

FINISHMASTER, INC.

Financial Statements

At March 31, 2010 and 2009

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 31, 2010	December 31, 2009 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 2,808	\$ 2,761
Accounts receivable, net of allowance for doubtful accounts and customer discounts of \$3,816 and \$3,717, respectively	37,528	34,286
Inventories	83,903	104,222
Deferred income taxes	6,377	6,523
Investments in customers, current portion	6,810	6,660
Prepaid expenses and other current assets	3,385	5,649
Total current assets	140,811	160,101
Property and equipment, net	10,611	10,944
Other assets		
Intangible assets, net	11,305	12,218
Goodwill, net	101,288	101,288
Investments in customers, net of current portion	10,700	12,010
Other	376	375
	123,669	125,891
	\$ 275,091	\$ 296,936
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 37,265	\$ 64,581
Amounts due to affiliates	240	220
Accrued compensation and benefits	7,332	6,663
Other accrued expenses and current liabilities	6,283	5,563
Current maturities of long-term debt	2,422	2,469
Total current liabilities	53,542	79,496
Long-term debt, less current maturities	51,220	49,395
Deferred income taxes	10,333	10,314
Other long-term liabilities	3,970	3,948
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; 7,888,721 and 7,885,671 shares issued and outstanding	7,889	7,886
Additional paid-in capital	29,733	29,717
Accumulated comprehensive loss	(532)	(647)
Retained earnings	118,936	116,827
	156,026	153,783
	\$ 275,091	\$ 296,936

(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	
	March 31,	
	<u>2010</u>	<u>2009</u>
Net sales	\$ 101,600	\$ 110,760
Cost of sales	<u>71,406</u>	<u>77,568</u>
Gross margin	30,194	33,192
Expenses		
Operating	11,459	11,851
Selling, general and administrative	13,861	15,606
Amortization of intangible assets	<u>900</u>	<u>926</u>
	<u>26,220</u>	<u>28,383</u>
Income from operations	3,974	4,809
Interest expense	<u>457</u>	<u>675</u>
Income before income taxes	3,517	4,134
Income tax expense	<u>1,408</u>	<u>1,672</u>
Net income	<u>\$ 2,109</u>	<u>\$ 2,462</u>
Net income per share		
Basic	<u>\$ 0.27</u>	<u>\$ 0.31</u>
Diluted	<u>\$ 0.27</u>	<u>\$ 0.31</u>
Weighted average shares outstanding		
Basic	<u>7,887</u>	<u>7,878</u>
Diluted	<u>7,893</u>	<u>7,886</u>

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	Three Months Ended March 31,	
	2010	2009
Operating activities		
Net income	\$ 2,109	\$ 2,462
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,643	3,719
Deferred income taxes	89	146
Loss on disposal of property and equipment	16	5
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	(3,242)	(385)
Inventories	20,319	21,899
Prepaid expenses and other assets	2,860	1,844
Investments in customers	(1,399)	(1,448)
Accounts payable and other liabilities	(24,298)	(14,434)
Net cash provided by operating activities	97	13,808
Investing activities		
Business acquisitions	(5)	-
Purchases of property and equipment	(446)	(675)
Net cash used in investing activities	(451)	(675)
Financing activities		
Proceeds from exercise of stock options	17	19
Changes in cash overdrafts	(1,394)	(270)
Proceeds from debt	27,579	24,184
Repayment of debt	(25,801)	(36,238)
Net cash provided (used) in financing activities	401	(12,305)
Increase in cash	47	828
Cash at beginning of period	2,761	2,461
Cash at end of period	\$ 2,808	\$ 3,289

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)
(unaudited)

	Common Stock	Paid-in Capital	Accumulated Comprehensive Loss	Retained Earnings	Totals
Balances at December 31, 2008	\$ 7,878	\$ 29,667	\$ (934)	\$ 105,881	\$ 142,492
Comprehensive income:					
Net income for the year	-	-	-	10,946	10,946
Other comprehensive income:					
Interest rate swap, net of tax of \$188	-	-	287	-	287
Total comprehensive income				\$ 11,233	
Stock grants issued and options exercised	8	50	-	-	58
Balances at December 31, 2009	<u>\$ 7,886</u>	<u>\$ 29,717</u>	<u>\$ (647)</u>	<u>\$ 116,827</u>	<u>\$ 153,783</u>
Comprehensive income:					
Net income for the year-to-date period	-	-	-	2,109	2,109
Other comprehensive income:					
Interest rate swap, net of tax of \$76	-	-	115	-	115
Total comprehensive income				\$ 2,224	
Stock options exercised	3	16	-	-	19
Balances at March 31, 2010	<u>\$ 7,889</u>	<u>\$ 29,733</u>	<u>\$ (532)</u>	<u>\$ 118,936</u>	<u>\$ 156,026</u>

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

FINISHMASTER, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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.

Nature of Business: FinishMaster, Inc. (“the Company” or “FinishMaster”) is the largest national independent distributor of automotive paints, coatings, and paint-related accessories to the automotive collision repair industry. As of March 31, 2010, the Company operated 161 branch locations and three major distribution centers in 28 states, and is organized into six major geographical regions: Eastern, Midwest, Northwest, South, Southeast, and West. The Company aggregates its six geographic regions into a single reportable segment. The Company has approximately 11,000 customer credit accounts to which it provides a comprehensive selection of brand name products supplied by BASF, DuPont, PPG and 3M, in addition to its own FinishMaster private brand refinishing accessory products. The Company is highly dependent on the key suppliers outlined above, which account for approximately 87% of the Company’s purchases.

Principles of Consolidation: The Company’s consolidated financial statements include the accounts of FinishMaster and its wholly owned subsidiaries. All significant intercompany accounts and transactions have been eliminated. References to the Company or FinishMaster throughout this report relate to the consolidated entity.

Majority Shareholder: Lacy Distribution, Inc. (“Distribution”), an Indiana corporation, which is a wholly owned subsidiary of LDI Ltd., LLC, an Indiana limited liability corporation, owns 5,878,561 shares of common stock, representing 74.5% of the outstanding shares at March 31, 2010. LDI and Distribution are collectively referred to herein as “LDI.”

Transactions with Majority Shareholder: The Company reimburses its majority shareholder, LDI, for the cost of insurance, management fees and certain other expenses. Those expenses amounted to \$516,000, and \$411,000 for the three months ended March 31, 2010 and 2009, respectively. In addition, the Company leases from LDI its corporate office space. Lease expense and payments for repairs and maintenance to LDI totaled approximately \$122,000 for both the three months ended March 31, 2010 and 2009.

Cash and Cash Equivalents: Cash and cash equivalents include cash and temporary investments with an initial maturity of three months or less. At March 31, 2010, checks drawn on future deposits and borrowings of \$813,000 were classified as accounts payable. This amount represents outstanding checks in excess of funds on deposit.

Receivables: Trade accounts receivable represent amounts due from customers. Trade receivables are typically not collateralized. No single customer exceeds 10% of the Company’s receivables at March 31, 2010 and December 31, 2009. The allowance for doubtful accounts reserve is calculated based on the Company’s historical experience in the collection of aged invoices.

Inventories: Inventories are stated at the lower of average cost or market and consist primarily of purchased paint and refinishing supplies. Substantially all inventories consist of finished goods.

Properties and Depreciation: Property and equipment is stated at cost and includes expenditures for new facilities, equipment, and improvements that materially extend the useful lives of existing assets. Expenditures for normal repairs and maintenance are charged to expense as incurred. Depreciation is computed using a combination of straight-line and accelerated methods over the following range of estimated useful lives:

Buildings & improvements	Up to 30 years
Vehicles	Up to 5 years
Leasehold improvements	Life of lease
Machinery, equipment & fixtures	3 to 12 years

Depreciation expense for the three months ended March 31, 2010 and 2009 was \$763,000 and \$704,000, respectively.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets, including intangible assets with finite lives, in compliance with Accounting Standards Codification Topic No. 360, "Property, Plant, and Equipment" (ASC 360). An impairment loss is recognized whenever events or changes in circumstances indicate the carrying amount of an asset is not recoverable. In applying ASC 360, assets are grouped and evaluated at the lowest level for which there are identifiable cash flows that are largely independent of the cash flows of other groups of assets. The Company considers historical performance and future estimated results in its evaluation of impairment. If the carrying amount of the asset exceeds expected undiscounted future cash flows, the Company measures the amount of impairment by comparing the carrying amount of the asset to its fair value.

Investments in Customers: The Company makes cash payments and consigns or invests inventory and equipment to certain customers as consideration for these customers entering into multi-year purchase commitments that include liquidated damages in the event that the customer breaches the commitment. These amounts are capitalized and amortized to their net realizable value over the purchase commitment period. The amortization is reflected as a reduction of revenue in accordance with Accounting Standards Codification Topic No. 605, "Revenue Recognition" (ASC 605). Amounts reflected as a reduction of revenue were \$2,292,000 and \$2,259,000 for the three months ended March 31, 2010 and 2009, respectively.

Derivative Instruments and Hedging Activities: The Company utilizes interest rate swaps to reduce its exposure to fluctuations in interest rates. These instruments are recorded on the balance sheet at their fair value. Changes in the fair value of the interest rate swaps are recorded each period in other long-term liabilities and in the accumulated comprehensive loss section of shareholders' equity, net of tax.

Revenue Recognition: Revenues from product sales are recognized at the time of delivery (FOB destination) to the customers, which is typically the same day as the shipment. These recorded sales are net of estimated returns and allowances. Customers may receive discounts from the standard list price based upon their level of purchases. These discounts may be offered at the point of sale, end-of-month or any other negotiated time period. They may be in the form of standard invoice discounts, statement discounts, cash disbursements or recurring customer credits. These discounts are recorded as a reduction of revenue at the time of sale. Discounts that are earned over the course of several accounting periods are accrued based upon projected customer purchases.

Transactions with Vendors: The Company is offered by certain vendors volume related discounts based upon purchases of their products over a specific time period. The purchase of these products is recorded net of these discounts based upon actual and estimated purchases compared to the contractual volume targets. Adjustments are made through cost of sales to reflect changes in these estimates.

The Company also receives reimbursements from vendors for specific expenses incurred. These reimbursements are recorded in accordance with ASC 605 and are used to offset the actual incurred costs and are included in the line items where the incurred costs are recorded.

Cost of Sales: The Company includes product costs, vendor discounts and rebates, and shipping and handling costs in Cost of Sales. Shipping costs include those costs incurred to physically move the products from the Company's locations to its customers. These costs include vehicle expenses, wages and benefits of personnel responsible for moving the inventory from the branches to the customer, and all associated freight costs. Handling costs are those costs incurred to store, move and prepare the products for shipment. Shipping and handling costs were approximately \$5,756,000 and \$6,040,000 for the three months ended March 31, 2010 and 2009, respectively.

Income Taxes: Deferred income taxes are recognized for the temporary differences between the tax basis of assets and liabilities and their financial reporting amounts in accordance with the provisions of Accounting Standards Codification Topic No. 740, "Income Taxes" (ASC 740). The income tax provision is the tax payable for the period and the change during the period in deferred tax assets and liabilities.

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.

2. ACQUISITIONS

During 2009, the Company acquired the automotive paint operations of Automotive Fleet & Industrial Paint Supply, Inc. with one location in Duluth, Minnesota. This acquisition was funded with cash.

No acquisitions have been completed by the Company in the first quarter of 2010.

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	
	March 31,	
	2010	2009
Numerator:		
Net income	\$ 2,109	\$ 2,462
Denominator:		
Basic-weighted average shares	7,887	7,878
Effect of dilutive stock options	6	8
Diluted-weighted average shares	7,893	7,886
Net income per share		
Basic	\$ 0.27	\$ 0.31
Diluted	\$ 0.27	\$ 0.31