

FINISHMASTER, INC. AND SUBSIDIARIES

Report on Audit of Financial Statements

At December 31, 2003 and 2002

and for the

Three Years Ended December 31, 2003

FINISHMASTER, INC.

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Report of Independent Auditors

To the Board of Directors and Shareholders of FinishMaster, Inc.:

In our opinion, the accompanying consolidated balance sheets and the related consolidated statements of operations, shareholders' equity and cash flows present fairly, in all material respects, the financial position of FinishMaster, Inc. and its subsidiaries at December 31, 2003 and December 31, 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 3 to the consolidated financial statements, the Company was required to adopt the provisions of Statement of Financial Accounting Standards No. 142, effective January 1, 2002.

PricewaterhouseCoopers LLP
Indianapolis, Indiana
February 27, 2004

CONSOLIDATED BALANCE SHEETS

FinishMaster, Inc.

(In thousands, except share amounts)

ASSETS

Current assets

Cash	\$ 2,022	\$ 2,070
Accounts receivable, net of allowance for doubtful accounts of \$1,462 and \$1,517, respectively	30,329	30,023
Inventory	69,710	55,566
Deferred income taxes	4,857	4,221
Prepaid expenses and other current assets	4,607	3,703
Total current assets	111,525	95,583

Property and equipment

Land	368	368
Vehicles	2,204	2,048
Buildings and improvements	6,682	6,491
Machinery, equipment and fixtures	15,107	14,411
	24,361	23,318
Accumulated depreciation	(19,280)	(17,040)
	5,081	6,278

Other assets

Intangible assets, net (Note 3)	7,150	5,589
Goodwill, net (Note 3)	96,548	96,548
Other	2,712	1,629
	106,410	103,766

	December 31, 2003	December 31, 2002
	\$ 223,016	\$ 205,627
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 44,119	\$ 15,744
Amounts due to LDI	796	1,131
Accrued compensation and benefits	7,114	7,971
Other accrued expenses and current liabilities	3,133	1,774
Current maturities of long-term debt	10,372	7,571
Total current liabilities	65,534	34,191
Long-term debt, less current maturities	63,600	88,726
Other long-term liabilities	5,984	6,330
Commitments and contingencies (Note 8)		
Shareholders' equity		
Preferred stock, no par value; 1,000,000 shares authorized; no shares issued and outstanding	-	-
Common stock, \$1 stated value; 25,000,000 shares authorized; 7,797,917 and 7,783,261 shares issued	7,798	7,783
Treasury stock, at cost; 98,506 and 0 shares	(948)	-
Additional paid-in capital	28,968	28,879
Accumulated comprehensive loss	(776)	(1,286)
Retained earnings	52,856	41,004
	87,898	76,380
	\$ 223,016	\$ 205,627

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

CONSOLIDATED STATEMENTS OF OPERATIONS

FinishMaster, Inc.

(In thousands, except per share data)

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Net sales	\$ 347,012	\$ 342,803	\$ 332,154
Cost of sales	238,450	231,632	226,259
Gross margin	108,562	111,171	105,895
Expenses			
Operating	37,144	37,472	37,119
Selling, general and administrative	43,480	44,124	41,189
Amortization of intangible assets	1,316	1,027	5,596
	81,940	82,623	83,904
Income from operations	26,622	28,548	21,991
Loss on early extinguish of debt	-	-	819
Interest expense	6,486	7,170	8,843
Income before income taxes	20,136	21,378	12,329
Income tax expense	8,284	8,481	6,121
Net income	\$ 11,852	\$ 12,897	\$ 6,208
Net income per share (Note 9)			
Basic	\$ 1.53	\$ 1.66	\$ 0.81
Diluted	\$ 1.52	\$ 1.64	\$ 0.81
Weighted average shares outstanding			
Basic	7,748	7,742	7,638
Diluted	7,820	7,856	7,648

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

FinishMaster, Inc.

(In thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Operating activities			
Net income	\$ 11,852	\$ 12,897	\$ 6,208
Adjustments to reconcile net income to net cash provided (used) by operating activities:			
Depreciation and amortization	5,637	5,100	10,418
Deferred income taxes	(655)	2,473	(388)
Loss on early extinguishment of debt	-	-	819
Other	-	-	(97)
Loss (gain) on disposal of property and equipment	24	113	(18)
Changes in operating assets and liabilities (excluding the impact of acquisitions):			
Accounts receivable, net	275	(1,275)	2,182
Inventories	(9,799)	(3,765)	15,976
Prepaid and other assets	(3,695)	(1,943)	552
Accounts payable and other liabilities	25,663	(22,880)	(1,028)
Net cash provided (used) by operating activities	29,302	(9,280)	34,624
Investing activities			
Business acquisitions and payments under earn-out provisions for prior acquisitions	(2,253)	(2,364)	(5,001)
Purchases of property and equipment	(1,002)	(893)	(703)
Proceeds from disposal of property and equipment	114	-	39
Other	-	-	(188)
Net cash used in investing activities	(3,141)	(3,257)	(5,853)
Financing activities			
Proceeds from exercise of stock options	104	1,088	7
Repurchases of stock	(948)	-	-
Change in cash overdrafts	2,004	306	(6,759)
Debt issuance costs	-	-	(1,284)
Proceeds from debt	76,820	110,800	167,448
Repayment of debt	(104,189)	(100,564)	(186,719)
Net cash provided (used) by financing activities	(26,209)	11,630	(27,307)
Increase (decrease) in cash	(48)	(907)	1,464
Cash at beginning of period	2,070	2,977	1,513
Cash at end of period	\$ 2,022	\$ 2,070	\$ 2,977
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	\$ 5,699	\$ 6,684	\$ 9,464
Taxes	\$ 7,031	\$ 6,358	\$ 6,009

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

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FinishMaster, Inc.

(In thousands)	Common Stock	Treasury Stock	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Totals
Balances at December 31, 2000	\$ 7,540	\$ -	\$ 27,367	\$ 21,899	\$ -	\$ 56,806
Comprehensive income:						
Net income for the year	-	-	-	6,208	-	6,208
Other comprehensive loss:						
Interest rate swap, net of tax of \$0	-	-	-	-	(1,146)	(1,146)
Total comprehensive income						\$ 5,062
Stock grants issued and options exercised	98	-	569	-	-	667
Balances at December 31, 2001	\$ 7,638	\$ -	\$ 27,936	\$ 28,107	\$ (1,146)	\$ 62,535
Comprehensive income:						
Net income for the year	-	-	-	12,897	-	12,897
Other comprehensive loss:						
Interest rate swap, net of tax of \$857	-	-	-	-	(140)	(140)
Total comprehensive income						\$ 12,757
Stock grants issued and options exercised	145	-	943	-	-	1,088
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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

FinishMaster, Inc.

1. SIGNIFICANT ACCOUNTING POLICIES

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 December 31, 2003, the Company operated 166 sales outlets 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 geographic 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 85% of the Company’s 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 an indirect wholly-owned subsidiary of LDI, Ltd., (“LDI”), an Indiana limited partnership, owns 5,587,516 shares of the Company’s common stock, representing 72.57%, 71.79%, and 73.15% of the outstanding shares at December 31, 2003, 2002, and 2001, respectively. Throughout the remainder of these financial statements, LDI and Distribution are collectively referred to 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 \$4,260,000, \$3,247,000, and \$782,000, for the years ended December 31, 2003, 2002, and 2001, respectively. The Company made payments to LDI for workers’ compensation and vehicle insurance in 2003 and 2002, and made payments directly to the insurance vendor in 2001. In addition, the Company leases from LDI its corporate office space. Lease expense and payments for repairs and maintenance to LDI totaled approximately \$236,000, \$223,000, and \$206,000, for the years ended December 31, 2003, 2002, and 2001, respectively. The Company also has subordinated debt payable to LDI (see Note 4, Long-Term Debt).

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.

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 December 31, 2003 and 2002, checks drawn on future deposits and borrowings of \$6,173,000 and \$4,169,000, respectively, were classified as accounts payable. These amounts represent outstanding checks in excess of funds on deposit.

Receivables: Trade accounts receivable represents amounts due from customers. Trade receivables are typically not collateralized. No single customer exceeds 10% of the Company’s receivables at December 31, 2003. 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 first-in, first-out cost or market and consist primarily of purchased paint and refinishing supplies. Substantially, all inventories consist of finished goods.

Consigned Inventories: Inventories consigned with customers are stated at net realizable value and consist primarily of

purchased paint and refinishing supplies. Consigned inventory amounted to \$6,028,000 and \$5,434,000, net of reserves, at December 31, 2003 and 2002, respectively.

Consigned Equipment: Equipment consigned with customers is stated at cost and is depreciated over a three-year period with no residual value. Consigned equipment is classified within Other Long-Term Assets in the accompanying consolidated balance sheets and amounted to \$464,000 and \$602,000, net of accumulated depreciation, at December 31, 2003 and 2002, respectively.

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 2003, 2002, and 2001 was \$2,365,000, \$2,453,000, and \$2,287,000, respectively.

Impairment of Long-Lived Intangibles: 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.

Deferred Charges: The Company invests in paint related equipment and makes upfront cash investments in lieu of discounts with customers. In consideration for these investments, customers make multi-year purchase commitments that include liquidated damages in the event that the customer breaches the commitment. These investments are capitalized and amortized over the commitment period or thirty-six months, whichever is shorter. The amortization is reflected as a reduction of revenue in accordance with EITF Issue No. 00-25, "Accounting for Consideration from a Vendor to a Retailer in Connection with the Purchase or Promotion of the Vendor's Products." The current portion of deferred charges is classified within Other Current Assets in the accompanying consolidated balance sheets and amounted to \$1,900,000 and \$1,100,000 at December 31, 2003 and 2002, respectively. The non-current portion of deferred charges is classified within Other Long-Term Assets and amounted to \$1,011,000 and \$152,000 at December 31, 2003 and 2002, respectively. Amounts reflected as a reduction of revenue in 2003, 2002, and 2001 were \$1,325,000, \$982,000, and \$1,429,000, 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.

Vendor Purchase Volume Discounts: 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 accordingly to reflect changes in these estimates.

Transactions with Vendors: The Company 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 stores 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 \$18,270,000, \$16,500,000, and \$17,000,000 in 2003, 2002, and 2001, respectively.

Operating Expenses: The Company includes store wages and benefits other than those associated with shipping and handling costs, and store and warehousing facility expenses in Operating Expenses. Warehousing facility costs were approximately \$613,000, \$604,000, and \$626,000 in 2003, 2002, and 2001, respectively.

Selling, General and Administrative Expenses: The Company includes costs associated with its corporate support staff and expenses for sales commissions, wages and customer support activities, in Selling, General and Administrative Expenses. Purchasing costs included within Selling, General and Administrative expenses were approximately \$490,000, \$750,000, and \$840,000 in 2003, 2002, and 2001, respectively.

Stock-based Compensation: The Company recognizes compensation expense related to its stock option plan in accordance with APB Opinion No. 25, "Accounting for Stock Issued to Employees." Options are granted at a price equal to or less than the fair market value of the Company's common stock on the date of grant, therefore no compensation expense is recognized. Had compensation expense been determined at the date of grant based on the fair value of the awards consistent with Statement of Financial Accounting Standards No. 123, "Accounting for Stock Based Compensation," the Company's net income and net income per share would have been reduced to the pro forma amounts indicated in the following table:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
(In thousands, except per share data)			
Net income			
As reported	\$ 11,852	\$ 12,897	\$ 6,208
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	(90)	(261)	(165)
Pro forma	\$ 11,762	\$ 12,636	\$ 6,043
Net income per share			
As reported, Basic	\$ 1.53	\$ 1.66	\$ 0.81
As reported, Diluted	\$ 1.52	\$ 1.64	\$ 0.81
Pro forma, Basic	\$ 1.52	\$ 1.63	\$ 0.79
Pro forma, Diluted	\$ 1.50	\$ 1.61	\$ 0.79

The fair value of each option granted was estimated on the date of the grant using the Black-Scholes option pricing model with the following assumptions for the years ended December 31, 2003, 2002, and 2001, respectively: risk free interest rate of 4.00%, 4.70%, and 5.00%; no dividend yield; expected option lives of nine years; and stock price volatility of

36.31%, 41.90%, and 42.90%. The weighted-average fair value of options granted during the years ended December 31, 2003, 2002, and 2001, was \$5.32, \$7.06, and \$4.66, per option, respectively, where the exercise price of the options equaled the market price on the date of grant. Certain options were granted during 2002 where the exercise price of the options exceeded the market value of the stock on the date of grant. The weighted-average fair value of these options was \$6.58 per option at December 31, 2002.

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.

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

2. ACQUISITIONS

The following table summarizes the assets acquired and liabilities assumed in acquisitions made by the Company in each of the periods presented. All acquisitions have been accounted for as purchases and accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition. Intangible assets such as goodwill, exclusive fulfillment contracts, agreements not to compete, and customer lists were recorded with each acquisition, if appropriate. Operating results of acquired entities have been included in the Company's consolidated financial statements from the respective date of purchase.

(In thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Accounts receivable	\$ 581	\$ 347	\$ 1,520
Inventory	4,346	1,705	2,670
Equipment and other	304	138	506
Intangible assets	3,125	1,140	5,076
	8,356	3,330	9,772
Less liabilities assumed	1,058	380	1,075
Acquisition price	7,298	2,950	8,697
Acquisition debt	5,044	586	3,046
Stock grants	-	-	650
Net assets of businesses acquired, net of acquisition debt	\$ 2,254	\$ 2,364	\$ 5,001
Number of acquisitions	3	4	2

Intangibles recorded as a result of these acquisitions are as follows:

(In thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Goodwill and Other Intangible Assets Purchased			
Goodwill	\$ -	\$ 178	\$ 4,375
Exclusive fulfillment contract	1,601	-	-
Agreements not to compete	384	304	701
Customer lists	1,140	658	-
Total purchased goodwill and other intangible assets	\$ 3,125	\$ 1,140	\$ 5,076

During 2003, the Company completed three acquisitions: Rankin Auto Body Supplies, Inc. in New Jersey; Advance Paint, LLC in Denver, and Automotive Refinish Technologies in ten new geographic locations. 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.

During 2002, the Company completed four acquisitions: Innovative Refinish Supply, Inc. in Arizona; Gil Bezy, Inc., D/B/A Color Master, Inc. in Kentucky; Southern Automotives, Inc., in South Carolina; and Caywood's Paint Supply in California. All these acquisitions were funded with cash and debt.

During 2001, the Company completed two acquisitions: Badger Paint Plus and Scotty's Paint Supply, Inc. The acquisitions involved operations in Minnesota, Illinois, Wisconsin, and Florida, and were funded with cash, debt and common stock.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

In June 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141 (SFAS 141), "Business Combinations," and No. 142 (SFAS 142), "Goodwill and Other Intangible Assets." SFAS 141 requires that the purchase method of accounting be used for all business combinations after June 30, 2001. SFAS 142 prohibits the amortization of goodwill and intangible assets with indefinite useful lives. SFAS 142 also requires that these intangible assets be reviewed for impairment at least annually. Intangible assets with finite lives continue to be amortized over their estimated useful lives as discussed in Note 1.

Effective January 1, 2002, the Company adopted SFAS 142, which requires that goodwill and indefinite lived assets be tested for impairment at the reporting unit level at adoption and at least annually thereafter. An impairment charge is recognized only when the calculated fair value of a reporting unit, including goodwill, is less than its carrying amount. In accordance with SFAS 142, the Company completed its required transitional impairment tests of goodwill and indefinite lived intangible assets and determined the fair value to be in excess of the carrying value of these assets.

The Company also completed its required annual impairment test as of June 30, 2003 and determined the fair value of goodwill and indefinite lived intangible assets to be in excess of the carrying value of these assets.

A reconciliation of reported net income adjusted to reflect the adoption of SFAS 142 is provided below:

(In thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Reported net income	\$ 11,852	\$ 12,897	\$ 6,208
Add-back goodwill and indefinite lived intangible asset amortization, net of tax	-	-	3,144
Adjusted net income	\$ 11,852	\$ 12,897	\$ 9,352
Reported basic earnings per share	\$ 1.53	\$ 1.66	\$ 0.81
Add-back goodwill and indefinite lived intangible asset amortization, net of tax	-	-	0.41
Adjusted basic earnings per share	\$ 1.53	\$ 1.66	\$ 1.22
Reported diluted earnings per share	\$ 1.52	\$ 1.64	\$ 0.81
Add-back goodwill and indefinite lived intangible asset amortization, net of tax	-	-	0.41
Adjusted diluted earnings per share	\$ 1.52	\$ 1.64	\$ 1.22

The changes in the carrying amount of goodwill for the fiscal year ended December 31, 2003 and 2002 are as follows:

(In thousands)

	2003	2002
Balance as of December 31,	\$ 96,548	\$ 99,519
Goodwill acquired during the period	-	178
Reclassification due to final purchase price allocation under SFAS 141	-	(3,149)
Balance as of December 31,	<u>\$ 96,548</u>	<u>\$ 96,548</u>

Information regarding the Company's intangible assets with finite lives are as follows:

(In thousands)

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of December 31, 2003			
Customer lists	\$ 5,519	\$ 1,575	\$ 3,944
Exclusive fulfillment contract	1,601	40	1,561
Agreements not to compete	13,114	12,097	1,017
Debt issue costs	1,328	700	628
Total	<u>\$ 21,562</u>	<u>\$ 14,412</u>	<u>\$ 7,150</u>

(In thousands)

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of December 31, 2002			
Customer lists	\$ 4,379	\$ 705	\$ 3,674
Agreements not to compete	12,730	11,690	1,040
Debt issue costs	1,328	453	875
Total	<u>\$ 18,437</u>	<u>\$ 12,848</u>	<u>\$ 5,589</u>

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

The intangible asset related to the exclusive fulfillment contract arises from an exclusive fulfillment agreement with BASF recorded as a result of the acquisition of Automotive Refinish Technologies completed during 2003. This asset is being amortized over its ten year life.

Total amortization expense in 2003, 2002, and 2001 was \$1,316,000, \$1,027,000, and \$5,596,000, respectively. Included in 2001 was \$5,253,000 for goodwill amortization. Estimated amortization expense 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	\$ 1,769
2005	1,769
2006	1,637
2007	1,378
2008	802
	<u>\$ 7,355</u>

Debt issuance cost amortization expense is included in interest expense, and in 2003, 2002, and 2001 was \$248,000, \$248,000, and \$295,000, respectively.

4. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands)	December 31, 2003	December 31, 2002
Revolving credit facility	\$ 19,910	\$ 39,520
Term credit facility	25,000	31,000
Senior subordinated debt	19,850	19,850
Notes payable to former owners of acquired businesses with interest at various rates up to 10%, due at various dates through 2008	7,938	4,619
Other long-term financing at various rates, due at various dates through 2010	1,274	1,308
	<u>73,972</u>	<u>96,297</u>
Less current maturities	10,372	7,571
	<u>\$ 63,600</u>	<u>\$ 88,726</u>

Revolving Credit Facility: The Company has a \$100 million senior secured credit facility with a syndicate of banks. The senior secured credit facility consists of a \$40 million term credit facility and a \$60 million revolving credit facility. The revolving credit facility is limited to the lesser of (1) \$60 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. Interest rates and payment dates are variable based upon interest rates and term options selected by management. Interest rates at December 31, 2003 and 2002 on outstanding revolving credit borrowings varied from 3.10% to 4.50% in 2003 and 3.42% to 4.25% in 2002. Revolving credit borrowings are subject to interest rates, which fluctuate based on the Company's Leverage Ratio, as defined in the Credit Facility, which as of December 31, 2003 was 2.00% over LIBOR or prime in the case of Floating Rate Advances and 2.00% over LIBOR or prime in the case of Floating Rate Advances at the end of 2002. The Company is charged an annual administrative fee of \$35,000, and an annual commitment fee, payable monthly, that ranges between 0.38% and 0.50% of the unused portion of the revolving line of credit. At December 31, 2003 and 2002, the Company had \$36.3 million and \$12.2 million, respectively of available borrowings under its revolving credit facility.

In December 2002, the credit facility was amended to allow the Company to borrow up to \$10 million on an unsecured basis. In December 2002, the Company borrowed \$5.0 million, which matured January 31, 2003. This borrowing is classified within long-term debt, as this amount was refinanced with proceeds from the revolving credit facility in 2003.

Term Credit Facility: The term loan, which expires on June 30, 2006, requires quarterly principal payments that began on June 30, 2001. Quarterly principal payments in 2003 and 2002 were \$1.5 million, and increase in amount each year over the remaining term of the loan. Interest rates and payment dates are variable based upon interest rates and term options selected by management. Interest rates at December 31, 2003 and 2002 were 3.41% and 3.80%, respectively, on outstanding term borrowings. Term borrowings are subject to interest rates, which fluctuate based on the Company's Leverage Ratio, as defined in the Credit Facility, which as of December 31, 2003 was 2.00% over LIBOR or prime in the case of Floating Rate Advances and 2.00% over LIBOR or prime in the case of Floating Rate Advances at the end of 2002.

To convert the Company's senior term credit facility from a floating to a fixed interest rate obligation, the Company entered into interest rate swap agreements in March 2001 with notional amounts of \$40 million. The notional amounts under the swap agreements are reduced according to the senior term credit facility's amortization schedule. 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 fair value of the interest rate swap liability at December 31, 2003 and 2002 was \$1.3 million and \$2.1 million, respectively. The change in the fair market value is recorded in the Accumulated Comprehensive Loss section of Shareholders' Equity, net of tax.

Combined Facilities: Substantially all of the Company's assets serve as collateral for the revolving credit facility and

term credit facility. These credit agreements contain various quarterly and annual covenants pertaining to, among other things, achieving a minimum fixed charge coverage ratio, a maximum leverage ratio, a maximum senior debt leverage ratio, a minimum interest expense coverage ratio and a minimum consolidated net worth level. The covenants also limit purchases and sales of assets and restrict payment of dividends. If any default as described in the credit facilities occurs with respect to the Company, the obligations of the lenders to make additional loans automatically terminates and the outstanding obligations become immediately due and payable.

As of December 31, 2003 and 2002, the Company was in compliance with its covenants.

Early Extinguishment of Debt: In April 2002, the FASB issued Statement of Financial Accounting Standard No. 145, "Rescission of FASB Statements No. 4, 44 and 64, Amendment of FASB Statement No. 13, and Technical Corrections." Since FASB Statement No. 4 has been rescinded, retirements of debt are no longer automatically classified as an extraordinary item. Rather, retirements of debt are only classified as extraordinary to the extent the specified criteria in Accounting Principles Board Opinion No. 30, "Reporting the Results of Operations—Reporting the Effects of Disposal of a Segment of a Business, and Extraordinary, Unusual and Infrequently Occurring Events and Transactions" are met. The Company adopted this statement on January 1, 2003 and restated the financial statements presented for the year ended December 31, 2001 to reflect treatment of the retirement of debt originally reported as an extraordinary item as an element of income before income taxes.

Senior Subordinated Debt: The Company has a \$19.9 million senior subordinated term credit facility with LDI. All outstanding principal is due on March 29, 2007, and interest is paid quarterly at a rate of 12.00% per annum.

The aggregate principal payments for the next five years subsequent to December 31, 2003, are as follows:

(In thousands)

2004	\$	10,372
2005		12,093
2006		28,373
2007		21,000
2008		2,134
	<u>\$</u>	<u>73,972</u>

The carrying amounts of certain financial instruments such as cash, accounts receivable, accounts payable, and long-term debt approximate their fair values. The fair value of long-term debt is estimated using discounted cash flows and the Company's current incremental borrowing rates for similar types of arrangements.

5. EMPLOYEE SAVINGS PLAN

The Company has an Employee Savings Plan ("Plan"), which covers substantially all employees who have met certain requirements as to date of service. The Company currently contributes on a graduated scale up to 50% of each \$1.00 contributed by employees up to 6% of their annual compensation. Prior to 2002, the Company contribution was a graduated scale up to 25% of each \$1.00 contributed by employees up to 6% of their annual compensation. The Company contributions charged to operations under the Plan were approximately \$733,000, \$657,000, and \$316,000, for the years ended December 31, 2003, 2002, and 2001, respectively. In addition, the Company may contribute to the Plan, at the discretion of the Board of Directors, an additional amount up to 4% of employees' annual compensation. In 2001, a discretionary contribution of 2% of employees' annual compensation was awarded in the amount of \$900,000; no discretionary contributions were made in 2003 and 2002.

6. STOCK OPTIONS

The Company has a stock option plan under which officers, key employees, and directors may be granted options to

purchase stock. There are 750,000 shares of common stock reserved for issuance under the plan. All options granted under this plan have been granted at a price not less than the fair market value of the Company's common stock on the date of grant and have a maximum life of ten years from the date of the grant. Certain stock options granted in 2003, 2002, and 2001 were also fully vested at the date of issue, while others vest over periods ranging from one to four years. Stock option activity for the three years ended December 31, 2003 is summarized as follows:

	December 31, 2003		December 31, 2002		December 31, 2001	
	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price
Outstanding-beginning of year	477,136	\$ 8.60	593,180	\$ 8.14	612,334	\$ 8.13
Granted	7,304	\$ 10.41	52,348	\$ 11.75	15,936	\$ 7.74
Exercised	10,400	\$ 6.72	142,842	\$ 7.44	1,000	\$ 6.59
Cancelled	67,303	\$ 7.61	-	\$ -	-	\$ -
Forfeited	51,425	\$ 10.15	25,550	\$ 10.75	34,090	\$ 7.87
Outstanding-end of year	355,312	\$ 8.66	477,136	\$ 8.60	593,180	\$ 8.14
Exercisable-end of year	347,312	\$ 8.59	461,136	\$ 8.50	578,780	\$ 8.06

	Exercise Price Range		
	\$5.34-\$8.25	\$10.25-\$12.51	Total
Options outstanding	186,260	169,052	355,312
Weighted average exercise price	\$ 6.35	\$ 11.71	\$ 8.66
Average remaining contractual life	5.5 years	4.4 years	5.1 years
Options exercisable	186,260	161,052	347,312
Weighted average exercise price	\$ 6.35	\$ 11.71	\$ 8.59

7. INCOME TAXES

The provision for federal and state income taxes consisted of the following:

(In thousands)	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Current:			
Federal	\$ 7,340	\$ 4,901	\$ 5,284
State	1,599	1,107	1,226
	8,939	6,008	6,510
Deferred:			
Federal	(561)	2,123	(334)
State	(94)	350	(55)
	(655)	2,473	(389)
	\$ 8,284	\$ 8,481	\$ 6,121

The reconciliation of income taxes computed at the federal statutory tax rate to the Company's effective tax rate is as follows:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
Federal statutory tax rate	34.0%	34.0%	34.0%
State tax provision	5.6%	5.6%	7.0%
Nondeductible intangible amortization	0.0%	0.0%	6.3%
Other	1.5%	0.1%	2.3%
Effective tax rate	41.1%	39.7%	49.6%

The significant components of the Company's deferred tax assets as of December 31, 2003, and 2002 are as follows:

(In thousands)	December 31, 2003	December 31, 2002
Deferred tax assets:		
Depreciation	\$ 1,848	\$ 385
Allowances	1,893	1,631
Inventory	1,978	1,294
Accrued expenses and other	1,411	1,807
Total deferred tax assets	7,130	5,117
Deferred tax liabilities:		
Amortization of intangibles	(2,719)	(1,017)
Total deferred tax liabilities	(2,719)	(1,017)
Net tax effect of temporary differences	\$ 4,411	\$ 4,100

8. COMMITMENTS AND CONTINGENCIES

The Company occupies facilities and uses equipment and vehicles under operating lease agreements requiring annual rental payments approximating the following amounts for the five years subsequent to December 31, 2003:

(In thousands)	
2004	\$ 7,792
2005	5,087
2006	2,860
2007	1,572
2008	586
Thereafter	458
	<u>\$ 18,355</u>

Rent expense charged to operations, including short-term leases, totaled approximately \$8,500,000, \$8,600,000, and \$8,500,000, for the years ended December 31, 2003, 2002, and 2001, respectively.

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 the products provided could have a material adverse effect on the Company's operating results. The 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.

In the normal course of business the Company also enters into various guarantees and indemnities in its relationships with suppliers, service providers, customers and others. The Company does not believe these guarantees and indemnifications will have a material impact on the Company's financial condition or results of operations, although indemnification associated with the Company's actions generally have no dollar limitations.

9. NET INCOME PER SHARE

In 1997, the Company adopted the provisions of Statement of Financial Accounting Standard No. 128 (SFAS 128), "Earnings Per Share." SFAS 128 requires disclosure of basic and diluted earnings per share. Basic earnings per share is computed by dividing net income by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed based upon the weighted average number of common shares outstanding, adjusted for the effect of dilutive stock options. All net income per share amounts reported herein are in accordance with the provisions of this Statement.

The following table sets forth the computation of basic and diluted net income per share:

	Year Ended December 31, 2003	Year Ended December 31, 2002	Year Ended December 31, 2001
<small>(In thousands, except per share data)</small>			
Numerator:			
Net income	\$ 11,852	\$ 12,897	\$ 6,208
Denominator:			
Basic-weighted average shares	7,748	7,742	7,638
Effect of dilutive stock options	72	114	10
Diluted-weighted average shares	7,820	7,856	7,648
Net income per share:			
Basic	\$ 1.53	\$ 1.66	\$ 0.81
Diluted	\$ 1.52	\$ 1.64	\$ 0.81

For all years presented, antidilutive stock options were excluded in the determination of dilutive earnings per share.