

FINISHMASTER, INC.

**Financial Statements
with Report of Independent Auditors**

**At December 31, 2005 and 2004
and for each of the
Three Years in the Period Ended December 31, 2005**

FINISHMASTER, INC.

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REPORT OF INDEPENDENT AUDITORS

Board of Directors and Shareholders
FinishMaster, Inc.

We have audited the accompanying consolidated balance sheets of FinishMaster, Inc. as of December 31, 2005 and 2004, and the related consolidated statements of income, shareholders' equity, and cash flows for the years then ended. 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. The financial statements of FinishMaster, Inc. for the year ended December 31, 2003 were audited by other auditors whose report dated February 27, 2004, expressed an unqualified opinion on those statements.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. We were not engaged to perform an audit of the Company's internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of FinishMaster, Inc. at December 31, 2005 and 2004, and the consolidated results of their operations and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

Ernst & Young LLP

Indianapolis, Indiana
February 17, 2006

CONSOLIDATED BALANCE SHEETS

FinishMaster, Inc.

(In thousands, except share amounts)

ASSETS

Current assets

Cash	\$ 3,821	\$ 2,482
Accounts receivable, net of allowance for doubtful accounts of \$1,468 and \$1,319, respectively	38,353	33,020
Inventories	57,281	60,200
Deferred income taxes	4,542	4,156
Prepaid expenses and other current assets	8,773	7,574
Total current assets	112,770	107,432

Property and equipment

Land	368	368
Vehicles	2,335	2,203
Buildings and improvements	9,672	7,492
Machinery, equipment and fixtures	19,335	17,704
	31,710	27,767
Accumulated depreciation	(22,911)	(21,264)
	8,799	6,503

Other assets

Intangible assets, net	5,430	5,907
Goodwill, net	96,548	96,548
Other	8,225	5,443

	110,203	107,898
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	\$ 231,772	\$ 221,833
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LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities

Accounts payable	\$ 37,204	\$ 34,210
Amounts due to LDI	1,028	1,075
Accrued compensation and benefits	9,079	7,840
Other accrued expenses and current liabilities	2,824	2,429
Current maturities of long-term debt	2,039	12,652
Total current liabilities	52,174	58,206

Long-term debt, less current maturities

	52,536	54,462
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Other long-term liabilities

	9,124	7,389
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Commitments and contingencies

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; 7,773,013 and 7,701,752 shares issued and outstanding	7,773	7,702
Additional paid-in capital	28,377	28,141
Accumulated comprehensive loss	(19)	(227)
Retained earnings	81,807	66,160

	117,938	101,776
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	\$ 231,772	\$ 221,833
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See accompanying notes.

CONSOLIDATED STATEMENTS OF INCOME

FinishMaster, Inc.

(In thousands, except per share data)

	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Net sales	\$ 423,803	\$ 385,243	\$ 346,232
Cost of sales	296,632	269,875	239,099
Gross margin	127,171	115,368	107,133
Expenses			
Operating	41,964	39,319	36,279
Selling, general and administrative	51,768	46,791	42,916
Amortization of intangible assets	1,573	1,556	1,316
	95,305	87,666	80,511
Income from operations	31,866	27,702	26,622
Interest expense	5,385	5,961	6,486
Income before income taxes	26,481	21,741	20,136
Income tax expense	10,834	8,437	8,284
Net income	\$ 15,647	\$ 13,304	\$ 11,852
Net income per share			
Basic	\$ 2.02	\$ 1.73	\$ 1.53
Diluted	\$ 2.01	\$ 1.71	\$ 1.52
Weighted average shares outstanding			
Basic	7,758	7,701	7,748
Diluted	7,795	7,759	7,820

See accompanying notes.

CONSOLIDATED STATEMENTS OF CASH FLOWS

FinishMaster, Inc.

(In thousands)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Operating activities			
Net income	\$ 15,647	\$ 13,304	\$ 11,852
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	7,777	6,114	5,637
Deferred income taxes	1,253	3,647	(655)
Issuance of stock grants	25	25	20
Loss on disposal of property and equipment	4	9	24
Write-off of debt issuance costs	85	-	-
Changes in operating assets and liabilities (excluding the impact of acquisitions):			
Accounts receivable, net	(4,796)	(2,261)	275
Inventories	4,359	10,449	(9,799)
Prepaid and other assets	(8,112)	(7,978)	(3,695)
Accounts payable and other liabilities	4,303	(7,299)	25,663
Net cash provided by operating activities	20,545	16,010	29,322
Investing activities			
Business acquisitions	(3,000)	(1,986)	(7,298)
Purchases of property and equipment	(3,753)	(3,205)	(1,002)
Proceeds from disposal of property and equipment	-	-	114
Net cash used by investing activities	(6,753)	(5,191)	(8,186)
Financing activities			
Proceeds from exercise of stock options	907	-	84
Repurchases of stock	(771)	-	(948)
Change in cash overdrafts	148	(3,501)	2,004
Payment of debt issuance costs	(198)	-	-
Proceeds from debt	96,384	100,513	81,865
Repayment of debt	(108,923)	(107,371)	(104,189)
Net cash used by financing activities	(12,453)	(10,359)	(21,184)
Increase (decrease) in cash	1,339	460	(48)
Cash at beginning of year	2,482	2,022	2,070
Cash at end of year	\$ 3,821	\$ 2,482	\$ 2,022
Supplemental disclosure of cash flow information			
Cash paid during the period for:			
Interest	\$ 5,151	\$ 5,726	\$ 5,699
Taxes	\$ 7,918	\$ 7,143	\$ 7,031

See accompanying notes.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

FinishMaster, Inc.

(In thousands)	Common Stock	Additional Paid-in Capital	Accumulated Comprehensive Loss	Retained Earnings	Totals
Balances at December 31, 2002	\$ 7,783	\$ 28,879	\$ (1,286)	\$ 41,004	\$ 76,380
Comprehensive income:					
Net income	-	-	-	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	(99)	(849)			(948)
Stock grants issued and options exercised	15	89	-	-	104
Balances at December 31, 2003	7,699	28,119	(776)	52,856	87,898
Comprehensive income:					
Net income	-	-	-	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	(227)	66,160	101,776
Comprehensive income:					
Net income	-	-	-	15,647	15,647
Other comprehensive income:					
Interest rate swap, net of tax of \$142	-	-	208	-	208
Total comprehensive income					15,855
Repurchases of stock, at cost	(58)	(713)			(771)
Stock grants issued and options exercised	129	949	-	-	1,078
Balances at December 31, 2005	\$ 7,773	\$ 28,377	\$ (19)	\$ 81,807	\$ 117,938

See accompanying notes.

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, 2005, the Company operated 170 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 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 a wholly-owned subsidiary of LDI Ltd., LLC (“LDI”), an Indiana limited liability corporation, owned 5,878,561 and 5,878,561 shares of the Company’s common stock, representing 75.6% and 76.3% of the outstanding shares at December 31, 2005 and 2004, 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 \$3,293,000, \$3,682,000, and \$4,260,000 for the years ended December 31, 2005, 2004, and 2003, respectively. In addition, the Company leases from LDI its corporate office space. Lease expense and payments for repairs and maintenance to LDI totaled approximately \$265,000, \$259,000, and \$236,000 for the years ended December 31, 2005, 2004, and 2003, 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: At December 31, 2005 and 2004, checks drawn on future deposits and borrowings of \$2,820,000 and \$2,672,000, 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, 2005 and 2004. 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.

Consigned Inventories: Inventories consigned with customers are stated at net realizable value and consist primarily of purchased paint and refinishing supplies. Consigned inventory is classified within inventories in the accompanying consolidated balance sheets and amounted to \$5,235,000 and \$5,988,000, net of reserves, at December 31, 2005 and 2004, respectively.

Consigned Equipment: Equipment consigned with customers is stated at cost and is depreciated over a four-year period with no residual value. Consigned equipment is classified within other long-term assets in the accompanying consolidated balance sheets and amounted to \$322,000 and \$562,000, net of accumulated depreciation and reserves, at December 31, 2005 and 2004, 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 2005, 2004, and 2003 was \$1,740,000, \$2,031,000, and \$2,365,000, respectively.

Impairment of Long-Lived Assets: 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 makes cash payments 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 over the period in which these customers earn rebates on their cumulative levels of purchases. The amortization is reflected as a reduction of revenue in accordance with EITF Issue No. 01-09, "Accounting for Consideration Given by a Vendor to a Customer or a Reseller of the Vendor's Products." Amounts reflected as a reduction of revenue in 2005, 2004, and 2003 were \$5,199,000, \$2,213,000, and \$1,325,000, respectively. The current portion of deferred charges is classified within prepaid expenses and other current assets in the accompanying consolidated balance sheets and amounted to \$4,784,000 and \$2,579,000 at December 31, 2005 and 2004, respectively. The non-current portion of deferred charges is classified within other long-term assets and amounted to \$7,548,000 and \$4,559,000 at December 31, 2005 and 2004, 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 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 to reflect changes in these estimates.

The Company also 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 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 \$23,242,000, \$21,106,000, and \$18,270,000 in 2005, 2004, and 2003, 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 not 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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
(In thousands, except per share data)			
Net income			
As reported	\$ 15,647	\$ 13,304	\$ 11,852
Deduct: Total stock-based employee compensation expense determined under fair value based method for all awards, net of related tax effect	-	(65)	(90)
Pro forma	\$ 15,647	\$ 13,239	\$ 11,762
Net income per share			
As reported, Basic	\$ 2.02	\$ 1.73	\$ 1.53
As reported, Diluted	\$ 2.01	\$ 1.71	\$ 1.52
Pro forma, Basic	\$ 2.02	\$ 1.72	\$ 1.52
Pro forma, Diluted	\$ 2.01	\$ 1.71	\$ 1.50

There were no stock options granted during 2005. 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, 2004 and 2003, respectively: risk free interest rate of 4.15% and 4.00%; no dividend yield; expected option lives of nine years; and stock price volatility of 68.71% and 36.31%.

The weighted-average fair value of options granted during the years ended December 31, 2004 and 2003 was \$6.91 and \$5.32 per option, respectively, where the exercise price of the options equaled the market price on the date of grant.

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.

New Accounting Pronouncements: In December 2004, the Financial Accounting Standards Board issued revised Statement No. 123(R), "Share-Based Payment." This Statement establishes accounting and reporting standards for various types of equity-based awards (stock grants, options, etc.). This Statement generally requires recognition over the required service period of expense related to equity-based awards determined by measurement of fair values and is effective for the Company's financial statements beginning in 2006. The Company is currently studying the future effects of adopting this Statement. At this time, adoption of Statement No. 123(R) is not expected to have a significant effect on the Company's results of operations, financial position or cash flows.

Reclassifications: Certain amounts in the 2004 and 2003 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 date of acquisition. Intangible assets such as exclusive fulfillment contracts, agreements not to compete, and customer lists are 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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Accounts receivable	\$ 537	\$ 430	\$ 581
Inventory	1,440	939	4,346
Equipment and other	373	257	304
Intangible assets	1,230	560	3,125
	3,580	2,186	8,356
Less liabilities assumed	580	-	1,058
Net assets of businesses acquired	3,000	2,186	7,298
Debt issued for acquisitions	1,374	219	5,044
Net assets of businesses acquired, net of debt issued for acquisitions	\$ 1,626	\$ 1,967	\$ 2,254
Number of acquisitions	5	2	3

Intangible assets recorded as a result of these acquisitions are as follows:

(In thousands)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Exclusive fulfillment contract	\$ -	\$ -	\$ 1,601
Agreements not to compete	313	130	384
Customer lists	917	430	1,140
Total purchased intangible assets	\$ 1,230	\$ 560	\$ 3,125

During 2005, the Company completed five acquisitions: Vallet Paint Service Company, Inc. with two locations in Ohio; California Car Color, LLC with four locations in California; the Las Vegas, Nevada automotive paint operations of Single Source, Inc.; the Sheboygan, Wisconsin automotive paint operations of Fasse Paint Company, Inc.; and the Muskegon, Michigan automotive paint operations of American Auto Color, Inc. 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 Richmond, Virginia. These acquisitions were funded with cash and debt.

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 geographic locations. These acquisitions were funded with cash and debt.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

The Company follows the provisions of Statement of Financial Accounting Standards No. 142 (SFAS 142), "Goodwill and Other Intangible Assets," which requires that goodwill and indefinite lived assets be tested for impairment at the reporting unit level at least annually. 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 annual impairment test as of June 30, 2005 and determined the fair value of goodwill and indefinite lived intangible assets to be in excess of the carrying value of these assets.

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, 2005			
Customer lists	\$ 6,865	\$ 3,638	\$ 3,227
Exclusive fulfillment contract	1,601	360	1,241
Agreements not to compete	1,486	771	715
Debt issue costs	559	312	247
Total	<u>\$ 10,511</u>	<u>\$ 5,081</u>	<u>\$ 5,430</u>

(In thousands)

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of December 31, 2004			
Customer lists	\$ 5,949	\$ 2,546	\$ 3,403
Exclusive fulfillment contract	1,601	200	1,401
Agreements not to compete	13,244	12,521	723
Debt issue costs	1,328	948	380
Total	<u>\$ 22,122</u>	<u>\$ 16,215</u>	<u>\$ 5,907</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 2005, 2004, and 2003 was \$1,573,000, \$1,556,000, and \$1,316,000, respectively. Estimated amortization expense for each of the five succeeding fiscal years based on intangible assets as of December 31, 2005 is expected to be as follows:

(In thousands)

2006	\$	1,663
2007		1,440
2008		789
2009		609
2010		403

Debt issuance cost amortization expense is included in interest expense and was \$333,000, \$248,000, and \$248,000 in 2005, 2004, and 2003, respectively.

4. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands)	December 31, 2005	December 31, 2004
Revolving credit facility	\$ 28,730	\$ 22,260
Term credit facility	-	17,000
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	4,280	5,667
Other long-term financing at various rates, due at various dates through 2010	1,715	2,337
	54,575	67,114
Less current maturities	2,039	12,652
	<u>\$ 52,536</u>	<u>\$ 54,462</u>

Revolving Credit Facility: On December 20, 2005, the Company entered into an \$80 million senior secured revolving credit facility with a syndicate of banks. This facility replaced the Company's \$100 million senior secured credit facility which consisted of a \$40 million term credit facility and a \$60 million revolving credit facility. The new revolving credit facility matures on December 20, 2010. 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, 2005 and 2004 was 0.875% over LIBOR or Prime minus 0.25% in the case of Floating Rate Advances and 2.00% over LIBOR or Prime in the case of Floating Rate Advances, respectively. Interest rates and payment dates are variable based upon interest rates and term options selected by management. Interest rates at December 31, 2005 and 2004 on outstanding revolving credit borrowings varied from 4.85% to 7.25% and 3.09% to 5.25%, respectively. The Company is charged an annual administrative fee of \$25,000, and an annual commitment fee, payable quarterly, that ranges between 0.15% and 0.25% of the unused portion of the revolving line of credit. At December 31, 2005 and 2004, the Company had \$51.3 million and \$33.6 million, respectively, of available borrowings under its revolving credit facility.

Term Credit Facility: The term credit facility, which was replaced on December 20, 2005 with the above revolving credit facility, required quarterly principal payments that began on June 30, 2001. Quarterly principal payments in 2005 and 2004 were \$2.0 million. 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, 2004 was 2.00% over LIBOR or prime in the case of Floating Rate Advances. Interest rates and payment dates are variable based upon interest rates and term options selected by management. The interest rate at December 31, 2004 was 4.56% on outstanding term borrowings.

To convert floating to fixed rate debt, 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 over the life of the agreements. The agreements expire in June 2006. 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 credit facility. The fair value of the interest rate swap liability at December 31, 2005 and 2004 was \$22,000 and \$372,000, respectively. The change in the fair market value is recorded in the accumulated comprehensive loss section of shareholders' equity, net of tax.

Both Credit Facilities: Substantially all of the Company's personal property serves as collateral for the credit facility. The credit agreement contains various quarterly and annual covenants pertaining to, among other things, achieving a minimum fixed charge coverage ratio, a maximum leverage ratio, and a minimum consolidated net worth level. The covenants also impose limitations on asset divestitures, investments, guarantees, loans, advances and additional indebtedness. Dividends are permitted under certain circumstances. 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, 2005 and 2004, the Company was in compliance with its covenants.

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 on long-term debt for the next five years subsequent to December 31, 2005, are as follows:

(In thousands)

2006	\$	2,039
2007		21,118
2008		1,090
2009		114
2010		29,759

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.

The Company had letters of credit outstanding for a total of \$1,514,000 and \$3,836,000 at December 31, 2005 and 2004, respectively.

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. The Company contributions charged to operations under the Plan were approximately \$916,000, \$766,000, and \$733,000 for the years ended December 31, 2005, 2004, and 2003, respectively. In addition, the Company may make an additional contribution to the Plan, at the discretion of the Board of Directors. No discretionary contributions were made in 2005, 2004, and 2003.

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. All stock options outstanding as of December 31, 2005 became fully vested by December 31, 2004. Stock option activity for the three years ended December 31, 2005 is summarized as follows:

	December 31, 2005		December 31, 2004		December 31, 2003	
	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price	Options	Weighted - Average Exercise Price
Outstanding-beginning of year	276,698	\$ 8.48	355,312	\$ 8.66	477,136	\$ 8.60
Granted	-	\$ -	6,186	\$ 9.22	7,304	\$ 10.41
Exercised	127,568	\$ 7.12	-	\$ -	10,400	\$ 6.72
Cancelled	-	\$ -	31,400	\$ 5.70	67,303	\$ 7.61
Forfeited	7,500	\$ 11.00	53,400	\$ 11.40	51,425	\$ 10.15
Outstanding-end of year	141,630	\$ 9.58	276,698	\$ 8.48	355,312	\$ 8.66
Exercisable-end of year	141,630	\$ 9.58	276,698	\$ 8.48	347,312	\$ 8.59

	Exercise Price Range		
	\$5.34-\$7.76	\$9.22-\$12.15	Total
Options outstanding and exercisable	50,680	90,950	141,630
Weighted average exercise price	\$ 6.83	\$ 11.11	\$ 9.58
Average remaining contractual life	3.4 years	5.9 years	4.6 years

7. INCOME TAXES

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

(In thousands)	Year Ended December 31, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Current:			
Federal	\$ 7,808	\$ 3,951	\$ 7,340
State	1,773	839	1,599
	9,581	4,790	8,939
Deferred:			
Federal	1,076	3,132	(561)
State	177	515	(94)
	1,253	3,647	(655)
	\$ 10,834	\$ 8,437	\$ 8,284

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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
Federal statutory tax rate	34.0%	34.0%	34.0%
State tax provision, net of federal benefit	5.0%	5.6%	5.6%
Other	1.9%	(0.8%)	1.5%
Effective tax rate	<u>40.9%</u>	<u>38.8%</u>	<u>41.1%</u>

The significant components of the Company's deferred tax assets and liabilities as of December 31, 2005 and 2004 are as follows:

(In thousands)	December 31, 2004	December 31, 2004
Deferred tax assets:		
Depreciation	\$ 276	\$ 279
Allowances	1,737	1,356
Inventory	2,145	2,310
Accrued expenses and other	667	636
Total deferred tax assets	<u>4,825</u>	<u>4,581</u>
Deferred tax liabilities:		
Amortization of intangibles	(5,824)	(4,186)
Total deferred tax liabilities	<u>(5,824)</u>	<u>(4,186)</u>
Net tax effect of temporary differences	<u>\$ (999)</u>	<u>\$ 395</u>

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, 2005:

(In thousands)	
2006	\$ 8,364
2007	6,708
2008	4,715
2009	3,073
2010	1,278
Thereafter	894
	<u>\$ 25,032</u>

Rent expense charged to operations, including short-term leases, totaled approximately \$9,200,000, \$8,800,000, and \$8,500,000 for the years ended December 31, 2005, 2004, and 2003, 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 two superfund site investigations in Florida. 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.

9. NET INCOME PER SHARE

The Company follows the provisions of Statement of Financial Accounting Standards 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, 2005	Year Ended December 31, 2004	Year Ended December 31, 2003
<small>(In thousands, except per share data)</small>			
Numerator:			
Net income	\$ 15,647	\$ 13,304	\$ 11,852
Denominator:			
Basic-weighted average shares	7,758	7,701	7,748
Effect of dilutive stock options	37	58	72
Diluted-weighted average shares	7,795	7,759	7,820
Net income per share:			
Basic	\$ 2.02	\$ 1.73	\$ 1.53
Diluted	\$ 2.01	\$ 1.71	\$ 1.52

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