

FINISHMASTER, INC.

Financial Statements

At September 30, 2010 and 2009

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2010	December 31, 2009 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,169	\$ 2,761
Accounts receivable, net of allowance for doubtful accounts and customer discounts of \$3,897 and \$3,717, respectively	37,594	34,286
Inventory	69,283	104,222
Deferred income taxes	5,589	6,523
Investments in customers, current portion	6,220	6,660
Prepaid expenses and other current assets	4,475	5,649
Total current assets	127,330	160,101
Property and equipment, net	10,112	10,944
Other assets		
Intangible assets, net	9,890	12,218
Goodwill, net	101,288	101,288
Investments in customers, net of current portion	11,275	12,010
Other	372	375
	122,825	125,891
	\$ 260,267	\$ 296,936
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 44,264	\$ 64,581
Amounts due to LDI	314	220
Accrued compensation and benefits	8,038	6,663
Other accrued expenses and current liabilities	5,086	5,563
Dividends payable	29,993	-
Current maturities of long-term debt	1,445	2,469
Total current liabilities	89,140	79,496
Long-term debt, less current maturities	22,876	49,395
Deferred income taxes	11,072	10,314
Other long-term liabilities	3,586	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; 7,892,807 and 7,885,671 shares issued and outstanding	7,893	7,886
Additional paid-in capital	29,768	29,717
Accumulated comprehensive loss	(260)	(647)
Retained earnings	96,192	116,827
	133,593	153,783
	\$ 260,267	\$ 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 September 30,		Nine Months Ended September 30,	
	2010	2009	2010	2009
Net sales	\$ 108,844	\$ 105,004	\$ 317,548	\$ 324,384
Cost of sales	77,627	73,489	223,275	226,435
Gross margin	31,217	31,515	94,273	97,949
Expenses				
Operating	11,598	11,249	34,357	34,383
Selling, general and administrative	13,206	13,596	40,996	43,348
Amortization of intangible assets	890	979	2,666	2,832
	<u>25,694</u>	<u>25,824</u>	<u>78,019</u>	<u>80,563</u>
Income from operations	5,523	5,691	16,254	17,386
Interest expense	426	584	1,392	1,866
Income before income taxes	5,097	5,107	14,862	15,520
Income tax expense	1,623	2,111	5,504	6,220
Net income	<u>\$ 3,474</u>	<u>\$ 2,996</u>	<u>\$ 9,358</u>	<u>\$ 9,300</u>
Net income per share				
Basic	<u>\$ 0.44</u>	<u>\$ 0.38</u>	<u>\$ 1.19</u>	<u>\$ 1.18</u>
Diluted	<u>\$ 0.44</u>	<u>\$ 0.38</u>	<u>\$ 1.19</u>	<u>\$ 1.18</u>
Weighted average shares outstanding				
Basic	<u>7,893</u>	<u>7,886</u>	<u>7,890</u>	<u>7,883</u>
Diluted	<u>7,898</u>	<u>7,892</u>	<u>7,895</u>	<u>7,890</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		Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Operating activities				
Net income	\$ 3,474	\$ 2,996	\$ 9,358	\$ 9,300
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	3,690	3,704	11,093	10,883
Deferred income taxes	1,023	320	1,438	1,580
Issuance of stock grants	-	-	20	20
Loss on disposal of property and equipment	2	-	29	38
Changes in operating assets and liabilities (excluding the impact of acquisitions):				
Accounts receivable, net	1,967	1,272	(2,962)	3,094
Inventories	5,998	2,491	35,328	20,712
Prepaid expenses and other assets	(73)	745	1,949	948
Investments in customers	(1,518)	(1,145)	(5,801)	(3,824)
Accounts payable and other liabilities	3,495	661	(18,786)	(9,508)
Net cash provided by operating activities	18,058	11,044	31,666	33,243
Investing activities				
Business acquisitions	(817)	(25)	(827)	(21)
Purchases of property and equipment	(382)	(1,256)	(1,220)	(2,236)
Net cash used in investing activities	(1,199)	(1,281)	(2,047)	(2,257)
Financing activities				
Proceeds from exercise of stock options	-	-	36	38
Changes in cash overdrafts	484	(36)	(704)	(513)
Proceeds from debt	13,515	11,560	67,973	72,724
Repayment of debt	(31,510)	(19,647)	(95,516)	(101,600)
Net cash used in financing activities	(17,511)	(8,123)	(28,211)	(29,351)
Increase (decrease) in cash	(652)	1,640	1,408	1,635
Cash at beginning of period	4,821	2,456	2,761	2,461
Cash at end of period	\$ 4,169	\$ 4,096	\$ 4,169	\$ 4,096

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	\$ 7,886	\$ 29,717	\$ (647)	\$ 116,827	\$ 153,783
Comprehensive income:					
Net income for the year-to-date period	-	-	-	9,358	9,358
Other comprehensive income:					
Interest rate swap, net of tax of \$254	-	-	387	-	387
Total comprehensive income				\$	9,745
Dividends declared	-	-	-	(29,993)	(29,993)
Stock grants issued and options exercised	7	51	-	-	58
Balances at September 30, 2010	\$ 7,893	\$ 29,768	\$ (260)	\$ 96,192	\$ 133,593

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 September 30, 2010, the Company operated 162 branch locations and three major distribution centers in 29 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 81% 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 September 30, 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 \$2,434,000, and \$2,168,000 for the nine months ended September 30, 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 \$366,000 and \$369,000 for the nine months ended September 30, 2010 and 2009, respectively.

Cash and Cash Equivalents: Cash and cash equivalents include cash and temporary investments with an initial maturity of three months or less. At September 30, 2010, checks drawn on future deposits and borrowings of \$1,503,000 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 September 30, 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 nine months ended September 30, 2010 and 2009 was \$2,219,000 and \$2,284,000, 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 \$5,908,000 and \$6,231,000 for the nine months ended September 30, 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 \$17,886,000 and \$17,963,000 for the nine months ended September 30, 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 the third quarter of 2010, the Company acquired the automotive paint operations of Downing Paint and Equipment Co., Inc. with locations in Fairfield, Lodi and Stockton, California. This acquisition was funded with cash and issuance of notes payable to owners.

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.

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,	
	2010	2009	2010	2009
Numerator:				
Net income	\$ 3,474	\$ 2,996	\$ 9,358	\$ 9,300
Denominator:				
Basic-weighted average shares	7,893	7,886	7,890	7,883
Effect of dilutive stock options	5	6	5	7
Diluted-weighted average shares	7,898	7,892	7,895	7,890
Net income per share				
Basic	\$ 0.44	\$ 0.38	\$ 1.19	\$ 1.18
Diluted	\$ 0.44	\$ 0.38	\$ 1.19	\$ 1.18

4. DIVIDENDS

On September 28, 2010, the Company declared a special one-time cash dividend of \$3.80 per share on the Company's common stock. The dividend is payable on October 8, 2010 to shareholders of record as of the close of business on October 5, 2010. The dividend in the amount of \$29,993,000 is recorded in Dividends Payable as of September 30, 2010.