

FINISHMASTER, INC. AND SUBSIDIARIES

Financial Statements

At March 31, 2005 and 2004

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	March 31, 2005	December 31, 2004 ⁽¹⁾
ASSETS	(unaudited)	
Current assets		
Cash	\$ 3,713	\$ 2,482
Accounts receivable, net of allowance for doubtful accounts of \$1,370 and \$1,319, respectively	36,172	33,020
Inventory	59,792	60,200
Deferred income taxes	4,477	4,156
Prepaid expenses and other current assets	6,088	6,670
Total current assets	110,242	106,528
 Property and equipment, net	 6,584	 6,503
 Other assets		
Intangible assets, net	5,536	5,907
Goodwill, net	96,548	96,548
Other	7,037	6,347
	109,121	108,802
	\$ 225,947	\$ 221,833
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 31,984	\$ 34,210
Amounts due to LDI	842	1,075
Accrued compensation and benefits	6,640	7,840
Accrued expenses and other current liabilities	2,800	2,429
Current maturities of long-term debt	14,273	12,652
Total current liabilities	56,539	58,206
 Long-term debt, less current maturities	 56,246	 54,462
Other long-term liabilities	7,831	7,389
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; 7,769,197 and 7,701,752 shares issued and outstanding	7,769	7,702
Additional paid-in capital	28,284	28,141
Accumulated comprehensive loss	(127)	(227)
Retained earnings	69,405	66,160
	105,331	101,776
	\$ 225,947	\$ 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 March 31,	
	2005	2004
Net sales	\$ 101,532	\$ 94,766
Cost of sales	72,125	66,248
Gross margin	29,407	28,518
Expenses		
Operating	10,240	9,855
Selling, general and administrative	12,082	11,319
Amortization of intangible assets	387	391
	22,709	21,565
Income from operations	6,698	6,953
Interest expense, net	1,403	1,545
Income before income taxes	5,295	5,408
Income tax expense	2,050	2,126
Net income	\$ 3,245	\$ 3,282
Net income per share		
Basic	\$ 0.42	\$ 0.43
Diluted	\$ 0.42	\$ 0.42
Weighted average shares outstanding		
Basic	7,718	7,701
Diluted	7,752	7,759

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,	
	2005	2004
Operating activities		
Net income	\$ 3,245	\$ 3,282
Adjustments to reconcile net income to net cash provided (used) by operating activities:		
Depreciation and amortization	1,823	1,516
Deferred income taxes	3	(145)
Issuance of stock grants	5	16
Loss on disposal of property and equipment	4	-
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	(2,998)	(3,852)
Inventories	1,137	9,597
Prepaid expenses and other assets	(1,032)	(308)
Accounts payable and other liabilities	(2,544)	(12,594)
Net cash used by operating activities	(357)	(2,488)
Investing activities		
Business acquisitions and payments under earn-out provisions of prior acquisition agreements	(447)	(84)
Purchases of property and equipment	(451)	(548)
Net cash used in investing activities	(898)	(632)
Financing activities		
Proceeds from exercise of stock options	705	-
Repurchases of stock	(499)	-
Change in cash overdrafts	(387)	(3,845)
Proceeds from debt	29,010	30,491
Repayment of debt	(26,343)	(22,909)
Net cash provided in financing activities	2,486	3,737
Increase in cash	1,231	617
Cash at beginning of period	2,482	2,022
Cash at end of period	\$ 3,713	\$ 2,639

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
Balances at December 31, 2003	\$ 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
Balances at December 31, 2004	\$ 7,702	\$ 28,141	\$ 66,160	\$ (227)	\$ 101,776
Comprehensive income:					
Net income for the quarter	-	-	3,245	-	3,245
Other comprehensive income:					
Interest rate swap, net of tax of \$68	-	-	-	100	100
Total comprehensive income					3,345
Repurchases of stock	(38)	(461)	-	-	(499)
Stock grants issued and options exercised	105	604	-	-	709
Balances at March 31, 2005	\$ 7,769	\$ 28,284	\$ 69,405	\$ (127)	\$ 105,331

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 March 31, 2005, the Company operated 169 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 March 31, 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 consolidated financial statements have been reclassified to conform to the current year presentation.

2. ACQUISITIONS

During the first quarter of 2005, the Company completed the acquisition of Vallet Paint Service Company, Inc. with two locations in Ohio. This acquisition was 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. INTANGIBLE ASSETS

Information regarding intangible assets is as follows:

(In thousands)

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of March 31, 2005			
Customer lists	\$ 5,961	\$ 2,802	\$ 3,159
Exclusive fulfillment contract	1,601	240	1,361
Agreements not to compete	13,309	12,612	697
Debt issuance costs	1,328	1,009	319
Total	<u>\$ 22,199</u>	<u>\$ 16,663</u>	<u>\$ 5,536</u>

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

Intangible amortization for the three months ended March 31, 2005 and 2004 was \$0.4 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 three months ended March 31, 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)

	Three Months Ended March 31,	
	2005	2004
Numerator:		
Net income	\$ 3,245	\$ 3,282
Denominator:		
Basic-weighted average shares	7,718	7,701
Effect of dilutive stock options	34	58
Diluted-weighted average shares	<u>7,752</u>	<u>7,759</u>
Net income per share		
Basic	\$ 0.42	\$ 0.43
Diluted	<u>\$ 0.42</u>	<u>\$ 0.42</u>