

FINISHMASTER, INC.

Financial Statements

At June 30, 2007 and 2006

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2007	December 31, 2006 ⁽¹⁾
ASSETS	(unaudited)	
Current assets		
Cash	\$ 4,623	\$ 3,785
Accounts receivable, net of allowance for doubtful accounts of \$1,507 and \$1,526, respectively	42,899	36,727
Inventory	67,642	66,760
Deferred income taxes	5,327	2,108
Prepaid expenses and other current assets	11,600	18,435
Total current assets	132,091	127,815
Property and equipment, net	9,066	9,106
Other assets		
Intangible assets, net	8,638	4,141
Goodwill, net	96,548	96,548
Other	13,736	14,815
	118,922	115,504
	\$ 260,079	\$ 252,425
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 44,492	\$ 37,862
Amounts due to LDI	1,112	902
Accrued compensation and benefits	6,516	8,375
Other accrued expenses and current liabilities	4,624	2,743
Current maturities of long-term debt	1,757	21,360
Total current liabilities	58,501	71,242
Long-term debt, less current maturities	41,232	29,713
Deferred income taxes	7,814	7,108
Other long-term liabilities	4,125	3,933
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; 7,774,147 and 7,773,511 shares issued and outstanding	7,774	7,774
Additional paid-in capital	28,401	28,386
Accumulated comprehensive loss	167	-
Retained earnings	112,065	104,269
	148,407	140,429
	\$ 260,079	\$ 252,425

(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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Net sales	\$ 118,708	\$ 115,345	\$ 231,358	\$ 228,802
Cost of sales	83,730	80,426	163,431	160,404
Gross margin	34,978	34,919	67,927	68,398
Expenses				
Operating	11,383	10,994	22,635	22,107
Selling, general and administrative	14,642	13,803	29,588	27,385
Amortization of intangible assets	601	423	1,009	835
	<u>26,626</u>	<u>25,220</u>	<u>53,232</u>	<u>50,327</u>
Income from operations	8,352	9,699	14,695	18,071
Interest expense, net	622	1,237	1,619	2,380
Income before income taxes	7,730	8,462	13,076	15,691
Income tax expense	3,137	3,091	5,280	5,989
Net income	<u>\$ 4,593</u>	<u>\$ 5,371</u>	<u>\$ 7,796</u>	<u>\$ 9,702</u>
Net income per share				
Basic	<u>\$ 0.59</u>	<u>\$ 0.69</u>	<u>\$ 1.00</u>	<u>\$ 1.25</u>
Diluted	<u>\$ 0.59</u>	<u>\$ 0.69</u>	<u>\$ 1.00</u>	<u>\$ 1.24</u>
Weighted average shares outstanding				
Basic	<u>7,774</u>	<u>7,773</u>	<u>7,774</u>	<u>7,773</u>
Diluted	<u>7,831</u>	<u>7,822</u>	<u>7,831</u>	<u>7,819</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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Operating activities				
Net income	\$ 4,593	\$ 5,371	\$ 7,796	\$ 9,702
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Depreciation and amortization	2,760	2,279	6,631	4,487
Deferred income taxes	495	481	(2,627)	689
Issuance of stock grants	15	10	15	10
Loss on disposal of property and equipment	-	-	24	78
Changes in operating assets and liabilities (excluding the impact of acquisitions):				
Accounts receivable, net	(1,791)	646	(5,369)	(1,550)
Inventories	(8,392)	(4,154)	(4)	(7,794)
Prepaid expenses and other assets	(4,199)	(4,131)	3,646	(4,490)
Accounts payable and other liabilities	750	5,292	6,195	936
Net cash provided (used) by operating activities	(5,769)	5,794	16,307	2,068
Investing activities				
Business acquisitions	120	(245)	(7,710)	(831)
Purchases of property and equipment	(224)	(331)	(720)	(886)
Net cash used in investing activities	(104)	(576)	(8,430)	(1,717)
Financing activities				
Proceeds from exercise of stock options	-	-	-	-
Repurchases of stock	-	-	-	-
Changes in cash overdrafts	2,228	(809)	764	(453)
Proceeds from debt	16,067	27,082	48,889	56,624
Repayment of debt	(12,346)	(31,586)	(56,692)	(56,342)
Net cash provided (used) in financing activities	5,949	(5,313)	(7,039)	(171)
Increase (decrease) in cash	76	(95)	838	180
Cash at beginning of period	4,547	4,096	3,785	3,821
Cash at end of period	\$ 4,623	\$ 4,001	\$ 4,623	\$ 4,001

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, 2005	\$ 7,773	\$ 28,377	\$ (19)	\$ 81,807	\$ 117,938
Comprehensive income:					
Net income for the year	-	-	-	22,462	22,462
Other comprehensive income:					
Interest rate swap, net of tax of \$3	-	-	19	-	19
Total comprehensive income					\$ 22,481
Stock grants issued	1	9	-	-	10
Balances at December 31, 2006	\$ 7,774	\$ 28,386	\$ -	\$ 104,269	\$ 140,429
Comprehensive income:					
Net income for the quarter	-	-	-	7,796	7,796
Other comprehensive income:					
Interest rate swap, net of tax of \$114	-	-	167	-	167
Total comprehensive income					7,963
Stock grants issued	-	15	-	-	15
Balances at June 30, 2007	\$ 7,774	\$ 28,401	\$ 167	\$ 112,065	\$ 148,407

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 June 30, 2007, the Company operated 166 branch locations and three major distribution centers in 39 of the 50 largest metropolitan areas in the United States, and is organized into seven major geographical regions: Northeast, Mid-Atlantic, Midwest, Upper Midwest, West, South and Southeast. The Company aggregates its seven geographical regions into a single reportable segment. The Company has approximately 13,000 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 private label, SMART™ brand, refinishing accessory products. The Company is highly dependent on the key suppliers outlined above, which account for approximately 85% of its purchases.

Principles of Consolidation: The Company’s 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 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 75.6% of the outstanding shares at June 30, 2007. 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 \$1,936,000, and \$1,796,000 for the six months ended June 30, 2007 and 2006, respectively. In addition, the Company leases from LDI its corporate office space. Lease expense and payments for repairs and maintenance to LDI totaled approximately \$172,000 and \$133,000 for the six months ended June 30, 2007 and 2006, respectively. The Company also had subordinated debt payable to LDI in the amount of \$19,850,000, which was repaid on its maturity date of March 27, 2007.

Cash and Cash Equivalents: The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At June 30, 2007 and December 31, 2006, checks drawn on future deposits and borrowings of \$4,284,000 and \$3,520,000, respectively, were classified as accounts payable. These amounts represent 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 June 30, 2007 and December 31, 2006. 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 six months ended June 30, 2007 and 2006 was \$975,000 and \$986,000, respectively.

Impairment of Long-Lived Assets: The Company evaluates long-lived assets, including intangible assets with finite lives, in compliance with Statement of Financial Accounting Standards No. 144 (SFAS 144), "Accounting for the Impairment or Disposal of Long-Lived Assets." An impairment loss is recognized whenever events or changes in circumstances indicate the carrying amount of an asset is not recoverable. In applying SFAS 144, 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.

Customer Investments: The Company makes cash payments, or invests inventory and equipment, as consideration for certain customers entering into multi-year purchase commitments that include liquidated damages in the event the customer breaches the commitment. These amounts are capitalized and amortized over the purchase commitment period. The amortization is reflected as a reduction of revenue in accordance with EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." Amounts reflected as a reduction of revenue for the six months ended June 30, 2007 and 2006 were \$3,024,000 and \$2,613,000, respectively. The current portion is classified within prepaid expenses and other current assets in the accompanying consolidated balance sheets and amounted to \$7,102,000 and \$5,283,000 at June 30, 2007 and December 31, 2006, respectively. The non-current portion is classified within other long-term assets and amounted to \$10,641,000 and \$9,933,000 at June 30, 2007 and December 31, 2006, respectively.

The Company also consigns inventory with certain customers. This consigned inventory is stated at net realizable value and consists primarily of automotive paint and refinishing supplies. Consigned inventory is classified within other long-term assets in the accompanying consolidated balance sheets and amounted to \$2,722,000 and \$4,521,000, net of reserves, at June 30, 2007 and December 31, 2006, respectively. On January 1, 2007, the Company made a change in the accounting estimate of the residual value of consigned inventory. The effect of the accounting estimate change was recorded during the first quarter of 2007. The change impacted the 2007 financial statements by lowering net sales, gross margin and income from operations by \$1,600,000, net income by \$955,000 and net income per diluted share by \$0.12.

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 income 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 the product 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 EITF Issue No. 02-16, "Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor," 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 \$13,124,000 and \$12,348,000 for the six months ended June 30, 2007 and 2006, 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 Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes." 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 the first quarter of 2007, the Company completed four asset acquisitions: Motorways House of Color, LLC with one location in Glen Burnie, Maryland; C/Y South Suburban Body Shop Supplies, Inc. with one location in Orland Park, Illinois; Chuck's Bumper & Glass, Inc. with one location in Greenville, South Carolina; and the Memphis, Tennessee automotive paint operations of Mattos Profinishes. These acquisitions were funded with cash and debt.

During 2006, the Company completed two asset acquisitions: Spectrum Auto Paint & Supply, Inc. with one location in Conway, South Carolina and the Raleigh, North Carolina automotive paint operations of Barnes Motor & Parts Company, Inc. These acquisitions were funded with cash and debt.

3. LITIGATION

The Company is 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. The Company is involved in a superfund site investigation in Florida. Management believes 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 its financial condition, results of operations or cash flows.

The Company has 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 pricing 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 the Company. The Company believes that the class action is without merit and it intends to vigorously defend its position. At this time the amount of damages has not been specified.

4. 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 June 30,		Six Months Ended June 30,	
	2007	2006	2007	2006
Numerator:				
Net income	\$ 4,593	\$ 5,371	\$ 7,796	\$ 9,702
Denominator:				
Basic-weighted average shares	7,774	7,773	7,774	7,773
Effect of dilutive stock options	57	49	57	46
Diluted-weighted average shares	7,831	7,822	7,831	7,819
Net income per share				
Basic	\$ 0.59	\$ 0.69	\$ 1.00	\$ 1.25
Diluted	\$ 0.59	\$ 0.69	\$ 1.00	\$ 1.24