SOPHIS
INVESTMENTS LLC

Special Meeting Considerations

May 29, 2012

The Pep Boys–Manny, Moe & Jack
Special Meeting of Shareholders
Scheduled for May 30, 2012

Contents

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Situation Overview

- On January 29, 2012, The Pep Boys–Manny, Moe & Jack entered into a merger agreement agreeing to sell itself to affiliates of The Gores Group, LLC (“Gores”) for $15 per share (the “Merger”).
- On March 15, 2012, the Merger’s ‘go-shop’ period ended without a higher bid materializing.
- On May 1, 2012, Pep Boys disclosed that Gores is asserting Pep Boys may have experienced a material adverse effect (“MAE”) based on “the serious deterioration in the Pep Boys business.”
- Gores has requested more time to consider its course of action with respect to the Merger.
- Pep Boys disputes Gores assertions and has scheduled a special meeting of shareholders for May 30, 2012 to obtain shareholder approval for the Merger, a required Pep Boys closing condition (the “Meeting”).
- Pep Boys is entitled to a $50 million breakup fee if Gores breaches its obligations to consummate the Merger under certain conditions, including Pep Boys having satisfied its closing conditions.
- The Board may be considering an adjournment to the Meeting to cooperate with Gores. It may be possible to schedule an adjournment via press release the evening prior to the Meeting. Alternatively, the matter could be put to a shareholder vote at the scheduled Meeting.
- **SOPHIS INVESTMENTS DEMANDS THAT THE PEP BOYS BOARD NOT PREEMTIVELY ADJOURN THE SPECIAL MEETING OF SHAREHOLDERS SCHEDULED FOR MAY 30TH.**

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Adjournment Considerations

- The reason to adjourn the Meeting would be to reserve flexibility to amend the Merger Agreement to provide for restructured terms without having to repeat the proxy process.
- Any ‘restructuring’ would be in an unfavorable direction for Pep Boys shareholders. Given that the Gores transaction undervalues Pep Boys and leaves substantial shareholder upside on the table to begin with, a lower deal price is, in our view, unacceptable.
- We see nothing that constitutes an MAE at Pep Boys and note that the declaration of an MAE has been used by buyers as a basis to renegotiate transactions in their favor.
- There are other ways that Pep Boys can accommodate Gores request for more time without jeopardizing the Company. For example, Pep Boys can extend the time Gores has to close once Pep Boys shareholder approval is obtained, protecting shareholder interests.
- Given the absence of any solvency or liquidity issues, or any other distressed conditions; the lack of a clear MAE; the original transaction valuation; and other considerations, there is no sound justification for cognizant capitulation (voluntary adjournment) at this juncture.
- The cost of repeating the proxy process (if ultimately deemed necessary) is far outweighed by the benefits of obtaining shareholder approval now and protecting shareholders.

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Adjournment Considerations (cont.)

- An adjournment is a voluntary and willing failure by Pep Boys to meet a key closing condition, which will arguably dramatically weaken Pep Boys' claim to any breakup fees in the future.
- While Pep Boys can convene the Meeting to obtain shareholder approval at a later time, a voluntary adjournment now gives credence and the appearance of validity to Gores' claims, forsaking shareholder interests and jeopardizing shareholder value.
- If Pep Boys performance worsens and it has not met its closing conditions, the situation becomes more complex and shareholders will be further vulnerable.
- There is no guarantee an adjournment will lead to any resolution with Gores.
- Convening the Meeting reduces risk that stockholders could change their vote for the Merger.
- Convening the Meeting puts pressure on Gores to make a decision (one way or the other).
- Convening the Meeting eliminates a key closing condition for Pep Boys, protecting its interests and establishing the strongest possible position for the Company in the context of any dispute.
- An adjournment is a non-trivial decision with far reaching implications affecting shareholder interests, and should be put to a shareholder vote if being considered.

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Opportunity Summary

Meeting Adjourned?	Shareholder Approval Obtained?	Gores Action	PBY Breakup Fee Claims	Notes
No	Yes	Close @ $15/share	n/a	**Favorable.** An unlikely outcome, but a 35.5% shareholder return in a matter of days.*
		Terminate the Merger	Strong	**Most attractive outcome.** PBY satisfies its closing conditions and is positioned as strongly as possible with respect to termination/breakup fees. We view the possibility Gores reneges on its obligations under the Merger Agreement and Pep Boys remains a standalone company with the potential for a cash infusion from Gores' breakup fees as the best possible outcome for shareholders. We believe shares are worth more than $30.00 per share over five years under a turnaround plan focused on reverting Pep Boys to its core competency of auto parts and service while rationalizing, optimizing and leveraging its big box footprint.
		Gores attempts to renegotiate	Strong	**Unlikely.** Pep Boys can extend the time for the closing of the Merger after shareholder approval is received, accommodating Gores while also protecting shareholder interests. If a resolution is ultimately not achieved under this scenario, Pep Boys will have maintained a strong position to pursue breakup fees, protecting shareholder interests while achieving the same results as an adjournment. We note no basis for discussions of a lower deal price.
	No	n/a	n/a	**Unlikely.** Shareholders vote down the deal @ $15/share.
Yes	No	Gores attempts to renegotiate	Weak	**Unfavorable.** By voluntarily not obtaining shareholder approval, Pep Boys will have signaled to Gores a potential willingness to renegotiate the Merger or otherwise give credence to Gores' claims. Gores will be under no pressure to resolve any dispute near-term. Should the deal ultimately not close, Pep Boys will arguably be impaired in pursuit of breakup fees even if it later convenes the Meeting.

**Based on a 5/25 closing price of $11.07*

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Important Disclosures

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