MONRO MUFFLER BRAKE INC
Form 10-Q
November 06, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 27, 2014

OR

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

For the transition period from ______ to ______

Commission File Number: 0-19357

MONRO MUFFLER BRAKE, INC.

(Exact name of registrant as specified in its charter)

New York	**16-0838627**
(State or other jurisdiction of	**(I.R.S. Employer**
incorporation or organization)	**Identification #)**
200 Holleder Parkway, Rochester, New York	**14615**
(Address of principal executive offices)	**(Zip code)**

585-647-6400

(Registrant s telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

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

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

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

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

As of October 24, 2014, 31,575,114 shares of the registrant s common stock, par value $ .01 per share, were outstanding.

Table of Contents

MONRO MUFFLER BRAKE, INC.

INDEX

Table of Contents

MONRO MUFFLER BRAKE, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MONRO MUFFLER BRAKE, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

	September 27, 2014	March 29, 2014
	(Dollars in thousands)	
Assets		
Current assets:		
Cash and equivalents	$ 7,763	$ 1,205
Trade receivables	3,153	2,728
Federal and state income taxes receivable		2,171
Inventories	142,775	124,920
Deferred income tax assets	13,971	13,710
Other current assets	30,153	23,382
Total current assets	197,815	168,116
Property, plant and equipment	569,862	531,505
Less - Accumulated depreciation and amortization	(259,214)	(249,622)
Net property, plant and equipment	310,648	281,883
Goodwill	334,649	270,039
Intangible assets	35,012	29,371
Other non-current assets	11,031	10,547
Long-term deferred income tax assets	14,936	
Total assets	$ 904,091	$ 759,956
Liabilities and Shareholders Equity		
Current liabilities:		
Current portion of long-term debt, capital leases and financing obligations	$ 9,302	$ 7,552
Trade payables	70,968	53,321
Federal and state income taxes payable	1,677	
Accrued payroll, payroll taxes and other payroll benefits	19,071	20,206
Accrued insurance	33,750	32,353
Warranty reserves	10,205	9,557
Other current liabilities	13,434	13,752
Total current liabilities	158,407	136,741
Long-term capital leases and financing obligations	128,283	81,199
Long-term debt	151,017	105,841
Accrued rent expense	5,441	5,700
Other long-term liabilities	12,476	11,558
Deferred income tax liabilities		140

Long-term income taxes payable	3,129	2,793
Total liabilities	458,753	343,972
Commitments		
Shareholders equity:		
Class C Convertible Preferred Stock, $1.50 par value, $.064 conversion value, 150,000 shares authorized; 32,500 shares issued and outstanding	49	49
Common Stock, $.01 par value, 65,000,000 shares authorized; 37,649,070 and 37,567,902 shares issued at September 27, 2014 and March 29, 2014, respectively	376	376
Treasury Stock, 6,076,951 shares at cost	(90,241)	(90,241)
Additional paid-in capital	145,980	141,365
Accumulated other comprehensive loss	(3,258)	(3,135)
Retained earnings	392,432	367,570
Total shareholders equity	445,338	415,984
Total liabilities and shareholders equity	$ 904,091	$ 759,956

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

Table of Contents

MONRO MUFFLER BRAKE, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

	Quarter Ended Fiscal September 2014	Quarter Ended Fiscal September 2013	Six Months Ended Fiscal September 2014	Six Months Ended Fiscal September 2013
	(Dollars in thousands, except per share data)			
Sales	$ 221,299	$ 205,321	$ 438,806	$ 411,492
Cost of sales, including distribution and occupancy costs	131,827	123,573	259,311	250,866
Gross profit	89,472	81,748	179,495	160,626
Operating, selling, general and administrative expenses	60,545	57,837	121,158	113,607
Operating income	28,927	23,911	58,337	47,019
Interest expense, net of interest income	2,772	2,048	4,908	3,858
Other income, net	(227)	(179)	(305)	(231)
Income before provision for income taxes	26,382	22,042	53,734	43,392
Provision for income taxes	10,052	8,392	20,472	16,171
Net income	16,330	13,650	33,262	27,221
Other comprehensive loss, net of tax:				
Changes in pension, net of tax benefit	(62)	(177)	(123)	(177)
Comprehensive income	$ 16,268	$ 13,473	$ 33,139	$ 27,044
Earnings per share:				
Basic	$ .51	$ .43	$ 1.05	$ .86
Diluted	$ .50	$ .42	$ 1.01	$ .84

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

Table of Contents

MONRO MUFFLER BRAKE, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS EQUITY

(UNAUDITED)

(Dollars in thousands)

	Preferred Stock	Common Stock	Treasury Stock	Additional Paid-in Capital	Accumulated Other Comprehensive Loss [2]	Retained Earnings	Total
Balance at March 29, 2014	$ 49	$ 376	$ (90,241)	$ 141,365	$ (3,135)	$ 367,570	$ 415,984
Net income						33,262	33,262
Other comprehensive loss:							
Pension liability adjustment (($198) pre-tax)					(123)		(123)
Cash dividends [1]: Preferred						(198)	(198)
Common						(8,202)	(8,202)
Stock issuance costs				(14)			(14)
Tax benefit from exercise of stock options				546			546
Exercise of stock options				1,783			1,783
Stock-based compensation				2,300			2,300
Balance at September 27, 2014	$ 49	$ 376	$ (90,241)	$ 145,980	$ (3,258)	$ 392,432	$ 445,338

(1) Represents first and second quarter fiscal year 2015 dividend payment of $.13 per common share or common share equivalent paid each quarter on June 12, 2014 and August 28, 2014, respectively.

(2) Under the Sovereign Agreement, the Revolver bears interest at a rate per annum equal to the prime lending rate announced from time to time by Sovereign (**Prime**) plus 0.25%. The Term Loan bears interest at a rate per annum equal to Prime plus 0.50%.

13

The Revolver terminates on August 5, 2011, at which time all outstanding borrowings under the Revolver are due. The Term Loan matures on August 5, 2011 and requires equal monthly principal payments of approximately $17,000 each, plus interest, with the remaining balance due at maturity. The loans are subject to a prepayment penalty if satisfied in full prior to the second anniversary of the effective date of the loans. During the first quarter ended March 31, 2009, the Company made an elective $500,000 additional Term Loan payment.

The Sovereign Agreement contains customary representations and warranties as well as affirmative and negative covenants, including certain financial covenants. The Sovereign Agreement contains customary events of default, including, among others, non-payment of principal, interest or other amounts when due.

Proceeds from the Term Loan were used to refinance the Company s credit facility with National City Business Credit, Inc. and National City Bank, to pay transaction costs, to provide working capital and for other general corporate purposes. As of March 31, 2009, the Company has not drawn any funds under the Revolver.

The Company anticipates that the cash generated from operations, existing cash balances and amounts available under its credit facility with Sovereign, will be sufficient to satisfy its foreseeable working capital needs.

New Accounting Pronouncements

In April 2009, the Financial Accounting Standards Board (FASB) issued FASB Staff Position No. FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments (FSP 115-2 and 124-2). FSP 115-2 and 124-2 amends the guidance on other-than-temporary impairment for debt securities and modifies the presentation and disclosure of other-than-temporary impairments on debt and equity securities in the financial statements. This FSP is effective for interim and annual periods ending after June 15, 2009. The Company is evaluating the impact of FSP 115-2 and 124-2 on its financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP 157-4). FSP 157-4 provides additional guidance for estimating fair value under Statement of Financial Accounting Standard No. 157, Fair Value Measurements when there is an inactive market or the market is not orderly. This FSP is effective for interim and annual periods ending after June 15, 2009. The Company is evaluating the impact of FSP 157-4 on is financial statements.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, Interim Disclosures about Fair Value of Financial Instruments (FSP 107-1 and 28-1). This FSP requires disclosure about fair value of financial instruments in interim periods, as well as annual financial statements. FSP 107-1 and 28-1 is effective for interim periods ending after June 15, 2009. The Company is evaluating the impact of this FSP on its financial statements.

In December 2008, the FASB issued FASB Staff Position No. FAS 132(R)-1, Employers Disclosures about Postretirement Benefit Plan Assets (FSP 132(R)-1). FSP 132(R)-1 provides guidance on a plan sponsor s disclosures about plan assets of defined benefit pension and postretirement plans. Required disclosures include information about categories of plan assets, fair value measurements of plan assets, and significant concentrations of risk, as well as investment policies and strategies. FSP 132(R)-1 is effective for fiscal years ending after December 15, 2009. Except for additional disclosures, the Company does not expect the adoption of FSP132(R)-1 to have an impact on its financial statements

In June 2008, the FASB issued FASB Staff Position (FSP) Emerging Issues Task Force (EITF) FSP EITF 03-6-1, Determining Whether Instruments Granted in Share-Based Payment Transactions Are Participating Securities . This FSP addresses whether instruments granted in share-based payment transactions are participating securities prior to vesting and, therefore, need to be included in the earnings allocation in computing earnings per share (EPS) under the two-class method described in paragraphs 60 and 61 of FASB Statement No. 128, Earnings per Share. FSP EITF 03-6-1 is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those years. The implementation of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

In June 2008, the FASB ratified the consensus reached by the EITF on three issues discussed at its June 12, 2008 meeting pertaining to EITF 07-5, Determining Whether an Instrument (or Embedded Feature) is Indexed to an Entity s Own Stock (EITF 07-5). The issues include how an entity should evaluate whether an instrument, or embedded feature, is indexed to its own stock, how the currency in which the strike price of an equity-linked financial instrument, or embedded equity-linked feature, is denominated affects the determination of whether the instrument is indexed to an

14

entity s own stock and how the issuer should account for market-based employee stock option valuation instruments. EITF 07-5 is effective for financial instruments issued for fiscal years and interim periods beginning after December 15, 2008 and is applicable to outstanding instruments as of the beginning of the fiscal year it is initially applied. The cumulative effect, if any, of the change in accounting principle shall be recognized as an adjustment to the opening balance of retained earnings. The implementation of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

In May 2008, the FASB issued FSP APB 14-1, Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (Including Partial Cash Settlement). This FSP clarifies that convertible debt instruments that may be settled in cash upon conversion (including partial cash settlement) are not addressed by paragraph 12 of APB Opinion No. 14, Accounting for Convertible Debt and Debt Issued with Stock Purchase Warrants. Additionally, this FSP specifies that issuers of such instruments should separately account for the liability and equity components in a manner that will reflect the entity s nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. This FSP is effective for financial statements issued for fiscal years beginning after December 15, 2008, and interim periods within those fiscal years. The implementation of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

In March 2008, the FASB issued Statement of Financial Accounting Standards No. 161 "Disclosures about Derivative Instruments and Hedging Activities an amendment of FASB Statement No. 133 "("SFAS 161"). SFAS 161 changes the disclosure requirements for derivative instruments and hedging activities. Entities are required to provide enhanced disclosures about (a) how and why an entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133 and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity's financial position, financial performance and cash flows. The guidance in SFAS 161 is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. This Statement encourages, but does not require, comparative disclosures for earlier periods at initial adoption. The implementation of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

In December 2007, the FASB issued SFAS No. 160, Noncontrolling interests in Consolidated Financial Statements - An Amendment of ARB No, 51. SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary (previously referred to as minority interests). SFAS No. 160 also requires that a retained noncontrolling interest upon the deconsolidation of a subsidiary be initially measured at its fair value. Upon adoption of SFAS No. 160, the Company would be required to report any noncontrolling interests as a separate component of consolidated stockholders equity. The Company would also be required to present any net income allocable to noncontrolling interests and net income attributable to the stockholders of the Company separately in its consolidated statements of operations. SFAS No. 160 is effective for fiscal years, and interim period within those fiscal years, beginning on or after January 1, 2009. SFAS No. 160 requires retroactive adoption of the presentation and disclosure requirements for existing minority interests. All other requirements of SFAS No. 160 shall be applied prospectively. SFAS No. 160 would have an impact on the presentation and disclosure of the noncontrolling interests of any non wholly-owned business acquired in the future.

In December 2007, the FASB issued SFAS No. 141R, "Business Combinations which replaces SFAS No. 141, "Business Combinations." SFAS 141R establishes principles and requirements for determining how an enterprise recognizes and measures the fair value of certain assets and liabilities acquired in a business combination, including noncontrolling interests, contingent consideration, and certain acquired contingencies. SFAS 141R also requires acquisition-related transaction expenses and restructuring costs be expensed as incurred rather than capitalized as a component of the business combination. SFAS 141R will be applicable prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. SFAS 141R would have an impact on accounting for any businesses acquired after the effective date of this pronouncement.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, Fair Value Measurements. SFAS No. 157 establishes a single definition of fair value and a framework for measuring fair value, sets out a fair value hierarchy to be used to classify the source of information used in fair value measurements, and requires new disclosures of assets and liabilities measured at fair value based on their level in the hierarchy. This statement applies under other accounting pronouncements that require or permit fair value measurements. In February 2008, the FASB issued Staff Positions (FSPs) No. 157-1 and No. 157-2, which, respectively, remove leasing transactions from the scope of SFAS No. 157 and defer its effective date for one year relative to certain nonfinancial assets and liabilities. As a result, the application of the definition of fair value and related disclosures of SFAS No. 157 (as impacted by these two FSPs) was effective for the Company beginning January 1, 2008 on a prospective basis with respect to fair value measurements of

(a) nonfinancial assets and liabilities that are recognized or disclosed at fair value in the Company s financial statements on a recurring basis (at least annually) and (b) all financial assets and liabilities. This adoption did not have a material impact on the Company s consolidated results of operations or financial condition. The remaining aspects of SFAS No. 157 for which the effective date was deferred under FSP No. 157-2 are currently being evaluated by the Company. Areas impacted by the deferral relate to nonfinancial assets and liabilities that are measured at fair value, but are recognized or disclosed at fair value on a nonrecurring basis. This deferral applies to such items as nonfinancial assets and liabilities initially measured at fair value in a business combination (but not measured at fair value in subsequent periods) or nonfinancial long-lived asset groups measured at fair value for an impairment assessment. The effects of these remaining aspects of SFAS No. 157 are to be applied to fair value measurements prospectively beginning January 1, 2009. The implementation of this standard did not have a material impact on the Company s consolidated results of operations or financial condition.

The FASB, the Emerging Issues Task Force and the SEC have issued certain other accounting pronouncements and regulations that will become effective in subsequent periods and are not expected to have a significant impact on the Company s consolidated financial statements at the time they become effective

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Not applicable to smaller reporting companies.

ITEM 4. CONTROLS AND PROCEDURES

The Company maintains a system of disclosure controls and procedures designed to provide reasonable assurance that information required to be disclosed in the Company s reports filed or submitted pursuant to the Securities Exchange Act of 1934, as amended (the **Exchange Act**), is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure 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. The Company carried out an evaluation, under the supervision and with the participation of management, including the Chief Executive Officer and Chief Financial Officer, of the design and operation of the Company s disclosure controls and procedures as of the end of the period covered by this report. Based on this evaluation, the Company s Chief Executive Officer and Chief Financial Officer concluded that the Company s disclosure controls and procedures were effective at March 31, 2009.

During the quarter ended March 31, 2009, there have been no changes in the Company s internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

The Company is a party to certain proceedings incidental to the ordinary course of its business, none of which, in the current opinion of management, is likely to have a material adverse effect on the Company s business, financial condition, results of operations, or cash flows.

As of March 31, 2009, the Company s Chief Executive Officer was indebted to the Company in the amount of $140,000, for which no interest has been charged. This indebtedness arose from a series of cash advances made to the Chief Executive Officer, the latest of which was advanced in February, 2002. This debt was being repaid at the rate of $1,000 per month, all of which represented principal payments on the indebtedness, until November 2008 when the Chief Executive Officer and his spouse filed a voluntary petition under Chapter 11 of the United States Bankruptcy Code. Since the time of filing, payments on this indebtedness have been subject to the automatic stay provisions of the United States Bankruptcy Code and, accordingly, no additional payments have been made. The Chief Executive Officer s interest in the Bankruptcy petition in connection with this indebtedness is adverse to the Company. Until such time as the Chief Executive Officer s plan of reorganization is confirmed by the Bankruptcy Court, the exact amount of the indebtedness that is likely to be repaid and the terms of repayment are unknown.

ITEM 6. EXHIBITS

Exhibits

The exhibits are listed in the Exhibit Index appearing at page 19 herein.

SIGNATURES

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

BLONDER TONGUE LABORATORIES, INC.

Date: May 14, 2009	By:	*/s/ James A. Luksch*
		James A. Luksch
		Chief Executive Officer
	By:	*/s/ Eric Skolnik*
		Eric Skolnik
		Senior Vice President and Chief Financial Officer
		(Principal Financial Officer)

18

EXHIBIT INDEX

Exhibit #	Description	Location
3.1	Restated Certificate of Incorporation of Blonder Tongue Laboratories, Inc.	Incorporated by reference from Exhibit 3.1 to S-1 Registration Statement No. 33-98070 originally filed October 12, 1995, as amended.
3.2	Restated Bylaws of Blonder Tongue Laboratories, Inc., as amended	Incorporated by reference from Exhibit 3.2 to Annual Report on Form 10-K/A originally filed May 9, 2008.
31.1	Certification of James A. Luksch pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
31.2	Certification of Eric Skolnik pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.	Filed herewith.
32.1	Certification pursuant to Section 906 of Sarbanes-Oxley Act of 2002.	Filed herewith.