MONRO, INC.
Form 10-Q
November 08, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

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FORM 10-Q

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(Mark One)

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

For the quarterly period ended September 29, 2018.

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, INC.

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| New York | 16-0838627 |
| (State or other jurisdiction of incorporation or organization) | (I.R.S. Employer 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. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of October 26, 2018, 32,987,494 shares of the registrant's common stock, par value $ .01 per share, were outstanding.

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MONRO, INC.

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

MONRO, INC.

CONSOLIDATED BALANCE SHEETS

(UNAUDITED)

| | September 29, 2018 | March 31, 2018 |
|---|---|---|
| | (Dollars in thousands) | |
| Assets | | |
| Current assets: | | |
| Cash and equivalents | $ 2,173 | $ 1,909 |
| Trade receivables | 15,759 | 11,582 |
| Federal and state income taxes receivable | 827 | 4,185 |
| Inventories | 156,762 | 152,367 |
| Other current assets | 46,520 | 37,213 |
| Total current assets | 222,041 | 207,256 |
| Property, plant and equipment | 792,083 | 767,864 |
| Less - Accumulated depreciation and amortization | (366,442) | (351,195) |
| Net property, plant and equipment | 425,641 | 416,669 |
| Goodwill | 541,748 | 522,892 |
| Intangible assets | 52,766 | 49,143 |
| Other non-current assets | 13,047 | 10,997 |
| Long-term deferred income tax assets | 8,022 | 11,475 |
| Total assets | $ 1,263,265 | $ 1,218,432 |
| Liabilities and Shareholders' Equity | | |
| Current liabilities: | | |
| Current portion of long-term debt, capital leases and financing obligations | $ 20,524 | $ 18,989 |
| Trade payables | 88,975 | 84,568 |
| Accrued payroll, payroll taxes and other payroll benefits | 19,564 | 20,197 |
| Accrued insurance | 37,721 | 36,739 |

| | | |
|---|---|---|
| Warranty reserves | 12,410 | 12,381 |
| Other current liabilities | 20,684 | 21,131 |
| Total current liabilities | 199,878 | 194,005 |
| Long-term debt | 151,352 | 148,068 |
| Long-term capital leases and financing obligations | 228,828 | 227,220 |
| Accrued rent expense | 4,196 | 4,530 |
| Other long-term liabilities | 13,276 | 14,141 |
| Long-term income taxes payable | 2,394 | 1,992 |
| Total liabilities | 599,924 | 589,956 |
| Commitments and contingencies | | |
| Shareholders' equity: | | |
| Class C Convertible Preferred Stock, $1.50 par value, $.064 conversion value, 150,000 shares authorized; 21,802 shares issued and outstanding | 33 | 33 |
| Common Stock, $.01 par value, 65,000,000 shares authorized; 39,300,041 and 39,166,392 shares issued at September 29, 2018 and March 31, 2018, respectively | 393 | 392 |
| Treasury Stock, 6,345,085 and 6,330,008 shares at September 29, 2018 and March 31, 2018, respectively, at cost | (107,523) | (106,563) |
| Additional paid-in capital | 206,533 | 199,576 |
| Accumulated other comprehensive loss | (4,399) | (4,248) |
| Retained earnings | 568,304 | 539,286 |
| Total shareholders' equity | 663,341 | 628,476 |
| Total liabilities and shareholders' equity | $ 1,263,265 | $ 1,218,432 |

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

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MONRO, INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(UNAUDITED)

| | Quarter Ended Fiscal September | | Six Months Ended Fiscal September | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (Dollars in thousands, except per share data) | | | |
| Sales | $ 307,105 | $ 278,017 | $ 602,916 | $ 556,507 |
| Cost of sales, including distribution and occupancy costs | 187,157 | 170,076 | 365,731 | 335,682 |
| Gross profit | 119,948 | 107,941 | 237,185 | 220,825 |
| Operating, selling, general and administrative expenses | 85,440 | 74,120 | 169,605 | 153,256 |
| Operating income | 34,508 | 33,821 | 67,580 | 67,569 |
| Interest expense, net of interest income | 6,803 | 6,117 | 13,383 | 11,859 |
| Other income, net | (261) | (226) | (488) | (238) |
| Income before provision for income taxes | 27,966 | 27,930 | 54,685 | 55,948 |
| Provision for income taxes | 6,205 | 10,663 | 12,280 | 21,096 |
| Net income | 21,761 | 17,267 | 42,405 | 34,852 |
| Other comprehensive loss, net of tax: | | | | |
| Changes in pension, net of tax benefit | (74) | (50) | (151) | (100) |
| Comprehensive income | $ 21,687 | $ 17,217 | $ 42,254 | $ 34,752 |
| Earnings per common share: | | | | |
| Basic | $ .66 | $ .52 | $ 1.28 | $ 1.06 |
| Diluted | $ .65 | $ .52 | $ 1.26 | $ 1.05 |
| Weighted average number of common shares outstanding used in computing earnings per share: | | | | |
| Basic | 32,911 | 32,754 | 32,882 | 32,729 |
| Diluted | 33,640 | 33,309 | 33,546 | 33,300 |

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

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MONRO, INC.

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

(UNAUDITED)

(Dollars and shares in thousands)

| | Class C Convertible Preferred Stock Shares | Amount | Common Stock Shares | Amount | Treasury Stock Shares | Amount | Additional Paid-in Capital | Accumulated Other Comprehensive Loss | Retained Earnings |
|---|---|---|---|---|---|---|---|---|---|
| Balance at March 31, 2018 | 22 | $ 33 | 39,166 | $ 392 | 6,330 | $ (106,563) | $ 199,576 | $ (4,248) | $ 539,286 |
| Net income | | | | | | | | | 42,405 |
| Other comprehensive loss: | | | | | | | | | |
| Pension liability adjustment ($202) pre-tax | | | | | | | | (151) | |
| Cash dividends (1): Preferred | | | | | | | | | (204) |
| Common | | | | | | | | | (13,158) |
| Dividend payable | | | | | | | | | (25) |
| Activity related to equity-based plans | | | 134 | 1 | 15 | (960) | 4,892 | | |
| Stock-based compensation | | | | | | | 2,065 | | |
| Balance at September 29, 2018 | 22 | $ 33 | 39,300 | $ 393 | 6,345 | $ (107,523) | $ 206,533 | $ (4,399) | $ 568,304 |

(1) First and second quarter fiscal year 2019 dividend payment of $.20 per common share or common share equivalent paid on June 14, 2018 and September 6, 2018, respectively.

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

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MONRO, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(UNAUDITED)

| | Six Months Ended Fiscal September | |
|---|---|---|
| | 2018 | 2017 |
| | (Dollars in thousands) Increase (Decrease) in Cash | |
| Cash flows from operating activities: | | |
| Net income | $ 42,405 | $ 34,852 |
| Adjustments to reconcile net income to net cash provided by operating activities - | | |
| Depreciation and amortization | 27,003 | 23,979 |
| Gain on bargain purchase | — | (13) |
| Gain on disposal of assets | (1,127) | (1,442) |
| Stock-based compensation expense | 2,065 | 1,202 |
| Net change in deferred income taxes | 4,624 | 4,320 |
| Change in operating assets and liabilities (excluding acquisitions): | | |
| Trade receivables | (2,503) | (1,196) |
| Inventories | 4,168 | (3,985) |
| Other current assets | (6,233) | (4,171) |
| Other non-current assets | (875) | 1,116 |
| Trade payables | 4,407 | 13,447 |
| Accrued expenses | (527) | 3,730 |
| Federal and state income taxes payable | 3,358 | 3,380 |
| Other long-term liabilities | (1,151) | (558) |
| Long-term income taxes payable | 402 | 423 |
| Total adjustments | 33,611 | 40,232 |
| Net cash provided by operating activities | 76,016 | 75,084 |
| Cash flows from investing activities: | | |
| Capital expenditures | (21,658) | (18,899) |
| Acquisitions, net of cash acquired | (39,134) | (14,468) |
| Proceeds from the disposal of assets | 438 | 1,986 |
| Other | 254 | — |
| Net cash used for investing activities | (60,100) | (31,381) |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 217,615 | 170,142 |
| Principal payments on long-term debt, capital leases | | |

| | | |
|---|---|---|
| and financing obligations | (224,066) | (206,948) |
| Exercise of stock options | 4,161 | 2,449 |
| Dividends paid | (13,362) | (11,973) |
| Net cash used for financing activities | (15,652) | (46,330) |
| Increase (decrease) in cash | 264 | (2,627) |
| Cash at beginning of period | 1,909 | 8,995 |
| Cash at end of period | $ 2,173 | $ 6,368 |

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

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MONRO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

Note 1 – Condensed Consolidated Financial Statements

The consolidated balance sheets as of September 29, 2018 and March 31, 2018, the consolidated statements of comprehensive income for the quarters and six months ended September 29, 2018 and September 23, 2017, the consolidated statement of changes in shareholders' equity for the six months ended September 29, 2018 and the consolidated statements of cash flows for the six months ended September 29, 2018 and September 23, 2017, include financial information for Monro, Inc. and its wholly-owned subsidiaries, Monro Service Corporation and Car-X, LLC (collectively, "Monro," "we," "us," "our," the "Company"). These unaudited, condensed consolidated financial statements hav been prepared by Monro. We believe all known adjustments (consisting of normal recurring accruals or adjustments) have been made to fairly state the financial position, results of operations and cash flows for the unaudited periods presented.

Interim results are not necessarily indicative of results for a full year. The year-end consolidated balance sheet data was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America. The information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited financial statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended March 31, 2018.

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

| | |
|---|---|
| "Quarter Ended Fiscal September 2018" | July 1, 2018 – September 29, 2018 (13 weeks) |
| "Quarter Ended Fiscal September 2017" | June 25, 2017 – September 23, 2017 (13 weeks) |
| "Six Months Ended Fiscal September 2018" | April 1, 2018 – September 29, 2018 (26 weeks) |
| "Six Months Ended Fiscal September 2017" | March 26, 2017 – September 23, 2017 (26 weeks) |

Fiscal 2019, ending March 30, 2019, is a 52 week year.

Monro's operations are organized and managed in one operating segment. The internal management financial reporting that is the basis for evaluation in order to assess performance and allocate resources by our chief operating decision maker consists of consolidated data that includes the results of our retail, commercial and wholesale locations. As such, our one operating segment reflects how our operations are managed, how resources are allocated, how operating performance is evaluated by senior management and the structure of our internal financial reporting.

Recent Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued new accounting guidance for the reporting of revenue from contracts with customers. This guidance provides guidelines a company will apply to determine the measurement of revenue and timing of when it is recognized. Additional guidance has subsequently been issued to amend or clarify the reporting of revenue from contracts with customers. The guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted. We adopted this guidance and all related amendments during the first quarter of fiscal 2019 using the modified retrospective approach. The adoption of the guidance did not have a material impact on our Consolidated Financial Statements. See Note 7 for additional information.

In February 2016, the FASB issued new accounting guidance related to leases. This guidance establishes a right of use ("ROU") model that requires a lessee to record a ROU asset and lease liability on the balance sheet for all leases with terms longer than twelve months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition. The guidance is effective for financial statements issued for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. Additional guidance has subsequently been issued in order to provide an additional transition method as well as an additional practical expedient to be available upon adoption. We are required to adopt the new lease guidance utilizing one of two methods: retrospective restatement for each reporting period presented at time of adoption, or a modified retrospective approach with the cumulative effect of initially applying this guidance recognized at the date of initial application. Under the modified retrospective approach, prior periods would not be restated. Early adoption is permitted, but we have not early adopted this guidance. We expect that the new lease standard will have a material impact on our Consolidated Financial Statements. While we are continuing to assess the effects of adoption, we currently believe the most significant changes relate to the recognition of new ROU assets and lease liabilities on the Consolidated Balance Sheet for operating leases as approximately 50% of our store leases, all of our land leases and all of our non real estate leases are currently not recorded on our balance sheet. We expect that substantially all of our operating lease commitments will be subject to the new guidance and will be recognized as operating lease liabilities and ROU assets upon adoption. Absent potential acquisitions, we do not anticipate any significant changes in the volume of our leasing activity until the period of adoption.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

In August 2016, the FASB issued new accounting guidance related to cash flow classification. This guidance clarifies and provides specific guidance on eight cash flow classification issues that are not addressed by current generally accepted accounting principles and thereby reduce the current diversity in practice. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted. We adopted this guidance during the first quarter of fiscal 2019. The adoption of the guidance did not have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued new accounting guidance which clarifies the definition of a business, particularly when evaluating whether transactions should be accounted for as acquisitions or dispositions of assets or businesses. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted for certain transactions. We adopted this guidance during the first quarter of fiscal 2019. The adoption of the guidance did not have a material impact on our Consolidated Financial Statements.

In January 2017, the FASB issued new accounting guidance simplifying the accounting for goodwill impairment by removing Step 2 of the goodwill impairment test, which required the determination of an implied fair value of goodwill. Under this guidance, an entity should perform its annual or interim goodwill impairment test by comparing the fair value of a reporting unit with its carrying amount. An entity should recognize an impairment charge for the amount by which the carrying amount exceeds the reporting unit’s fair value. This guidance is effective for annual or interim goodwill impairment tests in fiscal years beginning after December 15, 2019, and should be applied on a prospective basis. Early adoption is permitted for interim or annual goodwill impairment tests performed on testing dates after January 1, 2017. We have not early adopted this guidance. This guidance is not expected to have a material impact on our Consolidated Financial Statements.

In March 2017, the FASB issued accounting guidance that amends how employers present the net benefit cost in the income statement. The new guidance requires employers to disaggregate and present separately the current service cost component from the other components of the net benefit cost within the Consolidated Statement of Comprehensive Income. This guidance is effective for fiscal years and interim periods beginning after December 15, 2017, and should be applied retrospectively. Early adoption was permitted. We adopted this guidance during the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In May 2017, the FASB issued new accounting guidance which clarifies when to account for a change to the terms or conditions of a share based payment award as a modification. Under this guidance, modification is required only if the fair value, the vesting conditions, or the classification of an award as equity or liability changes as a result of the change in terms or conditions. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2017. Early adoption was permitted. We adopted this guidance during the first quarter of fiscal 2019. The adoption of this guidance did not have a material impact on our Consolidated Financial Statements.

In June 2018, the FASB issued new accounting guidance that amends the accounting for nonemployee share-based awards. Under the new guidance, the existing guidance related to the accounting for employee share-based awards will apply to nonemployee share-based transactions, with certain exceptions. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2018. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

In August 2018, the FASB issued new accounting guidance which eliminates, adds and modifies certain disclosure requirements for fair value measurements. This guidance is effective for fiscal years and interim periods within those years beginning after December 15, 2019. Early adoption is permitted. We are currently evaluating the potential impact of the adoption of this guidance on our Consolidated Financial Statements.

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

Guarantees

At the time we issue a guarantee, we recognize an initial liability for the fair value, or market value, of the obligation we assume under that guarantee. Monro has guaranteed certain lease payments, primarily related to franchisees, amounting to $2.6 million. This amount represents the maximum potential amount of future payments under the guarantees as of September 29, 2018. The leases are guaranteed through April 2020. In the event of default by the franchise owner, Monro generally retains the right to assume the lease of the related store, enabling Monro to re-franchise the location or to operate that location as a Company-operated store. As of September 29, 2018, no liability related to anticipated defaults under the foregoing leases is recorded. We recorded a liability related to anticipated defaults under the foregoing leases of $.2 million as of March 31, 2018.

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MONRO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

## Note 2 – Acquisitions

Monro's acquisitions are strategic moves in our plan to fill in and expand our presence in existing and contiguous markets, and leverage fixed operating costs such as distribution, advertising and administration. Acquisitions in this footnote include acquisitions of five or more locations as well as acquisitions of one to four locations that are part of our greenfield store growth strategy.

### Subsequent Events

Subsequent to September 29, 2018, we signed definitive asset purchase agreements to complete the acquisition of 15 retail tire and automotive repair stores located primarily within our existing markets. These transactions are expected to close during the third and fourth quarters of fiscal 2019 and are expected to be financed through our existing credit facility.

On November 4, 2018, we acquired five retail tire and automotive repair stores located in Ohio from Jeff Pohlman Tire & Auto Service, Inc. These stores operate under the Car-X and Mr. Tire names. The acquisition was financed through our existing credit facility.

On October 14, 2018, we acquired one retail tire and automotive repair store located in Illinois from Quality Tire and Auto, Inc. This store operates under the Car-X name. The acquisition was financed through our existing credit facility.

### Fiscal 2019

During the first six months of fiscal 2019, we acquired the following businesses for an aggregate purchase price of $38.7 million. The acquisitions were financed through our existing credit facility. The results of operations for these acquisitions are included in our financial results from the respective acquisition dates.

- On September 23, 2018, we acquired one retail tire and automotive repair store located in South Carolina from Walton's Automotive, LLC. This store operates under the Treadquarters name.

- On September 16, 2018, we acquired one retail tire and automotive repair store located in Illinois from C&R Auto Service, Inc. This store operates under the Car-X name.

- On September 9, 2018, we acquired four retail tire and automotive repair stores in Arkansas and Tennessee from Steele-Guiltner, Inc. These stores operate under the Car-X name.

- On July 15, 2018, we acquired one retail tire and automotive repair store located in Pennsylvania from Mayfair Tire & Service Center, Inc. This store operates under the Mr. Tire name.

- On July 8, 2018, we acquired eight retail tire and automotive repair stores in Missouri from Sawyer Tire, Inc. These stores operate under the Car-X name.

- On May 13, 2018, we acquired 12 retail/commercial tire and automotive repair stores and one retread facility located in Tennessee, as well as four wholesale locations in North Carolina, Tennessee and Virginia, from Free Service Tire Company, Incorporated. These locations operate under the Free Service Tire name.

- On April 1, 2018, we acquired four retail tire and automotive repair stores located in Minnesota from Liberty Auto Group, Inc. These stores operate under the Car-X name.

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

We expensed all costs related to acquisitions in the six months ended September 29, 2018. The total costs related to completed acquisitions were $.1 million and $.3 million for the quarter and six months ended September 29, 2018. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales for the fiscal 2019 acquired entities for the quarter and six months ended September 29, 2018 totaled $13.3 million and $18.7 million, respectively, for the period from acquisition date through September 29, 2018.

MONRO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

The preliminary fair values of identifiable assets acquired and liabilities assumed were based on preliminary valuations and estimates. The excess of the net purchase price over net identifiable assets acquired was recorded as goodwill. The preliminary allocation of the aggregate purchase price as of September 29, 2018 was as follows:

| | As of Acquisition Date (Dollars in thousands) |
|---|---|
| Trade receivables | $ 1,674 |
| Inventories | 8,417 |
| Other current assets | 195 |
| Property, plant and equipment | 9,352 |
| Intangible assets | 7,510 |
| Other non-current assets | 17 |
| Long-term deferred income tax assets | 1,127 |
| Total assets acquired | 28,292 |
| Warranty reserves | 270 |
| Other current liabilities | 1,064 |
| Long-term capital leases and financing obligations | 6,320 |
| Other long-term liabilities | 421 |
| Total liabilities assumed | 8,075 |
| Total net identifiable assets acquired | $ 20,217 |
| Total consideration transferred | $ 38,729 |
| Less: total net identifiable assets acquired | 20,217 |
| Goodwill | $ 18,512 |

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

| | As of Acquisition Date | |
|---|---|---|
| | Dollars in thousands | Weighted Average Useful Life |
| Customer lists | $ 5,599 | 13 years |
| Favorable leases | 1,511 | 10 years |
| Trade name | 400 | 2 years |
| Total | $ 7,510 | 12 years |

Fiscal 2018

During the first six months of fiscal 2018, we acquired the following businesses for an aggregate purchase price of $14.0 million.  The acquisitions were financed through our existing credit facility.  The results of operations for these acquisitions are included in our financial results from the respective acquisition dates.

- On August 13, 2017, we acquired eight retail tire and automotive repair stores located in Indiana and Illinois from Auto MD, LLC.  These stores operate under the Car-X name.

- On July 30, 2017, we acquired 13 retail tire and automotive repair stores in Michigan, 12 of which were operating as Speedy Auto Service and Tire dealer locations, from UVR, Inc.  One of the acquired stores was not opened by Monro.  These stores operate under the Monro name.

- On July 9, 2017, we acquired one retail tire and automotive repair store located in North Carolina from Norman Young Tires, Inc.  This store operates under the Treadquarters name.

- On June 25, 2017, we acquired one retail tire and automotive repair store located in Illinois from D&S Pulaski, LLC.  This store operates under the Car-X name.

MONRO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

- On June 11, 2017, we acquired two retail tire and automotive repair stores located in Minnesota and Wisconsin from J & R Diversified, Inc. These stores operate under the Car-X name.

- On June 11, 2017, we acquired one retail tire and automotive repair store located in Ohio from Michael N. McGroarty, Inc. This store operates under the Mr. Tire name.

- On June 2, 2017, we acquired one retail tire and automotive repair store located in Connecticut from Tires Plus LLC. This store operates under the Monro name.

- On May 21, 2017, we acquired one retail tire and automotive repair store located in Ohio from Bob Sumerel Tire Co., Inc. This store operates under the Mr. Tire name.

- On April 23, 2017, we acquired one retail tire and automotive repair store located in Florida from Collier Automotive Group, Inc. This store operates under The Tire Choice name.

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

We expensed all costs related to acquisitions in the six months ended September 23, 2017. The total costs related to completed acquisitions were \$.2 million and \$.3 million for the quarter and six months ended September 23, 2017, respectively. These costs are included in the Consolidated Statements of Comprehensive Income primarily under operating, selling, general and administrative expenses.

Sales for the fiscal 2018 acquired entities for the quarter and six months ended September 23, 2017 totaled \$3.1 million and \$3.6 million, respectively, for the period from acquisition date through September 23, 2017.

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

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

| | As of Acquisition Date (Dollars in thousands) |
|---|---|
| Inventories | $ 455 |
| Other current assets | 139 |
| Property, plant and equipment | 5,941 |
| Intangible assets | 3,117 |
| Other non-current assets | 7 |
| Long-term deferred income tax assets | 2,429 |
| Total assets acquired | 12,088 |
| Warranty reserves | 49 |
| Other current liabilities | 1,060 |
| Long-term capital leases and financing obligations | 9,993 |
| Other long-term liabilities | 116 |
| Total liabilities assumed | 11,218 |
| Total net identifiable assets assumed | $ 870 |
| Total consideration transferred | $ 14,042 |
| Less: total net identifiable assets assumed | 870 |
| Goodwill | $ 13,172 |

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MONRO, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

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

| | As of Acquisition Date | |
|---|---|---|
| | Dollars in thousands | Weighted Average Useful Life |
| Favorable leases | $ 2,133 | 10 years |
| Customer lists | 984 | 7 years |
| Total | $ 3,117 | 9 years |

As a result of the updated purchase price allocations for the entities acquired during the fiscal year ended March 31, 2018, certain of the fair value amounts previously estimated were adjusted during the measurement period.  These measurement period adjustments related to updated valuation reports and appraisals received from our external valuation specialists, as well as revisions to internal estimates.  The changes in estimates include a decrease in inventories of $.1 million and a decrease in property, plant and equipment of $.2 million.  The measurement period adjustments resulted in an increase of goodwill of $.3 million.

The measurement period adjustments were not material to the Consolidated Statement of Comprehensive Income for the quarter and six months ended September 29, 2018.

We continue to refine the valuation data and estimates primarily related to inventory, road hazard warranty, intangible assets, real estate, and real property leases for fiscal 2018 acquisitions which closed subsequent to September 23, 2017 and the fiscal 2019 acquisitions, and expect to complete the valuations no later than the first anniversary date of the respective acquisition.  We anticipate that adjustments will continue to be made to the fair values of identifiable assets acquired and liabilities assumed and those adjustments may or may not be material.

Note 3 – Earnings per Common Share

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

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

| | Quarter Ended Fiscal September | | Six Months Ended Fiscal September | |
|---|---|---|---|---|
| | 2018 | 2017 | 2018 | 2017 |
| | (Amounts in thousands, except per share data) | | | |
| Numerator for earnings per common share calculation: | | | | |
| Net income | $ 21,761 | $ 17,267 | $ 42,405 | $ 34,852 |
| Less: Preferred stock dividends | (102) | (92) | (204) | (184) |
| Income available to common shareholders | $ 21,659 | $ 17,175 | $ 42,201 | $ 34,668 |
| Denominator for earnings per common share calculation: | | | | |
| Weighted average common shares, basic | 32,911 | 32,754 | 32,882 | 32,729 |
| Effect of dilutive securities: | | | | |
| Preferred stock | 510 | | | |