

**FINISHMASTER, INC. AND SUBSIDIARIES**

**Financial Statements**

**At June 30, 2005 and 2004**

# **FINISHMASTER, INC.**

## **TABLE OF CONTENTS**

<b>Financial Information (unaudited)</b>	<b>PAGE</b>
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)

	<b>June 30, 2005</b>	<b>December 31, 2004 <sup>(1)</sup></b>
<b>ASSETS</b>	(unaudited)	
<b>Current assets</b>		
Cash	\$ 4,632	\$ 2,482
Accounts receivable, net of allowance for doubtful accounts of \$1,322 and \$1,319, respectively	38,216	33,020
Inventory	62,203	60,200
Deferred income taxes	4,247	4,156
Prepaid expenses and other current assets	6,461	6,670
Total current assets	115,759	106,528
 <b>Property and equipment, net</b>	 7,263	 6,503
 <b>Other assets</b>		
Intangible assets, net	5,461	5,907
Goodwill, net	96,548	96,548
Other	8,422	6,347
	110,431	108,802
	\$ 233,453	\$ 221,833
 <b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>Current liabilities</b>		
Accounts payable	\$ 41,721	\$ 34,210
Amounts due to LDI	1,950	1,075
Accrued compensation and benefits	8,103	7,840
Other accrued expenses and current liabilities	4,216	2,429
Current maturities of long-term debt	34,948	12,652
Total current liabilities	90,938	58,206
 <b>Long-term debt, less current maturities</b>	 24,830	 54,462
<b>Other long-term liabilities</b>	8,133	7,389
<b>Commitments and contingencies</b>	-	-
 <b>Shareholders' equity</b>		
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; 7,770,513 and 7,701,752 shares issued and outstanding	7,771	7,702
Additional paid-in capital	28,206	28,141
Accumulated comprehensive loss	(85)	(227)
Retained earnings	73,660	66,160
	109,552	101,776
	\$ 233,453	\$ 221,833

(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,	
	2005	2004	2005	2004
<b>Net sales</b>	\$ 108,217	\$ 97,469	\$ 209,749	\$ 192,235
<b>Cost of sales</b>	75,256	68,198	147,381	134,446
<b>Gross margin</b>	32,961	29,271	62,368	57,789
<b>Expenses</b>				
Operating	10,852	9,672	21,092	19,527
Selling, general and administrative	12,801	12,039	24,883	23,358
Amortization of intangible assets	380	388	767	779
	24,033	22,099	46,742	43,664
<b>Income from operations</b>	8,928	7,172	15,626	14,125
<b>Interest expense, net</b>	1,356	1,564	2,759	3,109
<b>Income before income taxes</b>	7,572	5,608	12,867	11,016
<b>Income tax expense</b>	3,317	2,445	5,367	4,571
<b>Net income</b>	\$ 4,255	\$ 3,163	\$ 7,500	\$ 6,445
<b>Net income per share</b>				
Basic	\$ 0.55	\$ 0.41	\$ 0.97	\$ 0.84
Diluted	\$ 0.54	\$ 0.41	\$ 0.96	\$ 0.83
<b>Weighted average shares outstanding</b>				
Basic	7,770	7,701	7,744	7,701
Diluted	7,808	7,753	7,781	7,756

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

**FINISHMASTER, INC.**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(in thousands)  
(unaudited)

	<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>
<b>Operating activities</b>		
Net income	\$ 7,500	\$ 6,445
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	3,263	2,897
Deferred income taxes	561	(806)
Issuance of stock grants	25	15
Loss on disposal of property and equipment	4	9
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	(4,717)	(4,285)
Inventories	(734)	12,612
Prepaid expenses and other assets	(3,387)	(1,768)
Accounts payable and other liabilities	8,059	(12,648)
<b>Net cash provided by operating activities</b>	<b>10,574</b>	<b>2,471</b>
<b>Investing activities</b>		
Business acquisitions and payments under earn-out provisions of prior acquisition agreements	(863)	(370)
Purchases of property and equipment	(1,357)	(677)
<b>Net cash used in investing activities</b>	<b>(2,220)</b>	<b>(1,047)</b>
<b>Financing activities</b>		
Proceeds from exercise of stock options	880	-
Repurchases of stock	(771)	-
Changes in cash overdrafts	2,131	(4,353)
Proceeds from debt	44,810	60,002
Repayment of debt	(53,254)	(58,288)
<b>Net cash used in financing activities</b>	<b>(6,204)</b>	<b>(2,639)</b>
<b>Increase (decrease) in cash</b>	<b>2,150</b>	<b>(1,215)</b>
<b>Cash at beginning of period</b>	<b>2,482</b>	<b>2,022</b>
<b>Cash at end of period</b>	<b>\$ 4,632</b>	<b>\$ 807</b>

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	Retained Earnings	Accumulated Comprehensive Loss	Totals
<b>Balances at December 31, 2003</b>	\$ 7,699	\$ 28,119	\$ 52,856	\$ (776)	\$ 87,898
Comprehensive income:					
Net income for the year	-	-	13,304	-	13,304
Other comprehensive income:					
Interest rate swap, net of tax of \$369	-	-	-	549	549
Total comprehensive income					\$ 13,853
Stock grants issued and options exercised	3	22	-	-	25
<b>Balances at December 31, 2004</b>	\$ 7,702	\$ 28,141	\$ 66,160	\$ (227)	\$ 101,776
Comprehensive income:					
Net income through June 30, 2005	-	-	7,500	-	7,500
Other comprehensive income:					
Interest rate swap, net of tax of \$96	-	-	-	142	142
Total comprehensive income					7,642
Repurchases of stock	(58)	(713)	-	-	(771)
Stock grants issued and options exercised	127	778	-	-	905
<b>Balances at June 30, 2005</b>	\$ 7,771	\$ 28,206	\$ 73,660	\$ (85)	\$ 109,552

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.

**Nature of Business:** FinishMaster, Inc. (“the Company” or “FinishMaster”) is the leading national distributor of automotive paints, coatings, and paint-related accessories to the automotive collision repair industry. As of June 30, 2005, the Company operated 173 branch locations and three major distribution centers in 28 states and is organized into six major geographical regions – East, Midwest, Upper Midwest, West, South and Southeast. The Company aggregates its six 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 FinishMaster PrivateBrand refinishing accessory products. The Company is highly dependent on the key suppliers outlined above, which account for approximately 84% 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 75.7% of the outstanding shares at June 30, 2005. 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.

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

#### 2. ACQUISITIONS

During the first half of 2005, the Company completed two acquisitions: Vallet Paint Service Company, Inc. with two locations in Ohio and California Car Color, LLC with four locations in California. These acquisitions were funded with cash and debt.

During 2004, the Company completed two acquisitions: Hutchins Auto Supply Company, Inc. in North Carolina and Virginia Paint Company, Inc. in Virginia. These acquisitions were funded with cash and debt.

### 3. GOODWILL AND OTHER INTANGIBLE ASSETS

Information regarding intangible assets is as follows:

(In thousands)

	<b>Gross Carrying Amount</b>	<b>Accumulated Amortization</b>	<b>Net Book Value</b>
Balance as of June 30, 2005			
Customer lists	\$ 6,261	\$ 3,063	\$ 3,198
Exclusive fulfillment contract	1,601	280	1,321
Agreements not to compete	13,375	12,690	685
Debt issuance costs	1,328	1,071	257
Total	<u>\$ 22,565</u>	<u>\$ 17,104</u>	<u>\$ 5,461</u>

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

Intangible amortization for the second quarter of 2005 and 2004 was \$0.4 million. Intangible amortization for the six months ended June 30, 2005 and 2004 was \$0.8 million. Estimated amortization for each of the five succeeding fiscal years based on intangible assets as of December 31, 2004 is expected to be as follows:

(In thousands)

2004	\$ 1,725
2005	1,494
2006	1,186
2007	532
2008	354

Debt issuance cost amortization is included in interest expense, and for the second quarter of 2005 and 2004 was \$0.1 million. Debt issuance cost amortization for the six months ended June 30, 2005 and 2004 was \$0.1 million.

### 4. COMMITMENTS AND CONTINGENCIES

The Company is dependent on four main suppliers for the purchases of the paint and related supplies that it distributes. A loss of one of these suppliers or a disruption in the supply of their products provided could have a material adverse effect on the Company's operating results. These suppliers also provide purchase discounts, prompt payment discounts, extended payment terms, and other incentive programs to the Company. To the extent these programs are changed or terminated, there could be a material adverse impact to the Company.

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 three superfund site investigations, two in Florida and one in Georgia. 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.

## 5. 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)

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Numerator:				
Net income	\$ 4,255	\$ 3,163	\$ 7,500	\$ 6,445
Denominator:				
Basic-weighted average shares	7,770	7,701	7,744	7,701
Effect of dilutive stock options	38	52	37	55
Diluted-weighted average shares	<u>7,808</u>	<u>7,753</u>	<u>7,781</u>	<u>7,756</u>
Net income per share				
Basic	\$ 0.55	\$ 0.41	\$ 0.97	\$ 0.84
Diluted	<u>\$ 0.54</u>	<u>\$ 0.41</u>	<u>\$ 0.96</u>	<u>\$ 0.83</u>