

## Notes to Consolidated Financial Statements

(continued)

### Note E—Income Taxes

At August 30, 2003, the Company had net operating loss carryforwards (NOLs) for federal income tax purposes of approximately \$27.5 million that expire in years 2007 through 2017. These carryforwards resulted from the Company's acquisition of ADAP, Inc. (which had been doing business as "Auto Palace") in fiscal 1998. The use of the federal tax NOLs is subject to annual limitations. A valuation allowance of \$8.6 million in fiscal 2003 and \$8.7 million in fiscal 2002 relates to these carryforwards. In addition, some of the Company's subsidiaries have state income tax NOLs that expire in years 2004 through 2022. These state NOLs resulted from the Company's acquisition of Chief Auto Parts Inc. and ADAP, Inc. The use of the NOLs is limited to future taxable earnings of these subsidiaries and may be subject to annual limitations. Valuation allowances of \$5.7 million in fiscal 2003 and fiscal 2002 relate to these carryforwards.

The provision for income tax expense for each of the last three fiscal years consisted of the following:

	Year Ended		
	August 30, 2003	August 31, 2002	August 25, 2001
(in thousands)			
Current:			
Federal	\$219,699	\$210,457	\$144,538
State	30,003	24,060	13,943
	249,702	234,517	158,481
Deferred:			
Federal	60,835	26,200	(42,380)
State	4,866	2,283	(4,601)
	65,701	28,483	(46,981)
	\$315,403	\$263,000	\$111,500

The following table presents a reconciliation of the provision for income taxes to the amount computed by applying the federal statutory tax rate of 35% to income before income taxes.

	Year Ended		
	August 30, 2003	August 31, 2002	August 25, 2001
(in thousands)			
Expected tax at statutory rate	\$291,552	\$241,902	\$100,459
State income taxes, net	22,665	17,123	6,072
Other	1,186	3,975	4,969
	\$315,403	\$263,000	\$111,500

Significant components of the Company's deferred tax assets and liabilities were as follows:

	Year Ended	
	August 30, 2003	August 31, 2002
(in thousands)		
Net deferred tax assets:		
Net operating loss and credit carryforwards	\$ 29,181	\$ 25,590
Insurance reserves	29,319	25,930
Warranty reserves	28,786	30,660
Closed store reserves	10,321	20,398
Inventory	—	4,108
Minimum pension liability	18,072	—
Other	6,236	12,847
Total deferred tax assets	121,915	119,533
Less: Valuation allowance	(14,329)	(14,367)
Net deferred tax assets	107,586	105,166
Deferred tax liabilities:		
Property and equipment	23,401	6,218
Inventory	27,997	—
Derivatives	15,710	—
Other	10,939	6,070
Deferred tax liabilities	78,047	12,288
Net deferred tax assets	\$ 29,539	\$ 92,878