MONRO MUFFLER BRAKE INC
Form 10-K/A
June 28, 2001

1

ON JUNE 26, 2001, AN AGENT OF THE COMPANY INADVERTENTLY FILED A PRELIMINARY VERSION OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K. THAT FORM 10-K IS AMENDED AND RESTATED IN ITS ENTIRETY BY THIS FORM 10-K/A. OTHER THAN THE REVISION OF MINOR TYPOGRAPHICAL ERRORS AND THE UPDATING OF THE AUDITOR'S CONSENT, THE TWO FORMS ARE IDENTICAL.

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K/A

(MARK ONE)

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 (FEE REQUIRED)

For Fiscal Year Ended March 31, 2001

OR

[ ] 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: (716) 647-6400
Securities registered pursuant to Section 12(b) of the Act:

NONE

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

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 X No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the

best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [ ]

As of June 1, 2001, the aggregate market value of voting stock held by non-affiliates of the registrant was $79,958,000.

As of June 1, 2001, 8,158,253 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 2001 Annual Meeting of Shareholders (the "Proxy Statement") are incorporated by reference into Part III hereof.

2

ON JUNE 26, 2001, AN AGENT OF THE COMPANY INADVERTENTLY FILED A PRELIMINARY VERSION OF THE COMPANY'S ANNUAL REPORT ON FORM 10-K. THAT FORM 10-K IS AMENDED AND RESTATED IN ITS ENTIRETY BY THIS FORM 10-K/A. OTHER THAN THE REVISION OF MINOR TYPOGRAPHICAL ERRORS AND THE UPDATING OF THE AUDITOR'S CONSENT, THE TWO FORMS ARE IDENTICAL.

PART I

ITEM 1. BUSINESS

GENERAL

Monro Muffler Brake, Inc. ("Monro" or the "Company") is a chain of 511 Company-operated and 19 dealer-operated stores providing automotive undercar repair services in the United States. At March 31, 2001, 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 and Delaware under the name "Monro Muffler Brake & Service" and "Speedy Auto Service by Monro" (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 2,117,000 vehicles in fiscal 2001. (References herein to fiscal years are to the Company's fiscal years ending or ended March 31 of each year [e.g., references to "fiscal 2001" are to the Company's fiscal year ended March 31, 2001].)

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 16 additional states. Recent expansion included the September 1998 acquisition of 189 company-owned and 14 franchised Speedy stores, all located in the United States, from SMK Speedy International Inc. of Toronto Canada (the "Acquisition"). (See additional discussion under "Expansion Strategy.")

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 (716) 647-6400.

The Company provides a broad range of services on passenger cars, light trucks and vans for mufflers and exhaust systems (estimated at 26% of fiscal 2001 sales); brakes (34%); and steering, drive train, suspension and wheel alignment (16%). The Company also provides other products and services including tires, scheduled maintenance and state inspections (24%). 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, a heating and cooling system "flush and fill" service and some minor tune-up services. (See additional discussion under "Operating Strategy.") The Company does not sell parts or accessories to the do-it-yourself market.

The Company has two wholly-owned subsidiaries, Monro Service Corporation and Monro Leasing, LLC, both of which are Delaware corporations 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 which are wholly performed within New York State. The Company believes that this structure has enhanced, and will continue to enhance, operational efficiency and provide cost savings.

Monro Leasing, LLC was established primarily to act as lessee in real estate transactions for store locations. Currently, the sole member of the entity is the Company.

2

3

INDUSTRY OVERVIEW

According to industry reports, demand for automotive repair services, including undercar repair 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 expansion opportunities in new as well as existing market areas which will result from a combination of constructing stores on vacant land 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 more opportunities for acquisitions of existing businesses or store structures.

In that regard, 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.

Through March 31, 2000, the Company closed, sold or subleased 41 of the Acquired Speedy stores due to geographic conflicts or substandard performance. Four Monro locations were also closed due to geographic conflicts with Acquired Speedy locations during fiscal 2000, and five during fiscal 1999. Seven and four other Monro stores were closed during fiscal 2000 and fiscal 1999, respectively, primarily due to their failure to meet return-on-investment goals.

In connection with the Acquisition, the arrangement with the franchisees was renegotiated in fiscal 1999 such that they became "dealers" of the Company. No franchise fees are paid by the dealers, and no services are required to be performed by the Company. Dealers reimburse the Company for shared advertising costs and may purchase inventory from the Company.

As of March 31, 2001, Monro had 511 Company-operated stores and 19 dealer locations located in 17 states. The following table shows the growth in the number of Company-operated stores over the last five fiscal years:

STORE OPENINGS AND CLOSINGS

	YEAR ENDED MARCH 31,				
	1997	1998	1999	2000	2001
Stores open at beginning of year	274	313	350	524	512
Stores opened during year	40	39	210(a)	13	4
Stores closed during year (b) ..	(1)	(2)	(36)	(25)	(5)
Stores open at end of year	313	350	524	512	511

(a) Includes 189 Acquired Speedy stores.

(b) These stores were closed because they failed to achieve an acceptable level of profitability or because a new Monro store was opened in the same market at a more favorable location. Fiscal 1999 and 2000 closures primarily relate to underperforming or redundant Speedy locations.

The Company plans to open approximately five new stores in fiscal 2002, and to continue to search for appropriate acquisition candidates. In future years, should the Company find that there are not suitable acquisition candidates, it would increase its new store (green field) 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. These factors are evaluated through the use of a proprietary computer model developed for the Company. The characteristics of each potential site are compared by the model to the profiles of existing stores, and the model then projects 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 marketing areas.

In fiscal year 1998, the Company performed a comprehensive analysis of its historical and projected store opening strategy. As a result of this analysis, the Company 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. Three of the four stores opened in fiscal 2001 were in mature or existing markets.

The Company believes that management and operating improvements implemented over the last several fiscal years will enhance its ability to sustain its growth. The Company (including the Company-operated Acquired Speedy stores) 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. Late in fiscal 2001, the Company installed a new Windows-based, point-of-sale system in all of its stores. Being Windows-based, management believes that the system will simplify 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 will facilitate the presentation and sale of Scheduled Maintenance services to customers. Other enhancements include the streamlining of estimating and other processes; graphic catalogs; 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 will lead to reduced discounting. Enhancements will continue to be made to the POS system annually which 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 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 $137,000 for equipment (including a point-of-sale system and a truck), and approximately $66,000 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 store ranges, on average (based upon the last five fiscal years' openings, excluding the Acquired Speedy locations), from $284,000 to $893,000 depending on the location and which of the three financing methods is used. In instances where Monro acquires an existing business, it may pay additional amounts for intangible assets such as customer lists, covenants not-to-compete and goodwill.

At March 31, 2001, the Company leased the land and/or the building at

approximately 78% 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 stores, excluding the Acquired Speedy stores, 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. These services apply to all makes and models of domestic and foreign cars, light trucks and vans. In addition, both Monro

stores and the Acquired Speedy stores provide many of the routine maintenance services (except engine diagnostic and major transmission repair) which automobile manufacturers suggest or require in the vehicle owners' manuals, and which fulfill manufacturers' requirements for new car warranty compliance. At the end of fiscal 2001, the Company introduced "Scheduled Maintenance" services in all of its stores whereby the aforementioned services are formally 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.

Substantially all of the stores provide oil change services as well as tire sales and installation. All stores perform a heating and cooling system "flush and fill" service, a transmission "flush and fill" service, and belt and hose installation. Additionally, all stores replace and service batteries, starters and alternators. Stores in New York, West Virginia, New Hampshire, Pennsylvania, North Carolina, Virginia and Vermont also perform annual state inspections. Approximately 25% 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 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 as advertised; and repairs by professionally trained undercar specialists, many of whom are Automotive Service Excellence (ASE) certified in brakes and suspension. (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 and electronic mail to increase consumer awareness of the services offered.

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. Some of these initiatives have included cross-promotional offers with professional sports teams, national fast food chains and video rental stores, as well as with regional supermarkets. Additionally, the Company introduced Bridgestone/Firestone tires into most of its stores in the late 1990s and Goodyear tires in fiscal 2001, where it had previously carried a private label tire. Through this initiative, the Company believes that it attracts some brand-loyal tire customers who otherwise might not have visited Monro. This gives the Company the opportunity to introduce itself to this new customer, and sell other needed services.

Centralized Control

Unlike many of its competitors, the Company operates, rather than franchises, all of its stores (except for the 19 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 technology changes. Additionally, purchasing, distribution, merchandising, advertising, accounting and other store support functions are centralized 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.

5

6

Comprehensive Training

The Company provides ongoing, comprehensive training to its store employees. Monro believes that such training provides a competitive advantage by enabling its technicians to provide quality service to its customers in all areas of undercar repair. (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 of approximately 4,500 square feet consisting of a sales area, six fully-equipped service bays and a parts storage area, with a parking lot with space for approximately 17 cars. Acquired Speedy stores average five bays per location with approximately 4,200 square feet. Most service bays are equipped with aboveground electric vehicle lifts. The typical Company store carries approximately $65,000 of inventory and approximately 3,100 stock keeping units ("SKUs"). Generally, each store is located within 25 miles of a "key" store which carries approximately 50% more inventory than a typical store, and serves as a mini-distribution point for slower moving inventory for other stores in its area.

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.

Inventory Control and Management Information System

All Monro and Acquired Speedy stores communicate daily with the central office and warehouse by a computerized inventory control and electronic POS management information system, which enables 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 monthly survey mailings to customers of all stores. (Each mailing consists of approximately 30 surveys.) Customer concerns are addressed via letter and personal follow-up by field management.

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 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 Guidelines" and "Standards of Service" established by MAP. These "Standards of Service" are posted in Monro and Speedy 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.

All headquarters management personnel participate in the Company's day-in-the-store program by working in a store under the direction of the store manager, to better understand the latest developments at the store level, and with the goal of improving support and service to the field.

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 store is staffed by a Store Manager and four to six technicians, one of whom serves as the Assistant Manager. 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 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 401k/profit-sharing plan; as well as the opportunity to advance within the Company. Many of the Company's Managers and Market Managers started with Monro or Speedy 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 department conducts in-house technical clinics for store personnel and management training programs for new Store Managers, and coordinates attendance at technical clinics offered by the Company's vendors. Each Monro 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.

The Company has established Monro University to provide comprehensive training and development of current and prospective Store Managers. Training is accomplished through an intensive one-week instructional program at a separate facility in Rochester, New York. Topics covered include sales training, customer service, time management, human resources (counseling, recruiting, interviewing, etc.), leadership, inventory control and financial management. The courses employ a variety of instructional techniques including video taping, role playing, and testing. Several of the courses are conducted by officers of the Company, whose first priority is instilling the Company's culture, philosophies and values into the individuals who hold these important

positions. The one week class follows a field training segment which ranges from two to four weeks depending upon the individual's level of experience. Monro management is closely tracking the performance of the managers who have completed the class. On average, the program has led to increased store profitability as well as longer retention of the Store Managers.

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 15% of all parts used in fiscal 2001.

The Company's ten largest vendors accounted for approximately 53% of its parts purchases, with the largest vendor accounting for approximately 17% of total purchases in fiscal 2001. The Company purchases parts 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 warehouse facility in Rochester, New York, and are distributed to stores through the Company-operated tractor/trailer fleet. Most stores are replenished once every week from the warehouse, and such replenishment fills, on the average, 94% of all items ordered by the stores' automatic POS-driven replenishment system. The warehouse stocks approximately 6,900 SKUs.

In February 1999, the Company signed a purchasing agreement with the National Automotive Parts Association ("NAPA") of Atlanta, Georgia. Effective March 1, 1999, NAPA became the Company's primary outside purchases vendor for auto parts at 90% of its locations. The agreement enables the Company to reduce costs on outside purchases through uniform and competitive pricing on all purchases made at NAPA's 530 locations participating in the program. In addition, the arrangement will streamline the Company's billing process on outside purchases with electronic data interface, and provides the Company's automotive technicians with access to NAPA's extensive "in-field" training courses.

The Company has entered into various contracts with parts suppliers which require it to buy up to 90% of its annual purchases of specific products including brakes, exhaust, oil and ride control at market prices. The agreements expire at various dates through December 2004. 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 varies 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 specialty and general automotive service chains, both franchised and company-operated; car dealerships; 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, 2001, Monro had 2,509 employees, of whom 2,332 were employed in the field organization, 53 were employed at the warehouse and 124 were employed at the Company's corporate headquarters. 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 handles used automotive oils, antifreeze and certain solvents, which are disposed of by licensed third-party contractors. In certain states, as required, the Company also recycles oil filters. Thus, the Company is subject to a number of federal, state and local environmental laws including the Comprehensive Environmental Response Compensation and Liability Act ("CERCLA"). In addition, the United States Environmental Protection Agency (the "EPA"), under the Resource Conservation and Recovery Act ("RCRA"), and various state and local environmental protection agencies regulate the Company's handling and disposal of waste. The EPA, under the Clean Air Act, also regulates the installation of catalytic converters by the Company and all other repair stores by periodically spot checking 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 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 require 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 lower during the latter period.

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 Industrial Park, in Rochester, New York.

In connection with the Speedy Acquisition, the Company financed most of the real estate formerly owned by SMK Speedy International Inc. via a synthetic lease (off-balance sheet) agreement. This lease was part of a new $135 million secured credit facility from a syndication of lenders. (See additional discussion under "Capital Resources and Liquidity.") Of the total number of Company-operated Acquired Speedy locations, 23 buildings on land-leased sites and 71 parcels of land and buildings on formerly owned locations are currently leased under this arrangement. (There are also seven closed Acquired Speedy stores which are financed under the synthetic lease.)

Of Monro's 511 Company-operated stores at March 31, 2001, 113 were owned, 288 were leased and for 110, the land only was leased, including stores under the synthetic lease arrangement. In general, the Company leases store sites for a ten-year period with several five-year renewal options. Giving effect to all renewal options, over 84% of the operating leases (308 stores) expire after 2009. 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. Certain officers and directors of the Company or members of their families are the lessors, or have interests in entities that are the lessors, with respect to 40 of the leases. No related party leases, other than renewals or modifications of leases on existing stores, have been entered into since May 1989, and no new related party leases are contemplated.

The office and warehouse facility and 14 of the owned stores are subject to mortgages held by commercial banks or private investors. As of March 31, 2001, the outstanding amount under the mortgage on the headquarters office and warehouse facility was $2.2 million, and the aggregate outstanding amount under the permanent mortgages on 14 of the owned stores was $4.2 million. There was also $.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, and a term loan of $.2 million secured by the headquarters facility.

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 2001.

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 2001		FISCAL 2000	
QUARTER ENDED	HIGH	LOW	HIGH	LOW
June 30	$ 9.19	$ 7.75	$ 8.63	$ 6.81
September 30	11.25	8.63	8.31	6.69
December 31	11.06	8.94	7.88	5.75
March 31	11.00	8.94	9.63	7.50

Holders

At May 31, 2001, the Company's Common Stock was held by approximately 1,800 shareholders of record or through nominee or street name accounts with brokers.

Dividends

While the Company has not paid any cash dividends on the Common Stock since its inception, any future determination as to the payment of 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.

10

11

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, 2001. The financial data and certain operating data have been derived from the Company's financial statements which have been examined by PricewaterhouseCoopers LLP, independent accountants. 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 MARCH 31,			
	2001	2000	1999	19
	(DOLLARS IN THOUSANDS, EXCEPT PER SHARE D			
INCOME STATEMENT DATA:				
Sales	$ 222,955	$ 223,605	$ 193,458	$ 154
Cost of sales, including distribution and occupancy costs	133,196	134,169	115,117	87
Gross profit	89,759	89,436	78,341	66
Operating, selling, general and administrative expenses	66,988	66,889	64,062	46
Operating income	22,771	22,547	14,279	20
Interest expense, net	5,768	6,831	5,600	3

Other expense, net	896	2,091	730	
Income before provision for income taxes	16,107	13,625	7,949	16
Provision for income taxes	6,411	5,418	3,203	6
Net income	$ 9,696	$ 8,207	$ 4,746	$ 9
Earnings per share (a) Basic	$ 1.19	$ .99	$ .57	$
Diluted	$ 1.09	$ .92	$ .53	$
Weighted average number of Common Stock and equivalents (a) Basic	8,182	8,305	8,317	8
Diluted	8,891	8,964	8,997	9
SELECTED OPERATING DATA (b):				
Sales growth:				
Total	(0.3%)	15.6%	25.4%	
Comparable store (c)	(1.4%)	(1.6%)	(1.3%)	
Stores open at beginning of year	512	524	350	
Stores open at end of year	511	512	524	
Capital expenditures	$ 11,045	$ 14,265	$ 23,310(d)	$ 25
BALANCE SHEET DATA (AT PERIOD END):				
Net working capital	$ 13,198	$ 11,876	$ 18,168	$ 13
Total assets	193,839	196,025	202,934	159
Long-term debt	50,857	63,639	78,672	54
Shareholders' equity	97,810	88,775	80,951	76

(a) Earnings per share for each fiscal year was computed by dividing net income by the weighted average number of shares of Common Stock and Common Stock equivalents outstanding during the respective year. All share and per share information has been adjusted to give retroactive effect to the five percent stock dividends paid in June 1998 and August 1997.

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

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

(d) Amount does not include the funding of the Speedy acquisition.

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 MARCH 31,		
	2001	2000	1999

Sales	100.0%	100.0%	100.0%
Cost of sales, including distribution and occupancy costs	59.7	60.0	59.5
Gross profit	40.3	40.0	40.5
Operating, selling, general and administrative expenses	30.1	29.9	33.1
Operating income	10.2	10.1	7.4
Interest expense, net	2.6	3.1	2.9
Other expense, net	0.4	0.9	0.4
Income before provision for income taxes	7.2	6.1	4.1
Provision for income taxes	2.9	2.4	1.6
Net income	4.3%	3.7%	2.5%

FORWARD-LOOKING STATEMENTS

The statements contained in this Annual Report on Form 10-K which are not historical facts, including (without limitation) in particular, statements made in this Item and in "Item 1 - Business," may contain forward-looking statements that are subject to important factors that could cause actual results to differ materially from those in the forward-looking statement, including (without limitation) product demand; the effect of economic conditions; the impact of competitive services, products and pricing; product development; parts supply restraints or difficulties; industry regulation; the continued availability of capital resources and financing and other risks set forth or incorporated herein and in the Company's Securities and Exchange Commission 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.

SPEEDY ACQUISITION

On September 17, 1998, the Company completed the acquisition of 189 company-operated and 14 dealer-operated Speedy stores, all located in the United States. Sales for the Speedy fiscal year ended January 3, 1998 for the 189 company-operated stores, some of which were opened only part of the year, were approximately $86 million.

Although the 203 Speedy stores were in the same general markets in which the Company competed, the Monro and Speedy locations were mainly situated in non-overlapping areas. While Monro has tended to open stores in suburban and small town locations, Speedy had tended to locate in major metropolitan areas. Therefore, the combination represented an excellent geographic fit.

Prior to the Acquisition, the Speedy stores were experiencing significant declining comparable store sales and EBITDA margins. The Company believes that the attention of Speedy's management was diverted to the expansion of its European operations. In addition, Speedy's management did not respond to the declining exhaust business by offering other services, as had Monro.

The result was that the Acquisition had a dilutive effect on earnings in the 1999 fiscal year. The weakness in Speedy's sales from September 1998 through March 1999 represented a continuation of a decline which was most pronounced prior to the Acquisition in September 1998. The conversion of systems and inventory during the third quarter of fiscal 1999 at all Company-operated Acquired Speedy stores also impacted the performance of these locations. These conversions involved the installation of new point-of-sale systems in the

Acquired Speedy stores, as well as the return of slow moving items to manufacturers and restocking with more popular parts, representing approximately half of the inventory in the Speedy stores. The new point-of-sale systems put all of the Company-operated Acquired Speedy stores on Monro's centralized distribution and automatic replenishment system whereas, previously, each store received parts directly from the various manufacturers. Although essential to margin improvement in future periods, this conversion process was very disruptive to the operations of the Acquired Speedy stores in the third quarter of fiscal 1999. The Company did experience a substantial reduction in cost of goods in the Acquired Speedy stores between the third and fourth quarters of fiscal 1999, through reduced outside purchases and lower acquisition costs from vendors as parts were distributed through the Company's centralized distribution system.

It was management's belief that, with moderately improved sales and further cost reductions, the acquired operations would begin to contribute to earnings per share during fiscal 2000, and should be increasingly accretive in subsequent years. This belief proved to be true, with the Speedy stores solidly accretive for the years ended March 31, 2000 and 2001.

FISCAL 2001 AS COMPARED TO FISCAL 2000

Sales for fiscal 2001 decreased $.6 million, or .3% from fiscal 2000 sales. The decrease was due to a loss of sales from closed stores of $1.1 million and a comparable store sales decrease of 1.4%. These decreases were partially offset by an increase of approximately $3.5 million from stores opened since April 1, 1999. There were 307 selling days in fiscal year 2001 and 309 days in fiscal year 2000.

During the year, four stores were opened and five were closed. At March 31, 2001, the Company had 511 stores in operation.

Management believes that the comparable store sales decrease resulted, in part, from manufacturers' use of non-corrosive stainless steel exhaust systems on almost all new cars (beginning in the mid - 1980s and completed in the mid - 1990s) which has extended the life of exhaust systems and resulted in declining exhaust sales. However, management believes that these declines were partially offset by positive industry factors including an increase in the average age of vehicles, a decrease in the number of service bays, an increase in the number of registered vehicles, and a shift in the consumer mentality from "do-it-yourself" to "do-it-for-me" caused by the increased complexity of cars and aging population. It is also management's belief that the decline in exhaust sales is beginning to level off as the vehicles manufactured with stainless steel exhaust systems continue to age, particularly in the northeast which experiences more severe winter weather conditions. Additionally, management believes that the Company's strategy of product diversification and expanded manager training assisted in minimizing the comparable store sales decline vis-a-vis its competitors.

The Company introduced "Scheduled Maintenance" services in all of its stores late in the fourth quarter of 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 can provide. Management believes that these services, which are offered both in bundled "packages" and individually, will make a positive contribution to comparable store sales in future years, and continue to help to mitigate the aforementioned challenges to comparable store sales which negatively impacted

recent fiscal years.

In addition, management believes that comparable store sales have suffered in recent years from a decline in vehicle population in the five-to-nine year old segment. Although the number of registered vehicles has increased steadily in recent years, the early 1990s recession in new car sales negatively impacted this particular segment of the vehicle population. This segment represents the prime repair age of vehicles and is the target market for the Company's services. However, as a result of increased car sales in the mid-to-late 1990s, the five-to-nine year old segment began to increase in calendar 2000.

Gross profit for fiscal 2001 was $89.8 million or 40.3% of sales, as compared with $89.4 million or 40% of sales for fiscal 2000. The improvement in gross profit as a percentage of sales is primarily attributable to a decrease in technician labor costs as a percent of sales due to improved productivity and control during the year ended March 31, 2001. However, this improvement was partially offset by an increase in occupancy costs as a percent of sales reflecting the impact of fixed costs (such as rent and depreciation) against a decline in comparable store sales.

Operating, selling, general and administrative expenses for fiscal 2001 increased by $.1 million to $67.0 million and, as a percentage of sales, increased by .2% as compared to fiscal 2000. Although spending was relatively flat in this line item, there was pressure on certain expense lines which were overcome through savings in others. More employees earned a bonus in fiscal 2001 than in fiscal 2000, increasing expense by $.4 million. Additionally, utilities increased by approximately $.7 million over the prior year due to colder weather and higher gas prices. Due to the hardening of the insurance market, the Company also experienced an increase in insurance costs in the form of increased deductibles - this in spite of a lower number and relatively flat dollar amount of claims as compared to fiscal 2000.

These increases were offset, however, by strong cost control in other areas such as health care costs and field operations support costs. Additionally, there was an increase in cooperative advertising credits resulting from improved purchasing agreements with the Company's major parts suppliers.

Operating income in fiscal 2001 of $22.8 million, or 10.2% of sales, increased by $.2 million over the fiscal 2000 level of $22.5 million, due to the factors discussed above.

Interest expense, net of interest income, decreased as a percent of sales from 3.1% in fiscal 2000 to 2.6% in fiscal 2001. The weighted average interest rate for the year ended March 31, 2001 was approximately .3% higher than the rate of 9.1% for the year ended March 31, 2000. However, the weighted average debt outstanding for the year ended March 31, 2001 decreased by approximately $13.5 million from fiscal 2000, resulting in a decrease in expense between the two years.

Other expense, net, at .4% of sales for the year ended March 31, 2001 decreased from .9% of sales for the year ended March 31, 2000. This decrease was primarily due to less expense related to store closings.

The Company's effective tax rate was 39.8% of pre-tax income in both fiscal 2001 and fiscal 2000.

Net income for fiscal 2001 increased by $1.5 million or 18.1% as compared to fiscal 2000, due to the factors discussed above.

FISCAL 2000 AS COMPARED TO FISCAL 1999

Sales for fiscal 2000 increased $30.1 million, or 15.6% over sales for fiscal 1999. The increase was due to an increase of approximately $38.2 million for stores opened since April 1, 1998, including $30.7 million from the newly-acquired Speedy stores, partially offset by a loss of sales from closed Monro stores and a comparable store sales decrease of 1.6%. During the year, 13 stores were opened and 25 were closed. At March 31, 2000, the Company had 512 stores in operation.

Gross profit for fiscal 2000 was $89.4 million or 40% of sales, as compared with $78.3 million or 40.5% of sales for fiscal 1999. The reduction in gross profit as a percentage of sales is primarily attributable to an increase in occupancy costs as a percent of sales reflecting the impact of fixed costs (such as rent and depreciation) against a decline in comparable store sales and soft new store sales. Additionally, labor costs increased over the prior year. During periods of slower sales when technicians may not be fully productive, they receive a minimum base-level wage which increases labor cost as a percent of sales.

Operating, selling, general and administrative expenses for fiscal 2000 increased by $2.8 million to $66.9 million and, as a percentage of sales, decreased by 3.2% as compared to fiscal 1999. The decline as a percentage of sales is due to several factors including increased cooperative advertising credits resulting from improved purchasing agreements with the Company's major parts suppliers, further reductions in corporate overhead and field supervision begun in fiscal 1999, and non-recurring Y2K costs in fiscal 1999.

Since the Company did not attain the minimum required percentage of targeted profit performance, employee bonus payments and profit sharing contributions were significantly reduced from previous, more profitable years.

Operating income in fiscal 2000 of $22.5 million, or 10.1% of sales, increased by $8.3 million over the fiscal 1999 level of $14.3 million due to the factors discussed above.

Interest expense, net of interest income, increased as a percent of sales from 2.9% in fiscal 1999 to 3.1% in fiscal 2000. The weighted average debt outstanding for the year ended March 31, 2000 was approximately $7.9 million greater than the amount outstanding for the year ended March 31, 1999. Additionally, the weighted average interest rate increased by approximately .8%.

Other expense, net, at .9% of sales for the year ended March 31, 2000 increased from .4% of sales for the year ended March 31, 1999. This increase was primarily due to amortization of goodwill from the Speedy acquisition and expenses related to Monro store closings.

The Company's effective tax rate was 39.8% and 40.3% of pre-tax income in fiscal 2000 and fiscal 1999, respectively.

Net income for fiscal 2000 increased by $3.5 million or 72.9% as compared to fiscal 1999, due to the factors discussed above.

CAPITAL RESOURCES AND LIQUIDITY

Capital Resources

The Company's primary capital requirements for fiscal 2001 were divided among the funding of its new store expansion program and the upgrading of facilities and systems in existing stores, totaling $11.0 million, as well as net principal payments on long-term debt and capital leases of $10.5 million.

In both fiscal years 2001 and 2000, these capital requirements were primarily met by cash flow from operations and through the use of a Revolving Credit facility.

In December 1999, the Company's Board of Directors authorized a share repurchase plan for up to 300,000 of the Company's common shares. In May 2000, the Board of Directors approved an increase of 120,000 shares, bringing the total authorization to 420,000 shares. During fiscal 2001 and 2000, the Company purchased approximately 117,000 and 100,000 shares, respectively at an aggregate price of $1.0 and $.8 million, respectively. Purchases of the shares are expected to be made from time-to-time, depending upon market conditions.

In fiscal 2002, the Company intends to open approximately five new stores. Total capital required to open a new store ranges, on average (based upon the last three fiscal years' openings - excluding the Acquired Speedy stores), from $284,000 to $893,000 depending on whether the store is leased, owned or land leased. Management believes that the Company has sufficient resources available (including cash and equivalents, cash flow from operations and bank financing) to expand its business as currently planned for the next several years.

Liquidity

Concurrent with the closing of the Speedy acquisition in September 1998, the Company obtained a new $135 million secured credit facility from a syndication of lenders led by The Chase Manhattan Bank. Approximately $55 million was borrowed under this facility to pay the all-cash purchase price, including transaction expenses of approximately $4 million. In addition, the Company refinanced approximately $35 million of indebtedness through the new credit facility, with the balance of the facility available for future working capital needs. More specifically, the new financing structure consists of a $25 million term loan (of which approximately $18 million was outstanding at March 31, 2001), a $75 million Revolving Credit facility (of which approximately $32 million was outstanding at March 31, 2001), and synthetic lease (off-balance sheet) financing for a significant portion of the Speedy real estate, totaling $35 million (of which approximately $32 million was outstanding at March 31, 2001). The loans bear interest at the prime rate or other LIBOR-based rate options tied to the Company's financial performance. The Company must also pay a facility fee on the unused portion of the commitment.

The credit facility has a five-year term. Interest only is payable monthly on the Revolving Credit and synthetic lease borrowings throughout the term. In addition to monthly interest payments, the $25 million term loan requires quarterly principal payments which began September 30, 1999.

The term loan and Revolving Credit facility are secured by all accounts receivable, inventory and other personal property. The Company has also entered into a negative pledge agreement not to encumber any real property, with certain permissible exceptions. The synthetic lease is secured by the real property to which it relates.

Within the aforementioned $75 million Revolving Credit facility, the Company has available a subfacility of $7 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 1.875% annually of the face amount of each standby letter of credit, payable quarterly in arrears. No letters of credit were outstanding under this line at March 31, 2001.

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 percent 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 consisting of a 10-year mortgage for $2.9 million and an eight-year term loan in the amount of $.7 million. Both obligations require monthly interest payments, and each may be converted from a floating rate to a fixed rate loan before the last two years of their respective terms. The mortgage requires equal monthly installments of principal based on a 20-year amortization period, and the term loan requires constant monthly payments of principal to fully amortize the debt over the eight-year term. The Company entered into an interest rate swap agreement with a major financial institution which effectively fixes the interest rate over the terms of the aforementioned agreements at 7.15%.

Interest is payable monthly on the Mortgage Notes Payable which have seven-year terms. Equal monthly installments of principal are required based on 20-year amortization periods.

The Company is a party to three additional interest rate swap agreements, expiring in calendar years 2002 and 2003, with an aggregate notional amount of $40.0 million. The purpose of these agreements is to limit the interest rate exposure on the Company's floating rate debt. Fixed rates under these agreements range from 5.21% to 6.25%.

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 tangible net worth. They also contain restrictions on dividend payments. The Company is in compliance with these requirements at March 31, 2001. These agreements permit mortgages and specific lease financing arrangements with other parties with certain limitations.

As of March 31, 2001, the Company had cash and equivalents of $.8 million.

15

16

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

On June 17, 1998 the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 133 ("SFAS 133"), "Accounting for Derivative Instruments and Hedging Activities" effective for fiscal years beginning after June 15, 2000. This statement standardizes the accounting for derivatives and hedging activities and requires that all derivatives be recognized in the statement of financial position as either assets or liabilities at fair value. Changes in the fair value of derivatives that do not meet the hedge accounting criteria are to be reported in earnings. Adoption of this standard did not have a material effect on the Company's financial position, results of operations or cash flows in the first quarter of fiscal 2002.

ITEM 7a. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk from potential changes in interest rates. The Company regularly evaluates these risks and has entered into four interest

rate swap agreements, expiring from 2002 to 2005, with an aggregate notional amount of $42.3 million. The agreements limit the interest rate exposure on the Company's floating rate debt via the exchange of fixed and floating rate interest payments periodically over the life of the agreement without the exchange of the underlying principal amounts. Fixed rates under these agreements range from 5.21% to 7.15%.

At March 31, 2001 and 2000, approximately 2% and 1% respectively, of the Company's long-term debt, excluding capital leases, is at fixed interest rates and therefore, the fair value is affected by changes in market interest rates. Long-term debt, including current portion, had a carrying amount of $57.1 million and a fair value of $55.2 million as of March 31, 2001, as compared to a carrying amount of $66.9 million and a fair value of $65.3 million as of March 31, 2000. The Company's cash flow exposure on floating rate debt, which is not supported by interest rate swap agreements, would have resulted in interest expense fluctuating approximately $.5 million for each of the years ended March 31, 2001 and 2000, given a 1% change in LIBOR.

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.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

PAGE

Report of Independent Accountants..18

Audited Financial Statements:

Consolidated Balance Sheet at March 31, 2001 and 2000.............19

Consolidated Statement of Income for the three years ended March 31, 2001..............................20

Consolidated Statement of Changes in Shareholders' Equity for the three years ended March 31, 2001..........21

Consolidated Statement of Cash Flows for the three years ended March 31, 2001..............................22

Notes to Consolidated Financial Statements........................23

Selected Quarterly Financial Information (Unaudited).......................38

REPORT OF INDEPENDENT ACCOUNTANTS

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

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of Monro Muffler Brake, Inc. and its subsidiaries at March 31, 2001 and 2000, and the results of their operations and their cash flows for each of the three years in the period ended March 31, 2001, 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 auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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.

PRICEWATERHOUSECOOPERS LLP
Rochester, New York
May 16, 2001

18

19

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEET

	20
	(
ASSETS	
Current assets:	
Cash and equivalents, including interest-bearing accounts of $751 in 2001 and $507 in 2000	
Trade receivables	
Inventories	
Deferred income tax asset	
Other current assets	
Total current assets	
Property, plant and equipment	
Less - Accumulated depreciation and amortization	
Net property, plant and equipment	
Other noncurrent assets	
Total assets	
LIABILITIES AND SHAREHOLDERS' EQUITY	

Current liabilities:
Current portion of long-term debt
Trade payables
Federal and state income taxes payable
Accrued interest
Accrued payroll, payroll taxes and other payroll benefits
Accrued insurance
Accrued restructuring costs
Other current liabilities

Total current liabilities

Long-term debt
Other long-term liabilities
Accrued long-term restructuring costs
Deferred income tax liability

Total liabilities

Commitments
Shareholders' equity:
Class C Convertible Preferred Stock, $1.50 par value, $.216 conversion value; 150,000 shares authorized; 91,727 shares issued and outstanding
Common Stock, $.01 par value, 15,000,000 shares authorized; 8,373,678 shares issued at March 31, 2001; 8,321,701 shares issued at March 31, 2000
Treasury Stock, 216,800 shares at March 31, 2001; 100,100 shares at March 31, 2000; at cost
Additional paid-in capital
Retained earnings

Total shareholders' equity

Total liabilities and shareholders' equity

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

19

20

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME

	Y
	2001
	(DOLL
Sales	$222,955
Cost of sales, including distribution and occupancy costs	133,196

Gross profit	89,759
Operating, selling, general and administrative expenses	66,988
Operating income	22,771
Interest expense, net of interest income of $95 in 2001, $56 in 2000 and $32 in 1999	5,768
Other expense, net	896
Income before provision for income taxes	16,107
Provision for income taxes	6,411
Net income	$ 9,696
Earnings per share:	
Basic	$ 1.19
Diluted	$ 1.09
Weighted average number of shares of Common Stock and Common Stock equivalents used in computing earnings per share:	
Basic	8,182
Diluted	8,891

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

20

21

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	CLASS C CONVERTIBLE PREFERRED STOCK	COMMON STOCK	TREASURY STOCK	ADDIT PAID CAPI
	(DOLLARS IN THOUSA			
Balance at March 31, 1998	$138	$79		$ 29

Net income				
Other comprehensive income (1):				
Minimum pension liability adjustment				
Exercise of stock options				
Stock dividend		4		6
Note receivable from shareholder				
	----	---	-------	----
Balance at March 31, 1999	138	83		35
Net income				
Other comprehensive income (1):				
Minimum pension liability adjustment				
Note receivable from shareholder				
Purchase of treasury shares			$ (803)	
	----	---	-------	----
Balance at March 31, 2000	138	83	(803)	35
Net income				
Exercise of stock options		1		
Note receivable from shareholder				
Purchase of treasury shares			(1,028)	
	----	---	-------	----
Balance at March 31, 2001	$138	$84	$(1,831)	$ 36
	====	===	=======	====

(1) Components of comprehensive income are reported net of related taxes of $210.

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

21

22

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS

	YEAR ENDED	
	2001	200

	(DOLLARS IN INCREASE (DECR	
Cash flows from operating activities:		
Net income	$9,696	$8
Adjustments to reconcile net income to net cash provided by operating activities -		
Depreciation and amortization	12,963	13
Net change in deferred income taxes	2,725	1
(Gain) loss on disposal of property, plant and equipment	(154)	
(Increase) decrease in trade receivables	(181)	
Increase in inventories	(1,330)	(1
(Increase) decrease in other current assets	(393)	
Decrease (increase) in other noncurrent assets	947	
(Decrease) increase in trade payables	(460)	1
(Decrease) increase in accrued expenses	(1,205)	(1
Increase (decrease) in income taxes payable	(70)	1
Decrease in other long-term liabilities	(1,145)	(1
Total adjustments	11,697	14
Net cash provided by operating activities	21,393	22
Cash flows from investing activities:		
Capital expenditures	(11,045)	(14
Proceeds from the sale of property, plant and equipment	1,113	2
Payment for purchase of Speedy stores		
Net cash used for investing activities	(9,932)	(12
Cash flows from financing activities:		
Proceeds from borrowings	77,050	121
Principal payments on long-term debt and capital lease obligations	(87,502)	(135
Purchase of common stock	(1,028)	
Exercise of stock options	263	
Loan to shareholder		
Net cash (used for) provided by financing activities	(11,217)	(15
Increase (decrease) in cash	244	(5
Cash at beginning of year	507	5
Cash at end of year	$ 751	$

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

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

BACKGROUND

Monro Muffler Brake, Inc. and its wholly owned subsidiaries, Monro Service Corporation and Monro Leasing, LLC (the "Company"), had 511 Company-operated and 19 dealer-operated automotive repair centers located primarily in the northeast region of the United States as of March 31, 2001.

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.

A description of the Company's major accounting policies follows.

FISCAL YEAR

The Company's fiscal year ends on March 31.

CONSOLIDATION

The consolidated financial statements include the Company and its wholly owned subsidiaries, Monro Service Corporation and Monro Leasing, LLC, after the elimination of intercompany transactions and balances.

REVENUE RECOGNITION

Sales are recorded upon completion of automotive undercar repair services provided to customers or upon the sale of incidental products and services to customers.

COMPREHENSIVE INCOME

The Company adopted Statement of Financial Accounting Standards No. 130 ("SFAS 130"), "Reporting Comprehensive Income", at the beginning of fiscal 1999. As it relates to the Company, comprehensive income is defined as net earnings less minimum pension liability and is reported net of related taxes.

WARRANTY

The Company provides an accrual for estimated future warranty costs based upon the historical relationship of warranty costs to sales. Actual expenses have not materially differed from the accruals estimated in prior periods.

INVENTORIES

The Company's inventories consist of automotive parts and tires.

Substantially all merchandise inventories are valued under the last-in, first-out (LIFO) method. Under the first-in, first-out (FIFO) method, these inventories would have been $47,000, $124,000 and $170,000 higher at March 31, 2001, 2000 and 1999, respectively. The FIFO value of inventory approximates the current replacement cost.

PROPERTY, PLANT AND EQUIPMENT

All property, plant and equipment are stated at cost. Depreciation of property, plant and equipment is provided on the straight-line basis. Buildings and

improvements 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 5 to 8 years.

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 (Note 3).

In accordance with Statement of Financial Accounting Standards No. 121 ("SFAS 121"), Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of, the Company assesses all long-lived assets, including property, plant and equipment, for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

GOODWILL

Goodwill is amortized on a straight-line basis over periods ranging from 7 to 20 years. In accordance with SFAS 121, the Company evaluates goodwill for impairment at least annually or whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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 March 31, 2001 and 2000 and advertising expense for the years ended March 31, 2001, 2000 and 1999 were not material to these financial statements.

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, are charged to expense.

INTEREST RATE HEDGE AGREEMENTS

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 agreements 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 adjustment to interest expense. The Company does not utilize financial instruments for trading or other speculative purposes.

The Company adopted Statement of Financial Accounting Standards No. 133 effective April 1, 2001. Adoption of this standard did not have a material

effect on the Company's financial position, results of operations or cash flows.

TREASURY STOCK

In November 1999, the Board of Directors approved a share repurchase program initially authorizing the Company to purchase up to 300,000 shares of its common stock at market prices. In May 2000, the Board of Directors approved an increase of 120,000 shares, bringing the total authorization to 420,000 shares. 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

The Company measures stock-based compensation cost as the excess of the quoted market price of the Company's common stock at the grant date over the amount the employee must pay for the stock. The Company's policy generally is to grant stock options at fair market value at the date of grant.

STATEMENT OF CASH FLOWS

For purposes of the Statement of Cash Flows, the Company considers all highly liquid instruments with original maturities of three months or less to be cash equivalents.

RECLASSIFICATIONS

Certain amounts in the Consolidated Balance Sheet and the Consolidated Statement of Cash Flows have been reclassified to improve reporting and maintain comparability among the periods presented.

NOTE 2 - ACQUISITION OF SPEEDY U.S.A. STORES

In September 1998, the Company completed the acquisition of 189 company-operated and 14 dealer-operated Speedy stores, all located in the United States, from SMK Speedy International Inc. of Toronto Canada ("the Speedy acquisition"). Speedy stores provide automotive repair services, specializing in undercar care, in 11 states located primarily in the northeast. The acquisition was accounted for as a purchase, and accordingly, the operating results of Speedy have been included in the Company's consolidated financial statements since the date of the acquisition.

In connection with the acquisition, the Company recorded a reserve for accrued restructuring costs of approximately $7.8 million. This reserve relates to costs associated with the closing of 41 duplicative or poorly performing Speedy stores, and includes charges for rent and real estate taxes (net of anticipated sublease income), the write down of assets to their fair market value, and net losses experienced by these stores through their closure date. The remaining balance in the accrued restructuring reserve was $2.3 million at March 31, 2001.

The excess of the aggregate purchase price over the fair value of net assets acquired of approximately $9.4 million is being amortized on a straight-line basis over 20 years.

An investment banking firm associated with a principal shareholder/director of the Company served as consultant to the Company in connection with the acquisition and related financing (Note 12).

NOTE 3 - PROPERTY, PLANT AND EQUIPMENT

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

	MARCH 31, 2001			MA
	OWNED	LEASED	TOTAL	OWNED
			(DOLLARS IN THOUSANDS)	
Land	$27,143		$27,143	$26,267
Buildings and improvements	90,851	$6,950	97,801	88,206
Equipment, signage and fixtures	71,573		71,573	67,674
Vehicles	10,076	1,226	11,302	10,313
Construction-in-progress	1,601		1,601	1,936
	201,244	8,176	209,420	194,396
Less - Accumulated depreciation and amortization	72,436	5,498	77,934	63,808
	$128,808	$2,678	$131,486	$130,588

Interest costs capitalized aggregated $343,000 in 2001 and $292,000 in 2000.

Amortization expense recorded under capital leases totaled $534,000, $552,000 and $470,000 for the years ended March 31, 2001, 2000 and 1999, respectively.

25

26

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 4 - OTHER NONCURRENT ASSETS

Other noncurrent assets consist of the following:

	MARCH 31,	
	2001	2000
	(DOLLARS IN THOUSANDS)	

Goodwill	$ 9,094	$ 9,724
Deferred debt issuance costs	1,265	1,847
Barter trade credits	1,506	1,507
Non-compete agreements	172	283
Investment in limited partnership	292	310
Other	257	342
	$12,586	$14,013

Accumulated amortization associated with noncurrent assets at March 31, 2001 and 2000 amounted to $3,542,000 and $2,486,000, respectively. Amortization expense totaled $692,000, $795,000 and $510,000 for the years ended March 31, 2001, 2000 and 1999, respectively.

NOTE 5 - LONG-TERM DEBT

Long-term debt consists of the following:

	2 - (
Revolving Credit Facility	$3
Term loan financing, LIBOR-based, due in installments through fiscal year 2004 (a)	1
Mortgage Notes Payable, LIBOR plus 1.0%, secured by store properties, due in installments through 2003 (a)	
Mortgage Note Payable, LIBOR plus .8%, secured by warehouse and office building, due in installments through 2006 (a)	
Term loan financing, LIBOR plus .8%, secured by warehouse and office building, due in installments through 2004 (a)	
Mortgage Note Payable, non-interest bearing, secured by warehouse and office land, due in one installment in 2015	
Other notes, 7.75% to 8.0%, partially secured by store equipment, due in installments through 2008	
Obligations under capital leases at various interest rates, secured by store properties and certain equipment, due in installments through 2014	
	6
Less - Current portion	1
	$5

(a) The prime rate at March 31, 2001 was 8.0%. The London Interbank Offered Rate (LIBOR) at March 31, 2001 was 5.08%.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Concurrent with the closing of the Speedy acquisition in September 1998, the Company obtained a new $135 million secured credit facility from a syndication of lenders led by The Chase Manhattan Bank. Approximately $55 million was borrowed under this facility to pay the all-cash purchase price, including transaction expenses of approximately $4 million. In addition, the Company refinanced approximately $35 million of indebtedness through the new credit facility, with the balance of the facility available for future working capital needs. More specifically, the new financing structure consists of a $25 million term loan (of which approximately $18 million was outstanding at March 31, 2001), a $75 million Revolving Credit facility (of which approximately $32 million was outstanding at March 31, 2001), and synthetic lease (off-balance sheet) financing for a significant portion of the Speedy real estate, totaling $35 million (of which approximately $32 million was outstanding at March 31, 2001). The loans bear interest at the prime rate or other LIBOR-based rate options tied to the Company's financial performance. The Company must also pay a facility fee on the unused portion of the commitment.

The credit facility has a five-year term. Interest only is payable monthly on the Revolving Credit and synthetic lease borrowings throughout the term. In addition to monthly interest payments, the $25 million term loan requires quarterly principal payments which began September 30, 1999.

The term loan and Revolving Credit facility are secured by all accounts receivable, inventory and other personal property. The Company has also entered into a negative pledge agreement not to encumber any real property, with certain permissible exceptions. The synthetic lease is secured by the real property to which it relates.

Within the aforementioned $75 million Revolving Credit facility, the Company has available a subfacility of $7 million for the purpose of issuing standby letters of credit. The line requires fees aggregating 1.875% annually of the face amount of each standby letter of credit, payable quarterly in arrears. No letters of credit were outstanding under this line at March 31, 2001.

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 percent 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 consisting of a 10-year mortgage for $2.9 million and an eight-year term loan in the amount of $.7 million. Both obligations require monthly interest payments, and each may be converted from a floating rate to a fixed rate loan before the last two years of their respective terms. The mortgage requires equal monthly installments of principal based on a 20-year amortization period, and the term loan requires constant monthly payments of principal to fully amortize the debt over the eight-year term. The Company entered into an interest rate swap agreement with a major financial institution which effectively fixes the interest rate over the terms of the aforementioned agreements at 7.15%.

Interest is payable monthly on the Mortgage Notes Payable which have seven year terms. Equal monthly installments of principal are required based on 20-year amortization periods.

The Company is a party to three additional interest rate swap agreements,

expiring in calendar years 2002 and 2003, with an aggregate notional amount of $40.0 million. The purpose of these agreements is to limit the interest rate exposure on the Company's floating rate debt. Fixed rates under these agreements range from 5.21% to 6.25%.

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 tangible net worth. They also contain restrictions on dividend payments. The Company is in compliance with these requirements at March 31, 2001. These agreements permit mortgages and specific lease financing arrangements with other parties with certain limitations.

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

	CAPITAL LEASES		
YEAR ENDED MARCH 31,	AGGREGATE AMOUNT	IMPUTED INTEREST	ALL OTHER DEBT
	(DOLLARS IN THOUSANDS)		
2002	$1,260	$(629)	$10,015
2003	1,004	(555)	10,361
2004	914	(514)	34,235
2005	876	(466)	164
2006	754	(412)	164
Thereafter	3,282	(1,067)	2,117
Total			

The interest amounts and balloon payment due under the synthetic lease financing are treated as operating rent commitments, and are excluded from this table of aggregate debt maturities (Note 10).

NOTE 6 - FAIR VALUE OF FINANCIAL INSTRUMENTS

Financial instruments consist of the following:

	MARCH 31, 2001			
	NOTIONAL AMOUNT	CARRYING AMOUNT	FAIR VALUE	NOT AM
			(DOLLARS IN THOUSANDS	

LIABILITIES			
Long-term debt, including current portion		$57,055	$55,168
DERIVATIVE INSTRUMENTS			
Interest rate swap agreements	$42,333		$5

The fair value of cash and cash equivalents, accounts receivable and accounts payable, approximated book value at March 31, 2001 and 2000 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.

While it is not the Company's intention to terminate its derivative financial instruments, fair values were estimated, based on market rates or quotes from brokers, which represented the amounts that the Company would receive or pay if the instruments were terminated at the balance sheet dates. These fair values indicated that the termination of interest rate swaps would have resulted in a $.6 million loss and a $2.1 million gain, as of March 31, 2001 and 2000, respectively.

MONRO MUFFLER BRAKE, INC. AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 7 - INCOME TAXES

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

	YEAR ENDED MARCH 31,		
	2001	2000	1999
	(DOLLARS IN THOUSANDS)		
Currently payable -			
Federal	$3,092	$2,920	$2,075
State	594	762	630
	3,686	3,682	2,705
Deferred -			
Federal	2,322	1,392	423
State	403	344	75
	2,725	1,736	498
Total	$6,411	$5,418	$3,203

Deferred tax (liabilities) assets consist of the following:

	YEAR EN
	2001
	(DOLLARS IN T
Property and equipment basis differences	$(4,472)
Prepaid expenses	(360)
Partnership investment	(304)
Goodwill	(1,153)
Capital leases	(362)
Pension	(507)
Other	(134)
Gross deferred tax liabilities	(7,292)
Capital leases	
Insurance accruals	505
Vacation accrual	307
Warranty and other reserves	597
Other	768
Gross deferred tax assets	2,177
Net deferred tax liability	$(5,115)

The Company has $4.3 million of net operating loss carryforwards available as of March 31, 2001. The carryforwards expire in varying amounts from 2004 through 2020.

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 MARCH 31,			
	2001		2000	
	AMOUNT	PERCENT	AMOUNT	PERCENT
			(DOLLARS IN THOUSANDS)	

Federal income tax based on statutory tax rate applied to income before taxes	$5,571	34.6	$4,669	34.3
State income tax, net of Federal income tax benefit	759	4.7	671	4.9
Other	81	.5	78	.6
	$6,411	39.8	$5,418	39.8

NOTE 8 - CONVERTIBLE PREFERRED STOCK AND COMMON STOCK

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

	COMMON STOCK SHARES ISSUED	CLASS C CONVERTIBLE PREFERRED STOCK SHARES ISSUED
Balance at March 31, 1998	7,876,901	91,727
Stock options exercised	51,030	
Stock dividend	393,770	
Balance at March 31, 1999	8,321,701	91,727
Purchase of treasury shares		
Balance at March 31, 2000	8,321,701	91,727
Stock options exercised	51,977	
Purchase of treasury shares		
Balance at March 31, 2001	8,373,678	91,727

On May 13, 1998, the Board of Directors declared a five percent stock dividend on the Company's common stock, paid June 18, 1998, to shareholders of record as of June 8, 1998. All share and per share information included in the accompanying financial statements and notes have been adjusted to give retroactive effect to this dividend.

Additionally, in accordance with antidilution provisions of the Class C convertible preferred stock, the conversion value of the preferred stock was restated to $.216 per share.

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.

Under the 1984 and 1987 Incentive Stock Option Plans, 727,672 shares (as retroactively adjusted for stock dividends) of the common stock were reserved for issuance to officers and key employees. The 1989 Incentive Stock Option Plan authorized an additional 173,255 shares (as retroactively adjusted for stock

dividends) for issuance.

In January 1994, May 1995 and May 1997, the Board of Directors authorized an additional 257,809, 109,974 and 210,000 shares, respectively (as retroactively adjusted for stock dividends), for issuance under the 1989 Plan. These amounts were approved by shareholders in August 1994, August 1995 and August 1997, respectively.

In November 1998, the Board of Directors authorized the 1998 Incentive Stock Option Plan, reserving 750,000 shares of common stock for issuance to officers and key employees. The Plan was approved by shareholders in August 1999.

Generally, options vest within the first five years of their term, a