 2007			March 25, 2006		
	Assets Owned	Assets Under Capital Lease	Total	Assets Owned	Assets Under Capital Lease	Total
			(Dollars in thousands)			
Land	$ 40,261		$ 40,261	$ 40,542		$ 40,542
Buildings and improvements	128,154	$ 31,252	159,406	122,541	$ 13,450	135,991
Equipment, signage and fixtures	113,790		113,790	102,252		102,252

Vehicles	12,460	80	12,540	11,181	80	11,261
Construction-in-progress	1,306		1,306	1,743		1,743
	295,971	31,332	327,303	278,259	13,530	291,789
Less Accumulated depreciation and amortization	137,592	5,462	143,054	124,583	3,581	128,164
	$ 158,379	$ 25,870	$ 184,249	$ 153,676	$ 9,949	$ 163,625

Capitalized interest costs aggregated $24,000 in fiscal 2007 and $36,000 in fiscal 2006.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization expense recorded under capital leases totaled $1,881,000, $868,000, and $332,000 for the fiscal years ended March 2007, 2006 and 2005, respectively.

NOTE 5 GOODWILL AND INTANGIBLE ASSETS

The changes in goodwill during fiscal 2006 and 2007 were as follows:

	(Dollars in thousands)	
Balance at March 26, 2005	$	37,218
Other adjustments		548
Balance at March 25, 2006		37,766
Acquisitions		15,131
Balance at March 31, 2007	$	52,897

In fiscal 2007, approximately $15.2 million of the goodwill acquired relates to the ProCare Acquisition. (See Note 2.) The goodwill from the acquisitions completed in fiscal 2007 is deductible for tax purposes.

The other goodwill adjustments recorded in fiscal 2006 resulted from the finalization of the valuation of tangible and intangible assets acquired, the impact of purchase price adjustments provided for in the related purchase agreements, and completion of purchase accounting procedures, related to the Henderson and Rice acquisitions.

The Company performed its required annual impairment test of goodwill during the third quarter of fiscal 2007. No impairment loss resulted from that annual impairment test.

The composition of other intangible assets and other non-current assets is as follows:

	Year Ended Fiscal March			
	2007		2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Customer list	$ 4,111	$ 756	$ 3,611	$ 424
Trade name	2,322	2,240	2,260	1,586
Other intangible assets	436	337	436	273
Total intangible assets	6,869	3,333	6,307	2,283

Barter receivable	6,872		3,550	
Prepaid pension asset	2,493			
Note receivable from R&S			5,000	
Investment in R&S			2,000	
Other non-current assets	1,140		2,322	
Total non-current assets	10,505		12,872	
Total other intangible assets and non-current assets	$ 17,374	$ 3,333	$ 19,179	$ 2,283

The Company s intangible assets are being amortized over their estimated useful lives. The weighted average useful lives of the Company s intangible assets are 15 years for customer lists, four years for trade names and eight years for other intangible assets.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Amortization of intangible assets during fiscal 2007, 2006 and 2005 totaled $1,050,000, $925,000 and $761,000, respectively.

Substantially all intangible assets are tax deductible, except for the amortization of the Tread Quarters trade name ($1 million assigned value).

Estimated future amortization of intangible assets is as follows:

Year Ending Fiscal March		**(Dollars in thousands)**
2008	$	486
2009		347
2010		343
2011		343
2012		252
Thereafter		1,765
	$	3,536

NOTE 6 LONG-TERM DEBT

Long-term debt consists of the following:

	March 31, 2007	**March 25, 2006**
	(Dollars in thousands)	
Revolving Credit Facility, LIBOR-based(a)	$ 20,500	$ 34,500
Mortgage Note Payable, non-interest bearing, secured by warehouse and office land, due in one installment in 2015	660	660
Obligations under capital leases at various interest rates, secured by store properties and certain equipment, due in installments through 2026	32,715	11,656
Note payable, 7.75%, partially secured by store equipment, due in installments through 2008	18	36
	53,893	46,852
Less Current portion	1,368	525
	$ 52,525	$ 46,327

(a) The London Interbank Offered Rate (LIBOR) at March 31, 2007 was 5.32%.

In March 2003, the Company renewed its existing credit facility agreement. The amended financing arrangement consisted of an $83.4 million Revolving Credit facility and a non-amortizing credit loan (formerly synthetic lease financing) totaling $26.6 million.

In July 2005, the Company entered into a five-year, $125 million Revolving Credit Facility agreement (the Credit Facility) with five banks in the lending syndicate that provided the Company s prior financing arrangement. Interest only is payable monthly throughout the Credit Facility s term. The Credit Facility increased the Company s borrowing capacity by $15 million to $125 million and included a provision allowing the Company to expand the amount of the overall facility to $160 million, subject to existing or new lender(s) commitments at that time. The terms of the Credit Facility immediately reduced the spread the Company pays on LIBOR-based borrowings by 50 basis points and permit the payment of cash dividends not to exceed 25% of the preceding year s net income. Additionally, the Credit Facility is not secured by the Company s real property, although the Company

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

has entered into an agreement not to encumber its real property, with certain permissible exceptions. Other terms of the Credit Facility are generally consistent with the Company s prior financing agreement.

In January 2007, the Company amended the Credit Facility to: 1) allow stock buybacks subject to the Company being able to meet its existing financial covenants; 2) extend the termination date by 18 months to January 2012; and 3) increase the accordion feature by $40 million, which allows the Company to expand the amount of the overall facility to $200 million.

Within the aforementioned $125 million Revolving Credit facility, the Company has available a sub-facility of $20 million for the purpose of issuing standby letters of credit. The line requires fees aggregating .88% annually of the face amount of each standby letter of credit, payable quarterly in arrears. There were $11.6 million in outstanding letters of credit under this line at March 31, 2007.

In addition, the Company has financed certain store properties and vehicles with capital leases, which amount to $32.7 million and are due in installments through 2026.

During fiscal 1995, the Company purchased 12.7 acres of land for $.7 million from the City of Rochester, New York, on which its office/warehouse facility is located. The City has provided financing for 100% of the cost of the land via a 20-year non-interest bearing mortgage, all due and payable in 2015.

To finance its office/warehouse building, the Company obtained permanent mortgage financing in fiscal 1996 consisting of a 10-year mortgage for $2.9 million and an eight-year term loan in the amount of $.7 million. In October 2005, the Company paid the remaining $1.5 million outstanding on the mortgage for the headquarters office/warehouse building.

Certain of the Company s long-term debt agreements require, among other things, the maintenance of specified interest and rent coverage ratios and amounts of net worth. They also contain restrictions on dividend payments. The Company is in compliance with these requirements at March 31, 2007. These agreements permit mortgages and specific lease financing arrangements with other parties with certain limitations.

From time to time, the Company enters into interest rate hedge agreements, which involve the exchange of fixed and floating rate interest payments periodically over the life of the agreement without the exchange of the underlying principal amounts. The differential to be paid or received is accrued as interest rates change and is recognized over the life of the agreements as an offsetting adjustment to interest expense. Currently the Company has no hedge agreements. The most recent hedge agreement expired in October 2005.

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

	Capital Leases			
Year Ending Fiscal March	**Aggregate Amount**	**Imputed Interest**	**All Other Debt**	**Total**
		(Dollars in thousands)		

2008	$ 4,547	$ (3,197)	$ 18	$ 1,368
2009	4,483	(3,035)		1,448
2010	4,409	(2,855)		1,554
2011	4,229	(2,653)		1,576
2012	3,980	(2,506)	20,500	21,974
Thereafter	41,242	(15,929)	660	25,973
Total				$ 53,893

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 7 FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist of the following:

	March 31, 2007			March 25, 2006		
	Notional Amount	Carrying Amount	Fair Value	Notional Amount	Carrying Amount	Fair Value
	(Dollars in thousands)					
Liabilities						
Long-term debt, including current portion and excluding capital leases		$ 21,178	$ 20,941		$ 35,196	$ 34,921

The fair value of cash and cash equivalents, accounts receivable and accounts payable approximated book value at March 31, 2007 and March 25, 2006 because their maturity is generally less than one year in duration. 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 the Company for debt with similar maturities.

NOTE 8 INCOME TAXES

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

	Year Ended Fiscal March		
	2007	2006	2005
	(Dollars in thousands)		
Currently payable			
Federal	$ 10,541	$ 13,754	$ 9,076
State	1,056	1,192	937
	11,597	14,946	10,013
Deferred			
Federal	914	(695)	1,414
State	(97)	(111)	306
	817	(806)	1,720
Total	$ 12,414	$ 14,140	$ 11,733

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Deferred tax (liabilities) assets consist of the following:

	March 31, 2007	March 25, 2006	March 26, 2005
	(Dollars in thousands)		
Property and equipment	$ (2,830)	$ (4,183)	$ (5,835)
Pension	(1,982)	(1,924)	(1,969)
Goodwill	(1,377)	(1,036)	(251)
Prepaid expenses	(624)	(731)	(684)
Other	(124)	(104)	(362)
Total deferred tax liabilities	(6,937)	(7,978)	(9,101)
Deferred rent	2,593	2,961	3,122
Warranty and other reserves	1,679	1,560	2,253
Insurance reserves	1,949	1,480	1,576
Stock options	1,157	932	932
Other	3,595	2,102	1,480
Subtotal deferred tax assets	10,973	9,035	9,363
Valuation allowance	(78)		
Total deferred tax assets	10,895	9,035	9,363
Net deferred tax assets	$ 3,958	$ 1,057	$ 262

The Company has $.5 million of state net operating loss carryforwards available as of March 31, 2007. The carryforwards expire in varying amounts through 2027.

The Company believes it is more likely than not that future tax benefits will be realized as a result of current and future income, other than the State of Ohio.

In 2007, the Company recorded a valuation allowance of $.1 million due primarily to the assessment of the realizability of the deferred tax asset related to the Company s state net operating loss carryforwards, specifically its Ohio net operating loss carryforward. Due to changes to its tax law by the State of Ohio, a Commercial Activities Tax measured by gross receipts has been enacted. As a result, the Company believes that the Ohio net operating losses will not be realized before the date of full transition to the Commercial Activity Tax. There was no valuation allowance required for the fiscal years ended March 25, 2006 and March 26, 2005.

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

	Year Ended Fiscal March					
	2007		2006		2005	
	Amount	Percent	Amount	Percent	Amount	Percent
	(Dollars in thousands)					
Federal income tax based on statutory tax rate applied to income before taxes	$ 12,140	35.0	$ 12,882	35.0	$ 10,991	35.0
State income tax, net of federal income tax benefit	623	1.8	703	1.9	804	2.6
Other	(349)	(1.0)	555	1.5	(62)	(.2)
	$ 12,414	35.8	$ 14,140	38.4	$ 11,733	37.4

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 9 CONVERTIBLE PREFERRED STOCK AND COMMON STOCK

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

	Common Stock Shares Issued	Class C Convertible Preferred Stock Shares Issued	Treasury Stock Shares
Balance at March 27, 2004	13,315,253	65,000	325,200
Shares issued in connection with Henderson Acquisition	240,206		
Stock options exercised	146,996		
Balance at March 26, 2005	13,702,455	65,000	325,200
Shares issued in connection with warrants exercised	100,000		
Stock options exercised	174,175		
Purchase of treasury shares			6,428
Balance at March 25, 2006	13,976,630	65,000	331,628
Stock options exercised	365,421		
Purchase of treasury shares			2,500
Balance at March 31, 2007	14,342,051	65,000	334,128

In September 2003, the Board of Directors authorized an amendment to the Company s Restated Certificate of Incorporation to increase the number of authorized shares of Common Stock from 15,000,000 to 20,000,000. This amendment was approved by the Company s shareholders in December 2003. Additionally, the Board authorized a three-for-two stock split that was paid in October 2003 to shareholders of record as of October 21, 2003. All share amounts herein have been adjusted for this stock split.

In connection with the March 2005 Henderson Acquisition, the Company issued 240,206 shares of Common Stock to the seller. (See Note 2.)

Holders of at least 60% of the Class C preferred stock must approve any action authorized by the holders of common stock. In addition, there are certain restrictions on the transferability of shares of Class C preferred stock. In the event of a liquidation, dissolution or winding-up of the Company, the holders of the Class C preferred stock would be entitled to receive $1.50 per share out of the assets of the Company before any amount would be paid to holders of common stock. The conversion value of the Class C convertible preferred stock is $.144 per share at March 31, 2007.

Under the 1984 and 1987 Incentive Stock Option Plans, 1,091,508 shares (as retroactively adjusted for stock dividends and the stock split) of common stock were reserved for issuance to officers and key employees. The 1989 Incentive Stock Option Plan authorized an additional 1,126,558 shares (as retroactively adjusted for stock dividends and the stock split) for issuance.

In November 1998, the Board of Directors authorized the 1998 Incentive Stock Option Plan, reserving 1,125,000 shares (as retroactively adjusted for the stock split) of common stock for issuance to officers and key employees. The Plan was approved by shareholders in August 1999.

In May 2003, the Board of Directors authorized an additional 300,000 shares (as retroactively adjusted for the stock split) for issuance under the 1998 Plan, which was approved by shareholders in August 2003. In June 2005, the Compensation Committee of the Board of Directors (the Compensation Committee) authorized an additional 360,000 shares, which were approved by shareholders in August 2005.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Generally, options vest within the first five years of their term, and have a duration of ten years. See Note 1 for a discussion of the fiscal 2006 acceleration of vesting of all unvested stock options. Outstanding options are exercisable for various periods through January 2017.

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

	Weighted Average Exercise Price	Outstanding	Exercisable	Available For Grant
At March 27, 2004	$ 8.32	1,372,358	1,011,979	414,204
Granted	$ 23.67	108,213		(108,213)
Became exercisable			133,421	
Exercised	$ 9.43	(92,288)	(92,288)	
Canceled	$ 15.42	(38,863)	(4,889)	38,758
At March 26, 2005	$ 9.26	1,349,420	1,048,223	344,749
Authorized				360,000
Granted	$ 26.09	305,400		(305,400)
Became exercisable			576,133	
Exercised	$ 10.67	(138,997)	(138,997)	
Canceled	$ 18.25	(36,748)	(6,284)	39,913
At March 25, 2006	$ 12.37	1,479,075	1,479,075	439,262
Granted	$ 36.11	126,050		(126,050)
Became exercisable	$ 29.53		3,000	
Exercised	$ 9.82	(351,747)	(351,747)	
Canceled	$ 29.64	(14,544)	(6,694)	14,364
At March 31, 2007	$ 15.31	1,238,834	1,123,634	327,576

The weighted-average remaining contractual term and aggregate intrinsic value of all options outstanding at March 31, 2007 was 5.0 years and $24.7 million, respectively. The weighted-average remaining contractual term and aggregate intrinsic value of all options exercisable at March 31, 2007 was 4.5 years and $24.7 million, respectively.

A summary of the status of and changes in nonvested stock options granted as of and during fiscal year 2007 is presented below:

	Weighted Average Grant-Date Fair Value

	Shares		(per Share)
Nonvested at March 26, 2006	0		
Granted	126,050	$	11.74
Vested	(3,000)	$	9.10
Canceled	(7,850)	$	11.98
Nonvested at March 31, 2007	115,200	$	11.80

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following table summarizes information about fixed stock options outstanding at March 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Under Option	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
$ 5.21 - $ 7.00	477,112	1.77	5.24	477,112	5.24
$ 7.01 - $15.00	308,612	5.15	11.91	308,612	11.91
$15.01 - $27.00	332,591	7.89	25.41	332,591	25.41
$27.01 - $37.88	120,519	9.20	36.00	5,319	30.66

In August 1994, the Board of Directors authorized a non-employee directors stock option plan which was approved by shareholders in August 1995. The Plan initially reserved 100,278 shares of common stock (as retroactively adjusted for stock dividends and the stock split), and provides for (i) the grant to each non-employee director as of August 1, 1994 of an option to purchase 4,559 shares of the Company s common stock (as retroactively adjusted for stock dividends and the stock split) and (ii) the annual grant to each non-employee director of an option to purchase 4,559 shares (as retroactively adjusted for stock dividends and the stock split) on the date of the annual meeting of shareholders beginning in 1995. The options expire ten years from the date of grant at an exercise price equal to the fair market value of the Company s common stock on the date of grant. Options issued to directors generally vest immediately upon issuance.

In May 1997 and May 1999, the Board of Directors authorized an additional 102,375 and 97,500 shares, respectively (both amounts as retroactively adjusted for stock dividends and the stock split) for issuance under the Plan. These amounts were approved by shareholders in August 1997 and August 1999, respectively.

In May 2003, the Board of Directors authorized the 2003 Non-Employee Directors Stock Option Plan, reserving 90,000 shares (as retroactively adjusted for the stock split) of common stock for issuance to outside directors, which was approved by shareholders in August 2003. The provisions of the Plan are similar to the 1994 Non-Employee Directors Stock Option Plan, except that options expire five years from the date of grant.

In June 2005, the Compensation Committee authorized an additional 50,000 shares, which were approved by shareholders in August 2005.

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

	Option Price Per Share	Outstanding	Exercisable	Available for Grant

At March 27, 2004	$	10.27	259,823	259,823	80,186
Exercised	$	8.83	(54,700)	(54,700)	
Granted	$	22.86	31,913	31,913	(31,913)
At March 26, 2005	$	12.30	237,036	237,036	48,273
Authorized					50,000
Exercised	$	12.27	(35,178)	(35,178)	
Granted	$	28.14	31,913	31,913	(31,913)
At March 25, 2006	$	14.47	233,771	233,771	66,360
Exercised	$	11.34	(13,674)	(13,674)	
Granted	$	30.93	31,913	31,913	(31,913)
At March 31, 2007	$	16.72	252,010	252,010	34,447

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The weighted-average remaining contractual term and aggregate intrinsic value of all options outstanding at March 31, 2007 was 2.8 years and $4.6 million, respectively. The weighted-average remaining contractual term and aggregate intrinsic value of all options exercisable at March 31, 2007 was 2.8 years and $4.6 million, respectively.

A summary of the status of and changes in nonvested stock options granted as of and during fiscal year 2007 is presented below:

	Shares	Weighted Average Grant-Date Fair Value (per Share)
Nonvested at March 26, 2006	0	
Granted	31,913	$ 9.12
Vested	(31,913)	$ 9.12
Nonvested at March 31, 2007	0	

The following table summarizes information about fixed stock options outstanding at March 31, 2007:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Shares Under Option	Weighted Average Remaining Life	Weighted Average Exercise Price	Shares Under Option	Weighted Average Exercise Price
$5.00 $8.50	68,385	2.34	6.56	68,385	6.56
$8.51 $14.00	63,821	3.21	10.55	63,821	10.55
$14.01 $25.00	55,997	1.88	21.56	55,997	21.56
$25.01 $30.93	63,807	3.86	29.54	63,807	29.54

During the fiscal year ended March 31, 2007, the fair value of awards vested under the Company s stock plans was $.3 million.

The aggregate intrinsic value in the preceding tables is based on the Company s closing stock price of $35.10 as of the last trading day of the period ended March 31, 2007. The aggregate intrinsic value of options (the amount by which the market price of the stock on the date of exercise exceeded the exercise price of the option) exercised during the fiscal year ended March 31, 2007 was $9.3 million. As of March 31, 2007, there was $581,000 of unrecognized compensation expense related to non-vested fixed stock options that is expected to be recognized over a weighted average period of 3.2 years.

Cash received from option exercise under all stock option plans was $3.6 million and $1.9 million for the fiscal year ended March 31, 2007 and March 25, 2006, respectively.

The Company issues new shares of common stock upon exercise of stock options.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 10 EARNINGS PER COMMON SHARE

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

	Year Ended Fiscal March		
	2007	2006	2005
	(Amounts in thousands, except per share data)		
Numerator for earnings per common share calculation:			
Net Income	$ 22,271	$ 22,666	$ 19,669
Less: Preferred stock dividends	(175)	(102)	
Income available to common stockholders	$ 22,096	$ 22,564	$ 19,669
Denominator for earnings per common share calculation:			
Weighted average common shares, basic	13,878	13,531	13,102
Effect of dilutive securities:			
Preferred stock	676	676	676
Stock options and warrants	698	815	784
Weighted average common shares, diluted	15,252	15,022	14,562
Basic earnings per common share:	$ 1.59	$ 1.67	$ 1.50
Diluted earnings per common share:	$ 1.46	$ 1.51	$ 1.35

The computation of diluted earnings per common share for fiscal years 2007, 2006 and 2005 excludes the effect of assumed exercise of approximately 116,000, 2,000 and 56,000, respectively, of stock options and warrants, as the exercise price of these options and warrants was greater than the average market value of the Company s Common Stock for those periods, resulting in an anti-dilutive effect on diluted earnings per share.

NOTE 11 OPERATING LEASES AND OTHER COMMITMENTS

The Company leases retail facilities under noncancellable lease agreements which expire at various dates through fiscal year 2027. In addition to stated minimum payments, certain real estate leases have provisions for contingent rentals when retail sales exceed specified levels. Generally, the leases provide for renewal for various periods at stipulated rates. Most of the facilities leases require payment of property taxes, insurance and maintenance costs in addition to rental payments, and several provide an option to purchase the property at the end of the lease term.

In recent years, the Company has entered into agreements for the sale/leaseback of certain stores and into agreements for the sale/leaseback of store equipment. The Company has lease renewal options under the real estate agreements at

projected future fair market values and has both purchase and renewal options under the equipment lease agreements. Realized gains are deferred and are credited to income as rent expense adjustments over the lease terms.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Future minimum payments required under noncancellable leases (including closed stores) are as follows:

Year Ending Fiscal March	Leases	Less Sublease Income	Net
	(Dollars in thousands)		
2008	$ 21,542	$ (734)	$ 20,808
2009	18,892	(599)	18,293
2010	15,521	(364)	15,157
2011	10,599	(155)	10,444
2012	7,669	(107)	7,562
Thereafter	26,191	(359)	25,832
Total	$ 100,414	$ (2,318)	$ 98,096

Rent expense under operating leases, net of sublease income, totaled $20,684,000, $18,505,000 and $18,514,000 in fiscal 2007, 2006 and 2005, respectively, including contingent rentals of $347,000, $323,000 and $316,000 in each respective fiscal year. Sublease income totaled $440,000, $367,000 and $311,000, respectively, in fiscal 2007, 2006 and 2005.

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

The Company amended its employment agreement (the CEO Agreement) in May 2005 with Robert G. Gross, its President and Chief Executive Officer. The CEO Agreement, which provides for a base salary plus a bonus, subject to the discretion of the Compensation Committee, has a term ending December 31, 2007. The CEO Agreement also provided for a special retention bonus of $250,000 payable annually which began on January 1, 2003 and ended in 2006. The CEO Agreement includes a covenant against competition with the Company for two years after termination. The CEO Agreement provides the executive with a minimum of one year s salary and certain additional rights in the event of a termination without cause (as defined therein), or a termination in the event of change in control (as defined therein).

The Company amended its employment agreement effective May 19, 2005, with Catherine D Amico, its Executive Vice President and Chief Financial Officer, and, in July 2005, entered into an employment agreement with Joseph Tomarchio Jr., its Executive Vice President of Store Operations, effective May 19, 2005. The agreements each provide a base salary to be reviewed annually, plus a bonus, based upon the Company s achievement of performance targets set by the Compensation Committee. Ms. D Amico s and Mr. Tomarchio s agreements both expire on June 30, 2008. The agreements include a covenant against competition with the Company for up to two years after termination.

The agreements provide Ms. D Amico and Mr. Tomarchio with a minimum of one year s salary and certain additional rights in the event of a termination without cause (as defined therein), or a termination in the event of a change in control (as defined therein).

NOTE 12 EMPLOYEE RETIREMENT AND PROFIT SHARING PLANS

The Company sponsors a noncontributory defined benefit pension plan for Monro employees and the former Kimmel Automotive, Inc. employees. In fiscal 2005, the previously separate Monro and Kimmel pension plans were merged. The plan provides benefits to certain full-time employees who were employed with Monro and with Kimmel prior to April 2, 1998 and May 15, 2001, respectively. Effective as of those dates, each company s Board of Directors approved plan amendments whereby the benefits of each of the defined benefit plans would be frozen and the plans would be closed to new participants. Prior to these amendments, coverage under the plans began after

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

employees completed one year of service and attainment of age 21. Benefits under both plans, and now the merged plans, are based primarily on years of service and employees pay near retirement. The funding policy for the Company s merged plan is consistent with the funding requirements of Federal law and regulations. The measurement date used to determine the pension plan measurements disclosed herein is March 31 for both 2007 and 2006.

See Note 1, Significant Accounting Policies for information regarding the Company s adoption of SFAS 158 as of March 31, 2007. SFAS 158 requires recognition of the overfunded or underfunded status of defined benefit plans as an asset or liability. Accordingly, the overfunded status of the Company s defined benefit plan is recognized as an asset in the Consolidated Statement of Financial Position as of March 31, 2007.

The funded status of each plan is set forth below:

	Year Ended Fiscal March	
	2007	**2006**
Change in Plan Assets:		
Fair value of plan assets at beginning of year	$ 13,683	$ 12,824
Actual return on plan assets	1,870	1,403
Employer contribution		97
Benefits paid	(567)	(641)
Fair value of plan assets at end of year	14,986	13,683
Change in Projected Benefit Obligation:		
Benefit obligation at beginning of year	12,699	12,421
Interest cost	718	702
Actuarial (gain) loss	(357)	217
Benefits paid	(567)	(641)
Benefit obligation at end of year	12,493	12,699
Funded status of plan	$ 2,493	984
Unrecognized net loss		3,901
Net amount recognized		$ 4,885

The projected and accumulated benefit obligations were equivalent at March 31, 2007 and March 31, 2006.

Amounts recognized in accumulated other comprehensive loss, as a result of the adoption of SFAS 158 consist of:

	Year Ended Fiscal March 2007 (Dollars in thousands)
Net transition obligation	$ 0
Prior service cost	0
Net actuarial loss	2,463
Total	$ 2,463

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

Pension (income) cost included the following components:

	Year Ended Fiscal March		
	2007	**2006**	**2005**
Interest cost on projected benefit obligation	$ 718	$ 702	$ 630
Expected return on plan assets	(1,075)	(994)	(814)
Amortization of unrecognized actuarial loss	286	383	233
Net pension (income) cost	$ (71)	$ 91	$ 49

The weighted-average assumptions used to determine benefit obligations are as follows:

	Year Ended Fiscal March	
	2007	**2006**
Discount rate	6.00%	5.75%

The weighted-average assumptions used to determine net periodic pension costs are as follows:

	Year Ended Fiscal March		
	2007	**2006**	**2005**
Discount rate	5.75%	5.75%	5.75%
Expected long-term return on assets	8.00%	8.00%	8.00%

The expected long-term rate of return on plan assets is established based upon assumptions related to historical returns and the future expectations for returns for each asset class, as well as the target asset allocation of the pension portfolio.

The investment strategy of the plan is to conservatively manage the assets in order to meet the plan s long-term obligations while maintaining sufficient liquidity to pay current benefits. This is achieved by holding equity investments while investing a portion of assets in long duration bonds to match the long-term nature of the liabilities. Going forward, the Company s general target allocation for the plan is 40% fixed income and 60% equity securities.

The Company s weighted average asset allocations, by asset category, are as follows:

Year Ended

	Fiscal March	
	2007	**2006**
Cash and cash equivalents	1.8%	5.4%
Fixed income	38.2%	47.4%
Equity securities	60.0%	47.2%
Total	100.0%	100.0%

There are no required or expected contributions in fiscal 2008 to the plan.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

The following pension benefit payments are expected to be paid:

	Year Ended Fiscal March (Dollars in thousands)	
2008	$	504
2009		532
2010		516
2011		507
2012		541
2013-2017		3,136
Total	$	5,736

The Company has a 401(K)/Profit Sharing Plan that covers full-time employees who meet the age and service requirements of the plan. The 401(K) salary deferral option was added to the plan during fiscal 2000. The first employee deferral occurred in March 2000. The Company makes matching contributions consistent with the provisions of the plan. The Company s matching contributions for fiscal 2007, 2006 and 2005 amounted to approximately $634,000, $592,000 and $551,000, respectively. The Company may also make annual profit sharing contributions to the plan at the discretion of the Compensation Committee.

The Company has a deferred compensation plan (the Deferred Compensation Plan) to provide an opportunity for additional tax-deferred savings to a select group of management or highly compensated employees. The Deferred Compensation Plan permits participants to defer all or any portion of the compensation that would otherwise be payable to them for the calendar year. In addition, the Company will credit to the participants accounts such amounts as would have been contributed to the Company s 401(K)/Profit Sharing Plan but for the limitations that are imposed under the Internal Revenue Code based upon the participants status as highly compensated employees. The Company may also make such additional discretionary allocations as are determined by the Compensation Committee. No amounts credited under the Deferred Compensation Plan are funded and the Company maintains accounts to reflect the amounts owed to each participant. At least annually, the accounts are credited with earnings or losses calculated on the basis of an interest rate or other formula as determined by the Compensation Committee. The total liability recorded in the Company s financial statements at March 31, 2007 related to the Deferred Compensation Plan was $470,000.

The Company s management bonus plan provides for the payment of annual cash bonus awards to participating employees, as selected by the Board of Directors, based primarily on the Company s attaining pre-tax income targets established by the Board of Directors. Charges to expense applicable to the management bonus plan totaled $96,000, $1,053,000 and $69,000 for the fiscal years ended March 2007, 2006 and 2005, respectively.

NOTE 13 RELATED PARTY TRANSACTIONS

The Company is currently a party to leases for certain facilities where the lessor is an officer of the Company, and in previous years, from (a) officers and directors of the Company, (b) partnerships in which such persons had interests or (c) trusts of which members of their families were beneficiaries. Payments under such operating and capital leases amounted to $588,000, $573,000 and $2,190,000 for the fiscal years ended March 2007, 2006 and 2005, respectively. Six new leases were assumed in March 2004 in connection with the Mr. Tire Acquisition. Amounts payable under these lease agreements totaled $40,000 at March 26, 2005. No amounts were payable at March 31, 2007 or March 25, 2006. No related party leases, other than the six assumed as part of the Mr. Tire Acquisition in March 2004, have been entered into, and no new leases are contemplated.

The Company has a management agreement with an investment banking firm associated with a principal shareholder/director of the Company to provide financial advice. The agreement provides for an annual fee of

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

$300,000, plus reimbursement of out-of-pocket expenses. During each of the fiscal years 2007, 2006 and 2005, the Company incurred fees of $300,000, under this agreement. In addition, this investment banking firm, from time to time, provides additional investment banking services to the Company for customary fees. Approximately half of all payments made to the investment banking firm under the management agreement are paid to another principal shareholder/director of the Company.

NOTE 14 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

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

Year ended March 31, 2007

In connection with the ProCare Acquisition (See Note 2), liabilities were assumed as follows:

Fair value of assets acquired	$ 23,135,000
Goodwill recorded	15,152,000
Cash paid in FY06	(1,600,000)
Cash paid in FY07, net of cash acquired	(13,109,000)
Liabilities assumed	$ 23,578,000

In connection with the recording of capital leases, the Company increased both fixed assets and long-term debt by $2,217,000.

In connection with the implementation of SFAS 158, other comprehensive income increased by $1,478,000, other non-current assets decreased by $2,463,000 and the deferred income tax liability was increased by $985,000.

In connection with the accounting for income tax benefits related to the exercise of stock options, the Company reduced current liabilities and increased paid-in capital by $1,076,000.

Year ended March 25, 2006

In connection with the disposal of assets, the Company reduced both fixed assets and other long-term liabilities by $147,000.

In connection with the recording of capital leases, the Company increased both fixed assets and long-term debt by $3,068,000.

During the twelve months ended March 25, 2006, the Company recorded purchase accounting adjustments for the Rice Tire Acquisition that increased goodwill by $506,000 and reduced fixed assets by $506,000.

In connection with recording the value of the Company s interest rate swap contracts, other comprehensive income increased by $17,000, other long-term liabilities decreased by $28,000 and the deferred income tax liability was increased by $11,000.

In connection with the accounting for income tax benefits related to the exercise of stock options, the Company reduced current liabilities and increased paid-in capital by $711,000.

Year ended March 26, 2005

In connection with the disposal of assets, the Company reduced both fixed assets and other current liabilities by $266,000.

In connection with the recording of capital leases, the Company increased both fixed assets and long-term debt by $350,000.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

In connection with recording the value of the Company s interest rate swap contracts, other comprehensive income increased by $58,000, other long-term liabilities decreased by $92,000 and the deferred income tax liability was increased by $34,000.

In fiscal 2005, the Company eliminated its minimum liability related to its defined benefit pension plan, which decreased current liabilities and deferred tax assets by $545,000 and $207,000, respectively, and increased other comprehensive income by $338,000.

In connection with the accounting for income tax benefits related to the exercise of stock options, the Company decreased current liabilities and increased additional paid-in capital by $644,000.

During the twelve months ended March 2005, the Company recorded purchase accounting adjustments for the Mr. Tire Acquisition that increased goodwill by $836,000 and reduced deferred income tax assets and other acquired intangible assets by the same amount.

In connection with the Rice and Henderson Acquisitions (Note 2), liabilities were assumed as follows:

Fair value of assets acquired	$ 11,635,000
Common stock issued	(6,500,000)
Cash paid, net of cash acquired	(4,539,000)
Liabilities assumed	$ 596,000

In addition, the Company recorded buildings and capital lease obligations of approximately $6 million for nine new capital leases entered into in connection with the fiscal 2005 acquisitions.

Interest and Income Taxes Paid

	Year Ended Fiscal March		
	2007	**2006**	**2005**
	(Dollars in thousands)		
Cash paid during the year:			
Interest, net	$ 4,471	$ 3,373	$ 2,265
Income taxes	$ 10,510	$ 12,977	$ 10,375

NOTE 15 LITIGATION

The Company and its subsidiaries are involved in legal proceedings, claims and litigation arising in the ordinary course of business. In management s opinion, the outcome of such current legal proceedings is not expected to have a material effect on future operating results or on the Company s consolidated financial position.

NOTE 16 CASH DIVIDEND

In May 2005, the Company s Board of Directors declared its intention to pay a regular quarterly cash dividend during fiscal 2006 of $.05 per common share or common share equivalent to be paid to shareholders beginning with the first quarter of fiscal 2006. In May 2006, the Company s Board of Directors declared its intention to pay a regular quarterly cash dividend during fiscal 2007 of $.07 per share to be paid beginning with the first quarter of 2007. The dividend amounted to $175,000 and $102,000, respectively for preferred shareholders and $3,610,000 and $2,035,000, respectively for common shareholders in 2007 and 2006. 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 the Company s financial condition, results of operations, capital requirements, compliance with charter and contractual restrictions, and such other factors as the Board of Directors deems relevant.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)

NOTE 17 SUBSEQUENT EVENTS

In May 2007, the Company s Board of Directors declared a regular quarterly cash dividend of $.09 per common share or common share equivalent to be paid to shareholders of record as of July 17, 2007. The dividend will be paid on July 27, 2007.

In May 2007, the Company received a $325,000 settlement from R&S and, as a result, all claims against the Company, GDJ Retail, LLC, Glen Langberg and R&S have been dismissed (See Note 2.)

In May 2007, the Company announced its intention to declare a three-for-two stock split of the Company s common stock to be effected in the form of a 50% stock dividend. The stock split is subject to shareholder approval of an increase in the number of authorized common shares from 20,000,000 to 45,000,000. The shareholders vote to increase the number of shares of authorized common stock will take place on August 7, 2007 at Monro s regularly scheduled Annual Shareholder s meeting.

In January 2007, the Company s Board of Directors approved a share repurchase program authorizing the company to purchase up to $30 million of its common stock. In conjunction with this program the Company purchased 115,900 shares at an average price per share of $34.79 during the months of April and May 2007.

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MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES

SELECTED QUARTERLY FINANCIAL INFORMATION (UNAUDITED)

The following table sets forth consolidated statement of income data by quarter for the fiscal years ended March 2007 and 2006. Individual line items summed by quarters may not agree to the annual amounts reported due to rounding.(b)

	Fiscal Quarter Ended			
	June 2006	Sept. 2006	Dec. 2006	March 2007
	(Amounts in thousands, except per share data)			
Sales	$ 98,445	$ 107,285	$ 103,787	$ 107,708
Cost of sales	57,409	63,181	63,436	66,777
Gross profit	41,036	44,104	40,351	40,931
Operating, selling, general and administrative expensed	29,612	32,108	30,282	34,437
Operating income	11,424	11,996	10,069	6,494
Interest expense, net	636	895	1,833	1,200
Other (income) expense, net	(627)	2,148	451	(1,238)
Income before provision for income taxes	11,415	8,953	7,785	6,532
Provision for income taxes	3,853	3,357	2,919	2,285
Net income	$ 7,562	$ 5,596	$ 4,866	$ 4,247
Basic earnings per share	$ .55	$ .40	$ .35	$ .30
Diluted earnings per share(a)	$ .50	$ .37	$ .32	$ .28
Weighted average number of common shares used in computing earnings per share				
Basic	13,705	13,848	13,951	14,001
Diluted	15,215	15,202	15,282	15,328

	June 2005	Sept. 2005	Dec. 2005	March 2006
	(Amounts in thousands, except per share data)			
Sales	$ 94,625	$ 95,641	$ 90,188	$ 88,273
Cost of sales	53,922	55,897	55,300	55,796
Gross profit	40,703	39,744	34,888	32,477
Operating, selling, general and administrative expensed	26,901	26,777	27,463	26,888

Operating income	13,802	12,967	7,425	5,589
Interest expense, net	882	810	845	941
Other expense (income), net	425	(122)	30	(834)
Income before provision for income taxes	12,495	12,279	6,550	5,482
Provision for income taxes	4,748	4,666	2,489	2,237
Net income	$ 7,747	$ 7,613	$ 4,061	$ 3,245
Basic earnings per share	$ .58	$ .56	$ .30	$ .24
Diluted earnings per share(a)	$ .52	$ .51	$ .27	$ .21
Weighted average number of common shares used in computing earnings per share				
Basic	31,395	13,523	13,583	13,626
Diluted	14,866	14,986	15,038	15,135

(a) Earnings per share for each period was computed by dividing net income by the weighted average number of shares of Common Stock and Common Stock Equivalents outstanding during the respective quarters.

(b) There were no material, extraordinary, unusual or infrequently occurring items recognized in either of the fourth quarters shown. Fiscal 2007 was a 53 week year.

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Item 9. ***Changes in and Disagreements with Accountants on Accounting and Financial Disclosure***

None.

Item 9A. ***Controls and Procedures***

Evaluation of disclosure controls and procedures

The Company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in reports that the Company files or submits pursuant to the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Security and Exchange Commission s (SEC) rules and forms, and that such information is accumulated and communicated to the Company s management, including its 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 the Chief Executive Officer and Chief Financial Officer, the Company conducts an evaluation of the effectiveness of the Company s disclosure controls and procedures. It is the conclusion of the Company s 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, and subject to the limitations discussed below, that the Company s disclosure controls and procedures were sufficiently effective in ensuring that any material information relating to the Company was recorded, processed, summarized and reported to its principal officers to allow timely decisions regarding required disclosures.

Management s Report on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting. The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with accounting principles generally accepted in the United States of America.

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

Management conducted an evaluation of the effectiveness of internal control over financial reporting based on the framework in *Internal Control Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that the Company s internal control over financial reporting was effective as of March 31, 2007, the end of our fiscal year. Management has reviewed the results of its assessment with the Audit Committee of the Board of Directors. Management s assessment of the effectiveness of the Company s internal control over financial reporting as of March 31, 2007 has been audited by PricewaterhouseCoopers LLP, an independent registered public accounting firm, as stated in their report which is included herein.

Inherent Limitations on Effectiveness of Controls

The Company s management, including the Chief Executive Officer and Chief Financial Officer, does not expect that its disclosure controls and procedures or its internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of

fraud, if any, within the Company have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake. Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Controls over Financial Reporting

There were no changes in the Company s internal control over financial reporting during the quarter ended March 31, 2007 that materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART III

Item 10. ***Directors and Executive Officers of the Company***

Information concerning the directors and executive officers of the Company is incorporated herein by reference to the section captioned Election of Directors and Executive Officers , respectively, in the Proxy Statement.

Information concerning required Section 16(a) disclosure is incorporated herein by reference to the section captioned Compliance with Section 16(a) of the Exchange Act in the Proxy Statement.

The Company s directors and executive officers are subject to the provisions of the Company s Code of Ethics for Management Employees, Officers and Directors (the Code), which is available in the Investor Information section of the Company s web site, www.monro.com. Changes to the Code and any waivers are also posted on the Company s web site in the Investor Information section.

Item 11. ***Executive Compensation***

Information concerning executive compensation is incorporated herein by reference to the section captioned Executive Compensation in the Proxy Statement.

Item 12. ***Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters***

Information concerning the Company s shares authorized for issuance under its equity compensation plans at March 31, 2007 and security ownership of certain beneficial owners and management is incorporated herein by reference to the sections captioned Security Ownership of Principal Shareholders, Directors and Executive Officers and Equity Compensation Plan Information in the Proxy Statement.

Item 13. ***Certain Relationships and Related Transactions and Director Independence***

Information concerning certain relationships and related transactions is incorporated herein by reference to the sections captioned Compensation Committee Interlocks and Insider Participation and Certain Transactions in the Proxy Statement.

Item 14. ***Principal Accounting Fees and Services***

Information concerning the Company s principal accounting fees and services is incorporated herein by reference to the section captioned Approval of Independent Accountants in the Proxy Statement.

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PART IV

Item 15. *Exhibits, Financial Statement Schedules*

Financial Statements

Reference is made to Item 8 of Part II hereof.

Financial Statement Schedules

Schedules have been omitted because they are inapplicable, not required, the information is included elsewhere in the Financial Statements or the notes thereto or is immaterial. Specific to warranty reserves and related activity, as stated in the Financial Statements, these amounts are immaterial.

Exhibits

Reference is made to the Index to Exhibits accompanying this Form 10-K as filed with the Securities and Exchange Commission. The Company will furnish to any shareholder, upon written request, any exhibit listed in such Index to Exhibits upon payment by such shareholder of the Company s reasonable expenses in furnishing any such exhibit.

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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.
(Registrant)

By /s/ Robert G. Gross

Robert G. Gross
President and Chief Executive Officer

Date: June 14, 2007

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities indicated as of June 14, 2007.

Signature	Title
/s/ Catherine D Amico Catherine D Amico	Executive Vice President-Finance, Chief Financial Officer and Treasurer (Principal Financial and Accounting Officer)
/s/ Richard A. Berenson* Richard A. Berenson	Director
/s/ Frederick M. Danziger* Frederick M. Danziger	Director
/s/ Donald Glickman* Donald Glickman	Director
/s/ Robert E. Mellor* Robert E. Mellor	Director
/s/ Peter J. Solomon* Peter J. Solomon	Director
/s/ Lionel B. Spiro* Lionel B. Spiro	Director
/s/ Francis R. Strawbridge*	Director

Francis R. Strawbridge

*By /s/ Robert G. Gross

Robert G. Gross
Chief Executive Officer,
Director and as Attorney-in-Fact

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INDEX TO EXHIBITS

The following is a list of all exhibits filed herewith or incorporated by reference herein:

Exhibit No.	Document
3.01*	Restated Certificate of Incorporation of the Company, dated July 23, 1991, with Certificate of Amendment, dated November 1, 1991. (1992 Form 10-K, Exhibit No. 3.01)
3.01a*	Certificate of Change of the Certificate of Incorporation of the Company, dated January 26, 1996. (August 2004 Form S-3, Exhibit 4.1(b))
3.01b*	Certificate of Amendment to Restated Certificate of Incorporation, dated April 15, 2004. (August 2004 Form S-3, Exhibit No. 4.1(c))
3.02*	Restated By-Laws of the Company, dated July 23, 1991. (Amendment No. 1, Exhibit No. 3.04)
10.02*	1994 Non-Employee Directors Stock Option Plan. (March 2001 Form S-8, Exhibit No. 4.1)**
10.02a*	Amendment, dated as of May 12, 1997, to the 1994 Non-Employee Directors Stock Option Plan. (March 2001 Form S-8, Exhibit No. 4.2)**
10.02b*	Amendment, dated as of May 18, 1999, to the 1994 Non-Employee Directors Stock Option Plan. (March 2001 Form S-8, Exhibit No. 4.3)**
10.02c*	Amendment, dated as of August 2, 1999, to the 1994 Non-Employee Directors Stock Option Plan. (2002 Form 10-K, Exhibit No. 10.02c)**
10.02d*	Amendment, dated as of June 12, 2002, to the 1994 Non-Employee Directors Stock Option Plan. (2002 Form 10-K, Exhibit No. 10.02d)**
10.03*	1989 Employees Incentive Stock Option Plan, as amended through December 23, 1992. (December 1992 Form S-8, Exhibit No. 4.3)**
10.03a*	Amendment, dated as of January 25, 1994, to the 1989 Employees Incentive Stock Option Plan. (1994 Form 10-K, Exhibit No. 10.03a and March 2001 Form S-8, Exhibit No. 4.2)**
10.03b*	Amendment, dated as of May 17, 1995, to the 1989 Employees Incentive Stock Option Plan. (1995 Form 10-K, Exhibit No. 10.03b and March 2001 Form S-8, Exhibit No. 4.3)**
10.03c*	Amendment, dated as of May 12, 1997, to the 1989 Employees Incentive Stock Option Plan. (1997 Form 10-K, Exhibit No. 10.03c and March 2001 Form S-8, Exhibit No. 4.4)**
10.03d*	Amendment, dated as of January 29, 1998, to the 1989 Employees Incentive Stock Option Plan. (1998 Form 10-K, Exhibit No. 10.03d)**
10.04	GUST Amendment and Restatement of the Monro Muffler Brake, Inc. Retirement Plan, dated April 1, 2002.**
10.04a	Amendment No. 1 to GUST Restatement, dated as of July 31, 2002.**
10.04b	Amendment No. 2 to GUST Restatement, dated July 31, 2002.**
10.04c	Amendment No. 3 to GUST Restatement, dated March 29, 2005.**
10.04d	Amendment No. 4 to GUST Restatement, dated December 21, 2006.**
10.05*	Profit Sharing Plan, amended and restated as of April 1, 1993. (1995 Form 10-K, Exhibit No. 10.05)**
10.05a*	Amendment, dated as of March 1, 2000, to the Profit Sharing Plan. (June 2001 Form S-8, Exhibit No. 4)**
10.06*	Second Amended and Restated Employment Agreement, dated November 14, 2002, by and between the Company and Robert G. Gross. (2003 Form 10-K, Exhibit No. 10.06)**
10.06a*	Amendment to Second Amended and Restated Employment Agreement, dated June 8, 2005. (June 2005 Form 8-K, Exhibit No. 10.1)**
10.07*	Employment Agreement, dated July 13, 2005 and effective May 19, 2005, by and between the Company and Joseph Tomarchio, Jr. (July 2005 Form 8-K, Exhibit No. 10.1)**

10.08*	1998 Employee Stock Option Plan, effective November 18, 1998. (December 1998 Form 10-Q, Exhibit No. 10.3 and March 2001 Form S-8, Exhibit No. 4)**
10.08a*	Amendment, dated May 20, 2003, to the 1998 Employee Stock Option Plan. (2004 Form 10-K, Exhibit No. 10.08a)**

Exhibit No.	Document
10.08b*	Amendment, dated June 8, 2005, to the 1998 Employee Stock Option Plan. (April 2006 Form S-8 for the 1998 Plan, Exhibit No. 4.2)**
10.09*	Kimmel Automotive, Inc. Pension Plan, as amended and restated effective January 1, 1989, adopted December 29, 1994. (2003 Form 10-K, Exhibit No. 10.09)**
10.09a*	First amendment, dated January 1, 1989, to the Kimmel Automotive, Inc. Pension Plan. (2003 Form 10-K, Exhibit No. 10.09a)**
10.09b*	Second amendment, dated January 1, 1989, to the Kimmel Automotive, Inc. Pension Plan. (2003 Form 10-K, Exhibit No. 10.09b)**
10.09c*	Third amendment, dated May 2001, to the Kimmel Automotive, Inc. Pension Plan. (2003 Form 10-K, Exhibit No. 10.09c)**
10.10*	2003 Non-Employee Directors Stock Option Plan, effective August 5, 2003. (2004 Form 10-K, Exhibit No. 10.10)**
10.10a*	Amendment, dated June 8, 2005, to the 2003 Non-Employee Directors Stock Option Plan. (April 2006 Form S-8 for the 2003 Plan, Exhibit No. 4.1)**
10.11*	Credit Agreement, dated as of July 13, 2005, by and among the Company, Charter One Bank, N.A., as Administrative Agent, and certain lenders party thereto. (June 2005 Form 10-Q, Exhibit No. 10.1)
10.11a*	Amendment No. 1 to Credit Agreement, dated January 12, 2007, by and among the Company, Charter One Bank, N.A., as Administrative Agent, and certain lenders party thereto. (December 2006 Form 10-Q, Exhibit No. 10.11a)
10.12*	Security Agreement, dated as of July 13, 2005, by and among the Company, Monro Service Corporation, Monro Leasing, LLC and Charter One Bank, N.A., as Administrative Agent for the lenders party to the Credit Agreement. (June 2005 Form 10-Q, Exhibit No. 10.2)
10.13*	Guaranty, dated as of July 13, 2005, of Monro Service Corporation. (June 2005 Form 10-Q, Exhibit No. 10.3)
10.15*	Negative Pledge Agreement, dated as of July 13, 2005, by and among the Company, Monro Service Corporation, Monro Leasing, LLC and Charter One Bank, N.A., as Administrative Agent for the lenders party to the Credit Agreement. (June 2005 Form 10-Q, Exhibit No. 10.5)
10.18*	Resale Restriction Agreement by and between the Company and each of its executive officers and certain senior-level managers, effective as of March 24, 2006. (March 2006 Form 8-K/A, Exhibit No. 10.1)
10.62*	Mortgage Agreement, dated September 28, 1994, between the Company and the City of Rochester, New York. (1995 Form 10-K, Exhibit No. 10.60)
10.63*	Lease Agreement, dated October 11, 1994, between the Company and the City of Rochester, New York. (1995 Form 10-K, Exhibit No. 10.61)
10.66*	Amendment to Lease Agreement, dated September 19, 1995, between the Company and the County of Monroe Industrial Development Agency. (September 1995 Form 10-Q, Exhibit No. 10.00)
10.68*	Amended and Restated Employment Agreement, dated February 6, 2006 and effective as of May 19, 2005, between the Company and Catherine D Amico. (February 2006 Form 8-K, Exhibit No. 10.1)**
10.69*	Supply Agreement, by and between the Company and The Valvoline Company, dated July 10, 2006 and effective as of April 1, 2006. (September 2006 Form 10-Q, Exhibit 10.1)
10.70*	Purchase Agreement between Walker Manufacturing Company, a division of Tenneco Automotive, and the Company, dated as of June 29, 1999. (2000 Form 10-K, Exhibit No. 10.70)
10.71	Supply Agreement, dated as of April 11, 2007, by and between the Company, Monro Service Corporation and AP Exhaust Products, Inc.
10.75*	Supply Agreement between the Company and The Valvoline Company, a division of Ashland Inc., effective November 1, 2002. (December 2002 Form 10-Q, Exhibit No. 10.79)

10.75a*	Automotive Filter Sales Agreement between the Company and The Valvoline Company, a division of Ashland Inc., dated November 1, 2002. (December 2002 Form 10-Q, Exhibit No. 10.80)

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Exhibit No.	Document
10.76*	Tenneco Automotive Ride Control Products Supply Agreement between Tenneco Automotive Operating Company Inc. and Monro Service Corporation, effective July 1, 2001. (2002 Form 10-K, Exhibit No. 10.76)
10.77*	Management Incentive Compensation Plan, effective as of June 1, 2002. (2002 Form 10-K, Exhibit No. 10.77)**
10.78*	Merchandising Agreement between the Company and Morse Automotive Corporation, dated September 1, 2002. (September 2002 Form 10-Q, Exhibit No. 10.78)
10.79*	Agreement, dated January 1, 1998, between F&J Properties, Inc. and Mr. Tire, Inc., as predecessor-in-interest to the Company, effective January 1, 1998, with respect to Store No. 750. (2004 Form 10-K, Exhibit No. 10.79)
10.79a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 750. (2004 Form 10-K, Exhibit No. 10.79a)
10.79b*	Landlord s Consent and Estoppel Certificate, dated as of February 27, 2004, by F&J Properties, Inc., with respect to Store No. 750. (2004 Form 10-K, Exhibit No. 10.79b)
10.79c	Renewal Letter, dated April 16, 2007, from the Company to F&J Properties, Inc. with respect to Store No. 750
10.80*	Agreement, dated January 1, 1997, between The Three Marquees and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 753. (2004 Form 10-K, Exhibit No. 10.80)
10.80a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 753. (2004 Form 10-K, Exhibit No. 10.80a)
10.80b*	Landlord s Consent and Estoppel Certificate, dated as of February 27, 2004, by The Three Marquees, with respect to Store No. 753. (2004 Form 10-K, Exhibit No. 10.80b)
10.80c*	Renewal Letter, dated March 6, 2006, from the Company to The Three Marquees, with respect to Store No. 753. (2006 Form 10-K, Exhibit No. 10.80c)
10.81*	Agreement, dated April 1, 1998, between 425 Manchester Road, LLC and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 754. (2004 Form 10-K, Exhibit No. 10.81)
10.81a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 754. (2004 Form 10-K, Exhibit No. 10.81a)
10.81b*	Landlord s Consent and Estoppel Certificate, dated as of February 27, 2004, by 425 Manchester Road, LLC, with respect to Store No. 754. (2004 Form 10-K, Exhibit No. 10.81b)
10.82*	Agreement, dated January 1, 1997, between The Three Marquees and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 756. (2004 Form 10-K, Exhibit No. 10.82)
10.82a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 756. (2004 Form 10-K, Exhibit No. 10.82a)
10.82b*	Landlord s Consent and Estoppel Certificate, dated as of February 27, 2004, by The Three Marquees, with respect to Store No. 756. (2004 Form 10-K, Exhibit No. 10.82b)
10.82c*	Renewal Letter, dated March 6, 2006, from the Company to The Three Marquees with respect to Store No. 756. (2006 Form 10-K, Exhibit No. 10.82c)
10.83*	Agreement, dated January 1, 1997, between The Three Marquees and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 758. (2004 Form 10-K, Exhibit No. 10.83)
10.83a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 758. (2004 Form 10-K, Exhibit No. 10.83a)

10.83b*	Landlord s Consent and Estoppel Certificate, dated as of February 27, 2004, by The Three Marquees, with respect to Store No. 758. (2004 Form 10-K, Exhibit No. 10.83b)
10.83c*	Renewal Letter, dated March 6, 2006, from the Company to The Three Marquees, with respect to Store No. 758. (2006 Form 10-K, Exhibit No. 10.83c)

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Exhibit No.	Document
10.84*	Agreement, dated September 2, 1999, between LPR Associates and Mr. Tire, Inc., as predecessor-in-interest to the Company, with respect to Store No. 765. (2004 Form 10-K, Exhibit No. 10.84)
10.84a*	Assignment and Assumption of Lease, dated March 1, 2004, between Mr. Tire, Inc. and the Company, with respect to Store No. 765. (2004 Form 10-K, Exhibit No. 10.84a)
10.84b*	Landlord s Consent and Estoppel Certificate, dated as of February 27, 2004, by LPR Associates, with respect to Store No. 765. (2004 Form 10-K, Exhibit No. 10.84b)
10.85*	Monro Muffler Brake, Inc. Warrant to Purchase Common Stock, dated March 1, 2004, between the Company and Atlantic Automotive Corp. (2004 Form 10-K, Exhibit No. 10.85)
10.86*	Supply Agreement by and between the Company and Wagner Brake, a division of Federal-Mogul Corporation, dated as of November 2, 2004 and effective as of February 1, 2005. (December 2004 Form 10-Q, Exhibit No. 10.86)
21.01	Subsidiaries of the Company.
23.01	Consent of PricewaterhouseCoopers LLP.
24.01	Powers of Attorney.
31.1	Certification of Robert G. Gross, President and Chief Executive Officer.
31.2	Certification of Catherine D Amico, Executive Vice President Finance and Chief Financial Officer.
32.1	Certification Pursuant to 18 U.S.C. Section 1350 (Section 906 of the Sarbanes-Oxley Act of 2002).

** Management contract or compensatory plan or arrangement required to be filed as an exhibit to this Form 10-K pursuant to Item 14(c) hereof.

* An asterisk * following an exhibit number indicates that the exhibit is incorporated herein by reference to an exhibit to one of the following documents: (1) the Company s Registration Statement on Form S-1 (Registration No. 33-41290), filed with the Securities and Exchange Commission on June 19, 1991 (Form S-1); (2) Amendment No. 1 thereto, filed July 22, 1991 (Amendment No. 1); (3) the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1992 (1992 Form 10-K); (4) the Company s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on December 24, 1992 (December 1992 Form S-8); (5) the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1994 (1994 Form 10-K); (6) the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1995 (1995 Form 10-K); (7) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 30, 1995 (September 1995 Form 10-Q); (8) the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1997 (1997 Form 10-K); (9) the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 1998 (1998 Form 10-K); (10) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 31, 1998 (December 1998 Form 10-Q); (11) the Company s Annual Report on Form 10-K for the fiscal year ended March 31, 2000 (2000 Form 10-K); (12) the Company s Registration Statements on Forms S-8, filed with the Securities and Exchange Commission on March 22, 2001 (each a March 2001 Form S-8); (13) the Company s Registration Statement on Form S-8, filed with the Securities and Exchange Commission on June 26, 2001 (June 2001 Form S-8); (14) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2001 (June 2001 Form 10-Q); (15) the Company s Annual Report on Form 10-K for the fiscal year ended March 30, 2002 (2002 Form 10-K); (16) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 28, 2002 (September 2002 Form 10-Q); (17) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 28, 2002 (December 2002 Form 10-Q); (18) the Company s Annual Report on Form 10-K for the fiscal year ended March 28, 2003 (2003 Form 10-K); (19) the Company s Registration Statement on Form S-3 (Registration No. 333-118176), filed with the Securities

and Exchange Commission on August 12, 2004 (August 2004 Form S-3); (20) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 25, 2004 (December 2004 Form 10-Q); (21) the Company s Annual Report on Form 10-K for the fiscal year ended March 27, 2004 (2004 Form 10-K); (22) the Company s Current Report on Form 8-K, filed June 8, 2005 (June 2005 Form 8-K); (23) the Company s Current Report on Form 8-K, filed July 14, 2005 (July 2005 Form 8-K); (24) the Company s Quarterly Report

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on Form 10-Q for the fiscal quarter ended June 25, 2005 (June 2005 Form 10-Q); (25) the Company s Current Report on Form 8-K, filed February 7, 2006 (February 2006 Form 8-K); (26) the Company s Current Report on Form 8-K/A, filed March 31, 2006 (March 2006 Form 8-K/A); (27) the Company s Registration Statement on Form S-8 (Registration No. 333-133044) filed with the Securities and Exchange Commission on April 6, 2006 (April 2006 Form S-8 for 2003 Plan); (28) the Company s Registration Statement on Form S-8 (Registration No. 333-133045) filed with the Securities and Exchange Commission on April 6, 2006 (April 2006 Form S-8 for 1998 Plan); (29) the Company s Annual Report on Form 10-K for the fiscal year ended March 25, 2006 (2006 Form 10-K); (30) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended September 23, 2006 (September 2006 Form 10-Q); and (31) the Company s Quarterly Report on Form 10-Q for the fiscal quarter ended December 23, 2006 (December 2006 Form 10-Q). The appropriate document and exhibit number are indicated in parentheses.