

FINISHMASTER, INC. AND SUBSIDIARIES

Financial Statements

At September 30, 2004 and 2003

FINISHMASTER, INC.

TABLE OF CONTENTS

Financial Information (unaudited)	PAGE
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Condensed Consolidated Statements of Shareholders' Equity	6
Notes to Condensed Consolidated Financial Statements	7

FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2004	December 31, 2003 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets		
Cash	\$ 7,701	\$ 2,022
Accounts receivable, net of allowance for doubtful accounts of \$1,430 and \$1,462, respectively	34,130	30,329
Inventory	55,557	69,710
Deferred income taxes	4,919	4,857
Prepaid expenses and other current assets	6,307	4,607
Total current assets	108,614	111,525
 Property and equipment, net	 5,874	 5,081
 Other assets		
Intangible assets, net	6,131	7,150
Goodwill, net	96,548	96,548
Other	5,879	2,712
	108,558	106,410
	\$ 223,046	\$ 223,016
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 27,182	\$ 44,119
Amounts due to LDI	920	796
Accrued compensation and benefits	7,403	7,114
Accrued expenses and other current liabilities	2,795	3,133
Current maturities of long-term debt	12,322	10,372
Total current liabilities	50,622	65,534
 Long-term debt, less current maturities	 66,359	 63,600
Other long-term liabilities	7,791	5,984
Commitments and contingencies	-	-
 Shareholders' equity		
Preferred stock, no par value, 1,000,000 shares authorized; no shares issued or outstanding	-	-
Common stock, \$1 stated value, 25,000,000 shares authorized; 7,701,023 and 7,699,411 shares issued and outstanding	7,701	7,700
Additional paid-in capital	28,132	28,118
Accumulated comprehensive loss	(355)	(776)
Retained earnings	62,796	52,856
	98,274	87,898
	\$ 223,046	\$ 223,016

(1) The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

The accompanying notes are an integral part of the condensed consolidated financial statements.

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)
(unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Net sales	\$ 98,375	\$ 89,243	\$ 290,610	\$ 259,660
Cost of sales	68,868	62,082	202,222	178,368
Gross margin	29,507	27,161	88,388	81,292
Expenses				
Operating	9,951	8,695	29,940	27,384
Selling, general and administrative	12,105	10,802	36,093	32,672
Amortization of intangible assets	387	331	1,166	927
	22,443	19,828	67,199	60,983
Income from operations	7,064	7,333	21,189	20,309
Interest expense, net	1,306	1,562	4,415	4,888
Income before income taxes	5,758	5,771	16,774	15,421
Income tax expense	2,263	2,156	6,834	6,062
Net income	\$ 3,495	\$ 3,615	\$ 9,940	\$ 9,359
Net income per share				
Basic	\$ 0.45	\$ 0.47	\$ 1.29	\$ 1.21
Diluted	\$ 0.45	\$ 0.47	\$ 1.28	\$ 1.19
Weighted average shares outstanding				
Basic	7,701	7,704	7,701	7,764
Diluted	7,760	7,761	7,757	7,844

The accompanying notes are an integral part of the condensed consolidated financial statements.

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Nine Months Ended September 30,	
	2004	2003
Operating activities		
Net income	\$ 9,940	\$ 9,359
Adjustments to reconcile net income to net cash provided by operating activities:		
Issuance of stock grants	15	-
Depreciation and amortization	4,515	4,141
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	(3,371)	(1,543)
Inventories	15,092	9,152
Prepaid expenses and other assets	(4,368)	(295)
Accounts payable and other liabilities	(19,524)	(604)
Net cash provided by operating activities	2,299	20,210
Investing activities		
Business acquisitions	(1,738)	(2,120)
Purchases of property and equipment	(2,075)	(568)
Net cash used in investing activities	(3,813)	(2,688)
Financing activities		
Proceeds from exercise of stock options	-	104
Changes in cash overdrafts	2,703	(905)
Borrowings of debt	88,874	55,570
Repayments of debt	(84,384)	(69,003)
Net cash provided (used) by financing activities	7,193	(14,234)
Increase in cash	5,679	3,288
Cash at beginning of period	2,022	2,070
Cash at end of period	\$ 7,701	\$ 5,358

The accompanying notes are an integral part of the condensed consolidated financial statements.

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

(unaudited)

(In thousands)	Common Stock	Paid-in Capital	Accumulated Comprehensive Loss	Retained Earnings	Totals
Balances at December 31, 2002	\$ 7,783	\$ 28,879	\$ (1,286)	\$ 41,004	\$ 76,380
Comprehensive income:					
Net income for the year	-	-	-	11,852	11,852
Other comprehensive income:					
Interest rate swap, net of tax of \$344	-	-	510	-	510
Total comprehensive income					\$ 12,362
Repurchases of stock, at cost	(98)	(850)	-	-	(948)
Stock grants issued and options exercised	15	89	-	-	104
Balances at December 31, 2003	\$ 7,700	\$ 28,118	\$ (776)	\$ 52,856	\$ 87,898
Comprehensive income:					
Net income through September 30, 2004	-	-	-	9,940	9,940
Other comprehensive income:					
Interest rate swap, net of tax of \$282	-	-	421	-	421
Total comprehensive income					10,361
Stock grants issued	1	14	-	-	15
Balances at September 30, 2004	\$ 7,701	\$ 28,132	\$ (355)	\$ 62,796	\$ 98,274

The accompanying notes are an integral part of the condensed consolidated financial statements.

FINISHMASTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Basis of Presentation: The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year. These financial statements should be read in conjunction with the consolidated financial statements and notes included in the annual report for the year ended December 31, 2003.

Nature of Business: FinishMaster, Inc. (“FinishMaster”) is the leading national distributor of automotive paints, coatings, and paint-related accessories to the automotive collision repair industry. As of September 30, 2004, we operated 168 sales branches and four major distribution centers in 28 states and were organized into six major geographical regions – East, Midwest, Upper Midwest, West, South and Southeast. We aggregate these six geographical regions into a single reportable segment. We have approximately 13,000 customer credit accounts to which we provide a comprehensive selection of brand name products supplied by BASF, DuPont, PPG and 3M, in addition to our own FinishMaster PrivateBrand refinishing accessory products. We are highly dependent on the key suppliers outlined above, which account for approximately 85% of our purchases.

Principles of Consolidation: Our consolidated financial statements include the accounts of FinishMaster and its wholly owned subsidiaries from the dates of their respective acquisition. All significant intercompany accounts and transactions have been eliminated. References to FinishMaster throughout this report relate to the consolidated entity.

Majority Shareholder: Lacy Distribution, Inc. (“Distribution”), an Indiana corporation, is a wholly owned subsidiary of LDI Ltd., LLC, an Indiana limited liability corporation, and is our majority shareholder with 5,587,516 shares of common stock, representing 72.6% of the outstanding shares at September 30, 2004. LDI and Distribution are collectively referred to herein as “LDI.”

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Derivative Instruments and Hedging Activities: We utilize derivative financial instruments, principally interest rate swaps, to reduce our exposure to fluctuations in interest rates. These instruments are recorded on the balance sheet at their fair value. Changes in the fair value of interest rate swaps are recorded each period in Other Long Term Liabilities and the net of tax effect is recorded in the Accumulated Comprehensive Loss section of Shareholders’ Equity.

Reclassification: Certain amounts in the consolidated financial statements have been reclassified to conform to the current year presentation.

2. ACQUISITIONS

During the first nine months of 2004, we completed two acquisitions: Hutchins Auto Supply Company, Inc. in North Carolina, effective May 21, 2004 and Virginia Paint Company, Inc. in Richmond, Virginia, effective August 13, 2004. These acquisitions were funded with cash and debt.

During 2003, we completed three acquisitions: Rankin Auto Body Supplies, Inc. in New Jersey, effective March 28, 2003; Advance Paint, LLC in Denver, effective June 27, 2003; and Automotive Refinish Technologies in ten new geographic locations, effective September 18, 2003. The acquired locations were in Atlanta, Georgia; Augusta, Georgia; Austin, Texas; Buffalo, New York; Huntsville, Alabama; Las Vegas, Nevada; Memphis, Tennessee; Oklahoma City, Oklahoma; St. Louis, Missouri; and Springfield, Illinois. These acquisitions were funded with cash and debt.

3. NET INCOME PER SHARE

The following table sets forth the computation of basic and diluted net income per share:

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2004	2003	2004	2003
Numerator:				
Net income	\$ 3,495	\$ 3,615	\$ 9,940	\$ 9,359
Denominator:				
Basic-weighted average shares	7,701	7,704	7,701	7,764
Effect of dilutive stock options	59	57	56	80
Diluted-weighted average shares	7,760	7,761	7,757	7,844
Net income per share				
Basic	\$ 0.45	\$ 0.47	\$ 1.29	\$ 1.21
Diluted	\$ 0.45	\$ 0.47	\$ 1.28	\$ 1.19

4. COMMITMENTS AND CONTINGENCIES

We are dependent on four main suppliers for the purchases of the paint and related supplies that we distribute. A loss of one of these suppliers or a disruption in the supply of their products provided could have a material adverse effect on our operating results. These suppliers also provide purchase discounts, prompt payment discounts, extended terms, and other incentive programs to us. To the extent these programs are changed or terminated, there could be a material adverse impact on our results of operations or cash flows.

We are subject to various claims and contingencies arising out of the normal course of business, including those relating to commercial transactions, environmental, product liability, automobile, taxes, discrimination, employment and other matters. We are involved in three superfund site investigations, two in Florida and one in Georgia. We believe that the ultimate liability, if any, in excess of amounts already provided or covered by insurance, is not likely to have a material adverse effect on our financial condition, results of operations or cash flows.

We have been named as one of a number of defendants in the automotive refinishing industry in a class action complaint by a group of collision repair centers in California. The plaintiffs claim to represent similar businesses throughout the state of California and allege that paint manufacturers engaged in a horizontal price fixing conspiracy. The plaintiffs further allege that the manufacturers together with paint distributors engaged in a vertical price fixing conspiracy. Specifically, the plaintiffs allege that manufacturers and distributors agreed not to extend their most favorable pricing terms to the collision repair centers. The court has stayed the vertical price fixing component of the class action pending resolution of the horizontal price fixing allegations. Consequently there are no pending deadlines or trial dates with respect to us. We believe that the class action is without merit. We intend to vigorously defend our position. At the same time the amount of damages has not been specified.

In the normal course of business we also enter into various guarantees and indemnities in our relationships with suppliers, service providers, customers and others. We do not believe these guarantees and indemnifications will have a material impact on our financial condition or results of operations, although indemnification associated with our actions generally have no dollar limitations.

5. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill did not change during the nine months ended September 30, 2004.

(In thousands)

Balance as of September 30, 2004 and December 31, 2003	Net Book Value
Goodwill, net	<u>\$ 96,548</u>

Information regarding the other intangible assets is as follows:

(In thousands)

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of September 30, 2004			
Customer lists	\$ 5,743	\$ 2,297	\$ 3,446
Exclusive fulfillment contract	1,601	160	1,441
Agreements not to compete	13,221	12,420	801
Debt issuance costs	1,328	885	443
Total	<u>\$ 21,893</u>	<u>\$ 15,762</u>	<u>\$ 6,131</u>

Amortization lives for intangible assets with finite lives range from 3 to 10 years.

Total intangible amortization expense for the third quarter of 2004 and 2003 was \$0.4 million and \$0.3 million, respectively.

Total intangible amortization expense for the nine months of 2004 and 2003 was \$1.2 million and \$0.9 million, respectively.

Debt issuance cost amortization is included in interest expense, and for the third quarter of 2004 and 2003 was \$0.1 million, respectively. Debt issuance cost amortization for the first nine months of 2004 and 2003 was \$0.2 million, respectively.