

FINISHMASTER, INC. AND SUBSIDIARIES

Financial Statements

At March 31, 2004 and 2003

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 31, 2004	December 31, 2003 ⁽¹⁾
ASSETS	(unaudited)	
Current assets		
Cash	\$ 2,639	\$ 2,022
Accounts receivable, net of allowance for doubtful accounts of \$1,493 and \$1,462, respectively	34,181	30,329
Inventory	60,113	69,710
Deferred income taxes	5,001	4,857
Prepaid expenses and other current assets	3,266	4,607
Total current assets	105,200	111,525
 Property and equipment, net	 5,109	 5,081
 Other assets		
Intangible assets, net	6,781	7,150
Goodwill, net	96,548	96,548
Other	3,818	2,712
	107,147	106,410
	\$ 217,456	\$ 223,016
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 26,498	\$ 44,119
Amounts due to LDI	887	796
Accrued compensation and benefits	6,334	7,114
Accrued expenses and other current liabilities	4,444	3,133
Current maturities of long-term debt	10,836	10,372
Total current liabilities	48,999	65,534
 Long-term debt, less current maturities	 70,718	 63,600
Other long-term liabilities	6,482	5,984
Commitments and contingencies	-	-
 Shareholder's 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; 7,799,529 and 7,797,917 shares issued and outstanding	7,800	7,798
Treasury stock at cost; 98,506 and 0 shares	(948)	(948)
Additional paid-in capital	28,982	28,968
Accumulated comprehensive loss	(715)	(776)
Retained earnings	56,138	52,856
	91,257	87,898
	\$ 217,456	\$ 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 March 31,	
	2004	2003
Net sales	\$ 94,766	\$ 83,495
Cost of sales	65,676	56,788
Gross margin	29,090	26,707
Expenses		
Operating	10,094	9,186
Selling, general and administrative	11,652	10,837
Amortization of intangible assets	391	307
	22,137	20,330
Income from operations	6,953	6,377
Interest expense, net	1,545	1,718
Income before income taxes	5,408	4,659
Income tax expense	2,126	1,886
Net income	\$ 3,282	\$ 2,773
Net income per share		
Basic	\$ 0.43	\$ 0.36
Diluted	\$ 0.42	\$ 0.35
Weighted average shares outstanding		
Basic	7,701	7,791
Diluted	7,759	7,905

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,	
	2004	2003
Operating activities		
Net income	\$ 3,282	\$ 2,773
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Issuance of stock grants	16	10
Depreciation and amortization	1,516	1,382
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	(3,852)	163
Inventories	9,597	8,487
Prepaid expenses and other assets	(453)	(522)
Accounts payable and other liabilities	(12,594)	8,733
Net cash provided (used) by operating activities	(2,488)	21,026
Investing activities		
Business acquisitions and payments under earn-out provisions of prior acquisition agreements	(84)	(36)
Purchases of property and equipment	(548)	(127)
Net cash used in investing activities	(632)	(163)
Financing activities		
Proceeds from exercise of stock options	-	48
Change in cash overdrafts	(3,845)	(1,565)
Proceeds from debt	30,491	13,430
Repayment of debt	(22,909)	(31,482)
Net cash provided (used) in financing activities	3,737	(19,569)
Increase in cash	617	1,294
Cash at beginning of period	2,022	2,070
Cash at end of period	\$ 2,639	\$ 3,364

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	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Totals
Balances at December 31, 2002	\$ 7,783	\$ -	\$ 28,879	\$ 41,004	\$ (1,286)	\$ 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	-	(948)	-	-	-	(948)
Stock grants issued and options exercised	15	-	89	-	-	104
Balances at December 31, 2003	\$ 7,798	\$ (948)	\$ 28,968	\$ 52,856	\$ (776)	\$ 87,898
Comprehensive income:						
Net income for the quarter	-	-	-	3,282	-	3,282
Other comprehensive income:						
Interest rate swap, net of tax of \$42	-	-	-	-	61	61
Total comprehensive income						3,343
Stock grants issued	2	-	14	-	-	16
Balances at March 31, 2004	\$ 7,800	\$ (948)	\$ 28,982	\$ 56,138	\$ (715)	\$ 91,257

The accompanying notes are an integral part of the 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. (“FinishMaster”) is the leading national distributor of automotive paints, coatings, and paint-related accessories to the automotive collision repair industry. As of March 31, 2004, we operated 165 sales outlets and three 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 March 31, 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 swap 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 quarter of 2004, we did not complete any acquisitions.

During 2003, the Company 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. These locations are 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. All 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 March 31,	
	2004	2003
Numerator:		
Net income	<u>\$ 3,282</u>	<u>\$ 2,773</u>
Denominator:		
Basic-weighted average shares	7,701	7,791
Effect of dilutive stock options	<u>58</u>	<u>114</u>
Diluted-weighted average shares	<u>7,759</u>	<u>7,905</u>
Net income per share		
Basic	<u>\$ 0.43</u>	<u>\$ 0.36</u>
Diluted	<u>\$ 0.42</u>	<u>\$ 0.35</u>

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. Our 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 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. LONG-TERM DEBT

On March 29, 2001, we entered into a \$100.0 million senior secured credit facility with a syndicate of banks and a \$20.0 million senior subordinated term credit facility with LDI. The senior secured credit facility consisted of a \$40.0 million term credit facility and a \$60.0 million revolving credit facility. The term credit facility, which expires on June 30, 2006, requires quarterly principal payments that increase in amount over the term of the loan. Quarterly principal payments began on June 30, 2001, and are \$2.0 million per quarter in 2004. The revolving credit facility is limited to the lesser of (1) \$60.0 million less letter of credit obligations, or (2) 80 percent of eligible accounts receivable plus 65 percent of eligible inventory less letter of credit obligations and a reserve for three months facility rent. Principal is

due on June 30, 2006. Both the revolving credit and term facilities are subject to interest rates, which fluctuate based on our Leverage Ratio, as defined in the Credit Facility. During the first quarter of 2004, our interest rates were 2.25% over LIBOR (1.09% to 1.20%) or 0.25% over prime in the case of Floating Rate Advances.

To convert our senior term credit facility from a floating to a fixed interest rate obligation, we entered into interest rate swap agreements with notional amounts of \$40.0 million. The weighted average fixed interest rate under these agreements is 5.43%. In order to maintain effectiveness, the quarterly settlement terms of the swap agreements are established to match the interest payments on the term credit facility. The change in the fair value of the interest rate swap was \$0.1 million for the first quarter 2004 and 2003, respectively. The amounts, net of tax, were recorded in the Accumulated Comprehensive Loss section of the Shareholders' Equity.

Concurrent with funding the senior secured credit facility, we repaid our \$30.0 million senior subordinated term credit facility and entered into a new \$20.0 million senior subordinated term credit facility with LDI. All outstanding principal is due on March 29, 2007, and interest is payable quarterly at a rate of 12.0% per annum.

6. GOODWILL AND OTHER INTANGIBLE ASSETS

The carrying amount of goodwill did not change for the quarter ended March 31, 2004.

(In thousands)

Balance as of March 31, 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 March 31, 2004			
Customer lists	\$ 5,579	\$ 1,814	\$ 3,765
Exclusive fulfillment contract	1,601	80	1,521
Agreements not to compete	13,137	12,208	929
Debt issuance costs	1,328	762	566
Total	<u>\$ 21,645</u>	<u>\$ 14,864</u>	<u>\$ 6,781</u>

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

Intangible amortization for the three months ended March 31, 2004 and 2003, was \$0.4 million and \$0.3 million, respectively. Estimated amortization for each of the five succeeding fiscal years based on intangible assets as of December 31, 2003 is expected to be as follows:

(In thousands)

2004	\$ 1,564
2005	1,564
2006	1,432
2007	1,173
2008	597
	<u>\$ 6,330</u>

Debt issuance cost amortization is included in interest expense, and for the three months ended March 31, 2004 and 2003, was \$0.1 million, respectively.