



FOR IMMEDIATE RELEASE

**Pep Boys Reports Q2 Results**  
**- Net Earnings of \$5.4 Million on Lower Sales -**

PHILADELPHIA – September 8, 2008 – The Pep Boys – Manny, Moe & Jack (NYSE: "PBY"), the nation's leading automotive aftermarket retail and service chain, announced the following results for the thirteen (second quarter) and twenty-six (first half) weeks ended August 2, 2008.

***Operating Results***

**Second Quarter**

**Sales**

Sales were \$500.0 million as compared to \$552.1 million in 2007. Comparable sales decreased 7.5%, including an 8.0% comparable merchandise sales decrease and a 5.2% comparable service revenue decrease. In accordance with GAAP, merchandise sales includes merchandise sold through both our retail and service center lines of business and service revenue is limited to labor sales. Recategorizing Sales into the respective lines of business from which they are generated, comparable Service Center Revenue (labor plus installed merchandise and tires) decreased 1.9%, while comparable Retail Sales (DIY and Commercial) decreased 11.6%.

**Earnings From Continuing Operations Before Income Taxes**

Earnings From Continuing Operations Before Income Taxes were \$6.6 million as compared to \$6.3 million in 2007. The results reflect disciplined spending control, reduced interest expense as a result of paying down debt, a \$4.1 million gain from the disposition of assets and improved product margin rates. These benefits were largely offset by gross profit pressure associated with the reduction in sales.

**Net Earnings**

Net Earnings From Continuing Operations increased to \$5.8 million or \$0.11 per share (basic and diluted) as compared to \$3.9 million or \$0.07 per share (basic and diluted) in 2007. Net Earnings increased to \$5.4 million or \$0.10 per share (basic and diluted) as compared to \$4.2 million or \$0.08 per share (basic and diluted) in 2007. Net Earnings From Continuing Operations and Net Earnings for the second quarter of 2008 include a one-time \$2.2 million tax benefit resulting from the recording, during this quarter, of a deferred tax asset due to a June 2007 state tax law change.

**First Half**

**Sales**

Sales were \$998.1 million as compared to \$1,091.7 million in 2007. Comparable sales decreased 6.6%, including a 7.1% comparable merchandise sales decrease and a 4.0% comparable service revenue decrease. In accordance with GAAP, merchandise sales includes merchandise sold through both our retail and service center lines of business and service revenue is limited to labor sales. Recategorizing Sales into the respective lines of business from which they are generated, comparable

Service Center Revenue (labor plus installed merchandise and tires) decreased 0.6%, while comparable Retail Sales (DIY and Commercial) decreased 10.9%.

### **Earnings From Continuing Operations Before Income Taxes**

Earnings From Continuing Operations Before Income Taxes were \$16.0 million as compared to \$11.4 million in 2007. The results reflect disciplined spending control, reduced interest expense as a result of paying down debt, gains from the disposition of assets and improved product margin rates. These benefits were largely offset by the gross profit pressure associated with the reduction in sales.

### **Net Earnings**

Net Earnings From Continuing Operations increased to \$11.0 million or \$0.21 per share (basic and diluted) as compared to \$7.0 million or \$0.13 per share (basic and diluted) in 2007. Net Earnings increased to \$10.1 million or \$0.19 per share (basic and diluted) as compared to \$7.4 million or \$0.14 per share in 2007. Net Earnings From Continuing Operations and Net Earnings for the first half of 2008 include a one-time \$2.2 million tax benefit resulting from the recording, during the second quarter, of a deferred tax asset due to a June 2007 state tax law change.

### **Commentary**

Interim CEO Mike Odell said, "During the quarter, we continued to improve our customer service, which is key to our future success. CSI scores increased, reflecting our "Customer First" focus. While we are pleased with the progress we made transforming our sales floors to re-establish ourselves as the dominant solutions provider for the automotive aftermarket customer, we are disappointed with our sales results, which were impacted by the disruption, coupled with the general pullback in consumer spending. However, those core automotive categories that have been re-assorted are showing positive trends. And we expect to complete the re-assortment of our core automotive categories by the end of this third quarter. Our remaining non-core clearance inventory is down to \$1.2 million, and is being returned to our distribution centers for liquidation.

We also continue to tightly control spending resulting in SG&A being well below prior year levels."

CFO Ray Arthur commented, "During the quarter, we settled our synthetic lease obligation through a combined use of \$41.1 million of cash on hand and \$76.0 million of cash generated from a sale leaseback transaction of 22 properties. This resulted in a \$73.9 million increase of availability under our revolving credit agreement and settled the only material debt maturity due until 2013."

Pep Boys has over 560 retail stores and approximately 6,000 service bays in 35 states and Puerto Rico. Along with its full-service vehicle maintenance and repair capabilities, the Company also serves the commercial auto parts delivery market and is one of the leading sellers of replacement tires in the United States. Customers can find the nearest location by calling 1-800-PEP-BOYS or by visiting [www.pepboys.com](http://www.pepboys.com).

Certain statements contained herein constitute "forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995. The word "guidance," "expect," "anticipate," "estimates," "forecasts" and similar expressions are intended to identify such forward-looking statements. Forward-looking statements include management's expectations regarding implementation of its long-term strategic plan, future financial performance, automotive aftermarket trends, levels of competition, business development activities, future capital expenditures, financing sources and availability and the effects of regulation and litigation. Although the Company believes that the expectations reflected in such forward-looking statements are based on reasonable assumptions, it can give no assurance that its expectations will be achieved. The Company's actual results may differ materially from the results discussed in the forward-looking statements due to factors beyond the control of the Company, including the strength of the national and regional economies, retail and commercial consumers' ability to spend, the health of the various sectors of the automotive aftermarket, the weather in geographical regions with a high concentration of the Company's stores, competitive pricing, the location and number of competitors' stores, product and labor costs and the additional factors described in the Company's filings

with the SEC. The Company assumes no obligation to update or supplement forward-looking statements that become untrue because of subsequent events.

Investors have an opportunity to listen to the Company's quarterly conference calls discussing its results and related matters. The call for the second quarter will be broadcast live on Tuesday, September 9 at 8:30 a.m. ET over the Internet at the Investor Calendar Web site, located at <http://www.investorcalendar.com>. To listen to the call live, please go to the Web site at least 15 minutes early to register, download and install any necessary audio software. For those who cannot listen to the live broadcast, a replay will be available shortly after the call. Supplemental financial information will be available the morning of September 9 on Pep Boys' Web site at [www.pepboys.com](http://www.pepboys.com).

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***Pep Boys Financial Highlights***  
***Millions of Dollars Except Per Share Amounts***

<b><u>Thirteen weeks ended</u></b>	<b><u>August 2, 2008</u></b>		<b><u>August 4, 2007</u></b>	
Total Revenues	\$	500.0	\$	552.1
Net Earnings From Continuing Operations	\$	5.8	\$	3.9
Basic Earnings Per Share:				
Average Shares		52,153,000		51,652,000
Net Earnings From Continuing Operations	\$	0.11	\$	0.07
Diluted Earnings Per Share:				
Average Shares		52,236,000		53,264,000
Net Earnings From Continuing Operations	\$	0.11	\$	0.07

***Pep Boys Financial Highlights***  
***Millions of Dollars Except Per Share Amounts***

<b><u>Twenty-six weeks ended</u></b>	<b><u>August 2, 2008</u></b>		<b><u>August 4, 2007</u></b>	
Total Revenues	\$	998.1	\$	1,091.7
Net Earnings From Continuing Operations	\$	11.0	\$	7.0
Basic Earnings Per Share:				
Average Shares		52,109,000		52,387,000
Net Earnings From Continuing Operations	\$	0.21	\$	0.13
Diluted Earnings Per Share:				
Average Shares		52,204,000		52,949,000
Net Earnings From Continuing Operations	\$	0.21	\$	0.13

## CONSOLIDATED STATEMENTS OF OPERATIONS

(dollar amounts in thousands, except per share amounts)

	Thirteen weeks ended				Twenty-six weeks ended			
	August 2, 2008		August 4, 2007		August 2, 2008		August 4, 2007	
	Amount	% Sales	Amount	% Sales	Amount	% Sales	Amount	% Sales
Merchandise Sales	\$ 408,077	81.6	\$ 452,999	82.1	\$ 811,411	81.3	892,793	81.8
Service Revenue	91,966	18.4	99,093	17.9	186,675	18.7	198,882	18.2
Total Revenues	500,043	100.0	552,092	100.0	998,086	100.0	1,091,675	100.0
Costs of Merchandise Sales	284,416	69.7	315,895	69.7	570,339	70.3	627,425	70.3
Costs of Service Revenue	85,193	92.6	87,481	88.3	169,347	90.7	174,945	88.0
Total Costs of Revenues	369,609	73.9	403,376	73.1	739,686	74.1	802,370	73.5
Gross Profit from Merchandise Sales	123,661	30.3	137,104	30.3	241,072	29.7	265,368	29.7
Gross Profit from Service Revenue	6,773	7.4	11,612	11.7	17,328	9.3	23,937	12.0
Total Gross Profit	130,434	26.1	148,716	26.9	258,400	25.9	289,305	26.5
Selling, General and Administrative Expense	122,603	24.5	131,841	23.9	241,618	24.2	258,951	23.7
Net Gain (Loss) from Dispositions of Assets	4,077	0.8	(15)	-	9,608	1.0	2,344	0.2
Operating Profit	11,908	2.4	16,860	3.1	26,390	2.6	32,698	3.0
Non-operating Income	1,162	0.2	1,766	0.3	1,492	0.1	3,671	0.3
Interest Expense	6,452	1.3	12,331	2.2	11,879	1.2	24,987	2.3
Earnings From Continuing Operations Before Income Tax:	6,618	1.3	6,295	1.1	16,003	1.6	11,382	1.0
Income Tax Expense	866	13.1 <sup>(1)</sup>	2,348	37.3 <sup>(1)</sup>	4,960	31.0 <sup>(1)</sup>	4,384	38.5 <sup>(1)</sup>
Net Earnings From Continuing Operations	5,752	1.2	3,947	0.7	11,043	1.1	6,998	0.6
Discontinued Operations, Net of Tax	(304)	(0.1)	232	-	(923)	(0.1)	356	-
Net Earnings	5,448	1.1	4,179	0.8	10,120	1.0	7,354	0.7
Retained Earnings, beginning of period	406,819		462,757		406,819		463,797	
Cumulative effect adjustment for adoption of EITF 06-10, net of tax	-		-		(1,165)		-	
Cumulative effect adjustment for adoption of FIN 48	-		-		-		(155)	
Cash Dividends	(3,891)		(3,539)		(7,386)		(7,120)	
Effect of Stock Options	(25)		(782)		(37)		(1,261)	
Retained Earnings, end of period	\$ 408,351		\$ 462,615		\$ 408,351		\$ 462,615	
<b>Basic and Diluted Earnings per Share:</b>								
Net Earnings From Continuing Operations	\$ 0.11		\$ 0.07		\$ 0.21		\$ 0.13	
Discontinued Operations, Net of Tax	(0.01)		0.01		(0.02)		0.01	
Earnings per Share	\$ 0.10		\$ 0.08		\$ 0.19		\$ 0.14	
Cash Dividends per Share	\$ 0.0675		\$ 0.0675		\$ 0.1350		\$ 0.1350	

<sup>(1)</sup> As a percentage of earnings from continuing operations before income taxes and cumulative effect of change in accounting principle

## CONSOLIDATED BALANCE SHEETS

(dollar amounts in thousands, except per share amounts)

	August 2, 2008	February 2, 2008	August 4, 2007
<b>Assets</b>			
Current Assets:			
Cash and cash equivalents	\$ 56,215	\$ 20,926	\$ 26,575
Accounts receivable, less allowance for uncollectible accounts of \$1,805; \$1,937; and \$1,387	28,556	29,450	26,062
Merchandise inventories	560,209	561,152	615,085
Prepaid expenses	36,245	43,842	31,275
Other	47,907	77,469	55,065
Assets held for disposal	20,695	16,918	-
Total Current Assets	749,827	749,757	754,062
Property and Equipment - net	759,408	780,779	883,306
Deferred income taxes	41,328	20,775	24,144
Other	30,011	32,609	39,128
Total Assets	\$ 1,580,574	\$ 1,583,920	\$ 1,700,640
<b>Liabilities and Stockholders' Equity</b>			
Current Liabilities:			
Accounts payable	\$ 228,723	\$ 245,423	\$ 243,615
Trade payable program liability	28,212	14,254	13,016
Accrued expenses	257,547	292,623	265,506
Deferred income taxes	9,453	-	31,020
Current maturities of long-term debt and obligations under capital leases	2,304	2,114	3,469
Total Current Liabilities	526,239	554,414	556,626
Long-term debt and obligations under capital leases, less current maturities	335,576	400,016	548,882
Other long-term liabilities	66,838	72,183	66,259
Deferred gain from asset sales	173,732	86,595	-
Commitments and Contingencies			
Stockholders' Equity:			
Common Stock, par value \$1 per share:			
Authorized 500,000,000 shares; Issued 68,557,041 shares	68,557	68,557	68,557
Additional paid-in capital	297,125	296,074	294,255
Retained earnings	408,351	406,819	462,615
Accumulated other comprehensive loss	(10,636)	(14,183)	(7,884)
Less cost of shares in treasury - 14,525,633 shares, 14,609,094 shares and 14,691,165 shares	225,944	227,291	229,406
Less cost of shares in benefits trust - 2,195,270 shares	59,264	59,264	59,264
Total Stockholders' Equity	478,189	470,712	528,873
Total Liabilities and Stockholders' Equity	\$ 1,580,574	\$ 1,583,920	\$ 1,700,640

## CONSOLIDATED STATEMENTS OF CASH FLOWS

*(dollar amounts in thousands)*

Twenty-six weeks ended	August 2, 2008	August 4, 2007
<b>Cash Flows from Operating Activities:</b>		
Net Earnings	\$ 10,120	\$ 7,354
Adjustments to reconcile net earnings to net cash provided by continuing operations:		
Discontinued operations	923	(356)
Depreciation and amortization	36,928	41,248
Amortization of deferred gain from asset sales	(4,297)	-
Accretion of asset retirement obligation	149	147
Stock compensation expense	1,872	6,053
Gain from debt retirement	(3,460)	-
Deferred income taxes	(670)	6,283
Gain from dispositions of assets and insurance recoveries	(9,608)	(2,344)
Change in fair value of derivatives	102	2,622
Loss from asset impairment	370	-
Excess tax benefits from stock based awards	(3)	(609)
Increase in cash surrender value of life insurance policies	(140)	(846)
Changes in Operating Assets and Liabilities		
Decrease in accounts receivable, prepaid expenses and other	26,024	28,556
Decrease (increase) in merchandise inventories	943	(8,043)
Decrease in accounts payable	(16,700)	(21,874)
Decrease in accrued expenses	(34,449)	(16,380)
(Decrease) increase in other long-term liabilities	(475)	1,856
Net cash provided by continuing operations	7,629	43,667
Net cash (used in) provided by discontinued operations	(415)	737
<b>Net Cash Provided by Operating Activities</b>	<b>7,214</b>	<b>44,404</b>
<b>Cash Flows from Investing Activities:</b>		
Cash paid for master lease properties	(117,121)	-
Cash paid for property and equipment	(13,989)	(19,715)
Proceeds from dispositions of assets	208,211	2,376
Proceeds from surrender of life insurance policies	-	26,129
Net cash provided by continuing operations	77,101	8,790
Net cash used in discontinued operations	-	(245)
<b>Net Cash Provided by Investing Activities</b>	<b>77,101</b>	<b>8,545</b>
<b>Cash Flows from Financing Activities:</b>		
Borrowings under line of credit agreements	98,504	306,305
Payments under line of credit agreements	(140,019)	(290,718)
Excess tax benefits from stock based awards	3	609
Borrowings on trade payable program liability	85,408	37,790
Payments on trade payable program liability	(71,450)	(38,764)
Payment for finance issuance cost	(182)	-
Proceeds from lease financing	8,661	-
Reduction of long-term debt	(23,292)	(1,628)
Payments on capital lease obligations	(47)	(129)
Dividends paid	(7,028)	(7,120)
Repurchase of common stock	-	(58,152)
Proceeds from exercise of stock options	23	3,154
Proceeds from dividend reinvestment plan	393	395
Net Cash Used in Financing Activities	(49,026)	(48,258)
Net Increase in Cash and Cash Equivalents	35,289	4,691
Cash and Cash Equivalents at Beginning of Period	20,926	21,884
<b>Cash and Cash Equivalents at End of Period</b>	<b>\$ 56,215</b>	<b>\$ 26,575</b>
<b>Supplemental Disclosure of Cash Flow Information:</b>		
Cash paid for income taxes	\$ 558	\$ -
Cash paid for interest	\$ 13,859	\$ 23,921
Accrued purchases of property and equipment	\$ 1,075	\$ 2,346

## COMPUTATION OF BASIC AND DILUTED EARNINGS (LOSS) PER SHARE

*(in thousands, except per share data)*

	Thirteen weeks ended		Twenty-six weeks ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
(a)				
Net Earnings From Continuing Operations	\$ 5,752	\$ 3,947	\$ 11,043	\$ 6,998
Discontinued Operations, Net of Tax	(304)	232	(923)	356
Net Earnings	<u>\$ 5,448</u>	<u>\$ 4,179</u>	<u>\$ 10,120</u>	<u>\$ 7,354</u>
(b)				
Average number of common shares outstanding during period	52,153	51,652	52,109	52,387
Common shares assumed issued upon exercise of dilutive stock options, net of assumed repurchase, at the average market price	83	612	95	562
(c)				
Average number of common shares assumed outstanding during period	52,236	52,264	52,204	52,949
<b>Basic Earnings per Share:</b>				
Net Earnings From Continuing Operations	\$ 0.11	\$ 0.07	\$ 0.21	\$ 0.13
Discontinued Operations, Net of Tax	(0.01)	0.01	(0.02)	0.01
Basic Earnings per Share	<u>\$ 0.10</u>	<u>\$ 0.08</u>	<u>\$ 0.19</u>	<u>\$ 0.14</u>
<b>Diluted Earnings per Share:</b>				
Net Earnings From Continuing Operations	\$ 0.11	\$ 0.07	\$ 0.21	\$ 0.13
Discontinued Operations, Net of Tax	(0.01)	0.01	(0.02)	0.01
Diluted Earnings per Share	<u>\$ 0.10</u>	<u>\$ 0.08</u>	<u>\$ 0.19</u>	<u>\$ 0.14</u>

## ADDITIONAL INFORMATION

*(dollar amounts in thousands)*

	Thirteen weeks ended		Twenty-six weeks ended	
	August 2, 2008	August 4, 2007	August 2, 2008	August 4, 2007
Capital expenditures (A)	\$ 121,769	\$ 7,892	\$ 130,290	\$ 18,345
Depreciation and amortization	\$ 17,909	\$ 20,364	\$ 36,928	\$ 41,248
Non-operating income:				
Net rental revenue	\$ 782	\$ 327	\$ 954	\$ 1,125
Investment income	400	1,444	567	2,577
Other (expense) income	(20)	(5)	(29)	(31)
Total	\$ 1,162	\$ 1,766	\$ 1,492	\$ 3,671
Comparable sales percentages:				
Merchandise	-8.0 %	-5.1 %	-7.1 %	-4.1 %
Service	-5.2 %	3.8 %	-4.0 %	2.6 %
Total	-7.5 %	-3.6 %	-6.6 %	-3.0 %
Total square feet of retail space (including service centers)			11,514,000	12,142,100
Total Store Count			562	592
Sales and Gross Profit by Line of Business (B):				
Retail Sales	\$ 275,890	\$ 318,692	\$ 549,215	629,811
Service Center Revenue	224,153	233,400	448,871	461,864
Total Revenues	<u>\$ 500,043</u>	<u>\$ 552,092</u>	<u>\$ 998,086</u>	<u>\$ 1,091,675</u>
Gross Profit from Retail Sales	\$ 78,375	\$ 91,763	\$ 151,779	180,529
Gross Profit from Service Center Revenue	52,059	56,953	106,621	108,776
Total Gross Profit	<u>\$ 130,434</u>	<u>\$ 148,716</u>	<u>\$ 258,400</u>	<u>\$ 289,305</u>
Comparable Sales Percentages (B):				
Retail Sales	-11.6 %	-9.0 %	-10.9 %	-6.9 %
Service Center Revenue	-1.9 %	4.9 %	-0.6 %	2.9 %
Total Revenues	-7.5 %	-3.6 %	-6.6 %	-3.0 %
Gross Profit Percentage by Line of Business (A):				
Gross Profit Percentage from Retail Sales	28.4 %	28.8 %	27.6 %	28.7 %
Gross Profit Percentage from Service Center Revenue	23.2 %	24.4 %	23.8 %	23.6 %
Total Gross Profit Percentage	<u>26.1 %</u>	<u>26.9 %</u>	<u>25.9 %</u>	<u>26.5 %</u>

(A) Capital expenditures includes \$117.1 million for the purchase of master lease properties.

(B) Retail Sales include DIY and Commercial sales. Service Center Revenue includes revenue from labor and installed parts and tires.