

FINISHMASTER, INC.

Financial Statements

At June 30, 2008 and 2007

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	June 30, 2008	December 31, 2007 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets		
Cash and cash equivalents	\$ 4,916	\$ 4,230
Accounts receivable, net of allowance for doubtful accounts and customer discounts of \$3,757 and \$3,526, respectively	47,411	40,103
Inventory	94,405	86,665
Deferred income taxes	5,937	5,976
Investments in customers, current portion	7,620	8,068
Prepaid expenses and other current assets	4,363	4,067
Total current assets	164,652	149,109
Property and equipment, net	11,268	10,599
Other assets		
Intangible assets, net	21,743	23,257
Goodwill, net	96,548	96,548
Investments in customers, net of current portion	17,116	15,512
Other	396	388
	135,803	135,705
	\$ 311,723	\$ 295,413
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 63,598	\$ 51,186
Amounts due to LDI	1,206	435
Accrued compensation and benefits	8,750	7,522
Other accrued expenses and current liabilities	6,247	3,859
Current maturities of long-term debt	2,619	4,390
Total current liabilities	82,420	67,392
Long-term debt, less current maturities	79,438	90,271
Deferred income taxes	6,952	7,116
Other long-term liabilities	6,054	5,346
Commitments and contingencies	-	-
Shareholders' 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; 7,877,361 and 7,874,647 shares issued and outstanding	7,877	7,875
Additional paid-in capital	29,974	29,940
Accumulated comprehensive loss	(447)	(348)
Retained earnings	99,455	87,821
	136,859	125,288
	\$ 311,723	\$ 295,413

⁽¹⁾ The year-end condensed balance sheet data was derived from audited financial statements, but does not include all disclosures required by generally accepted accounting principles.

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)
(unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Net sales	\$ 128,891	\$ 118,708	\$ 254,833	\$ 231,358
Cost of sales	87,590	83,730	176,051	163,431
Gross margin	41,301	34,978	78,782	67,927
Expenses				
Operating	13,173	11,383	25,793	22,635
Selling, general and administrative	16,894	14,642	33,933	29,588
Amortization of intangible assets	1,257	601	2,497	1,009
	<u>31,324</u>	<u>26,626</u>	<u>62,223</u>	<u>53,232</u>
Income from operations	9,977	8,352	16,559	14,695
Interest expense	1,016	622	2,131	1,619
Other income	-	-	5,224	-
Income before income taxes	8,961	7,730	19,652	13,076
Income tax expense	3,674	3,137	8,018	5,280
Net income	<u>\$ 5,287</u>	<u>\$ 4,593</u>	<u>\$ 11,634</u>	<u>\$ 7,796</u>
Net income per share				
Basic	<u>\$ 0.67</u>	<u>\$ 0.59</u>	<u>\$ 1.48</u>	<u>\$ 1.00</u>
Diluted	<u>\$ 0.67</u>	<u>\$ 0.59</u>	<u>\$ 1.47</u>	<u>\$ 1.00</u>
Weighted average shares outstanding				
Basic	<u>7,876</u>	<u>7,774</u>	<u>7,875</u>	<u>7,774</u>
Diluted	<u>7,888</u>	<u>7,831</u>	<u>7,888</u>	<u>7,831</u>

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Operating activities				
Net income	\$ 5,287	\$ 4,593	\$ 11,634	\$ 7,796
Adjustments to reconcile net income to net cash provided (used) by operating activities:				
Depreciation and amortization	3,133	2,760	7,093	6,631
Deferred income taxes	161	495	(58)	(2,627)
Issuance of stock grants	15	15	15	15
Loss on disposal of property and equipment	115	-	115	24
Changes in operating assets and liabilities (excluding the impact of acquisitions):				
Accounts receivable, net	104	(1,791)	(7,033)	(5,369)
Inventories	(17,209)	(8,392)	(7,212)	(4)
Prepaid expenses and other assets	(881)	(1,417)	(323)	7,039
Investments in customers	(2,847)	(2,782)	(4,468)	(3,393)
Accounts payable and other liabilities	18,327	750	14,808	6,195
Net cash provided (used) by operating activities	6,205	(5,769)	14,571	16,307
Investing activities				
Business acquisitions	(723)	20	(1,389)	(4,010)
Purchases of property and equipment	(621)	(224)	(1,780)	(720)
Net cash used in investing activities	(1,344)	(204)	(3,169)	(4,730)
Financing activities				
Proceeds from exercise of stock options	21	-	21	-
Changes in cash overdrafts	1,856	2,228	2,416	764
Proceeds from debt	12,918	16,167	20,713	45,189
Repayment of debt	(20,129)	(12,346)	(33,866)	(56,692)
Net cash provided (used) in financing activities	(5,334)	6,049	(10,716)	(10,739)
Increase (decrease) in cash	(473)	76	686	838
Cash at beginning of period	5,389	4,547	4,230	3,785
Cash at end of period	\$ 4,916	\$ 4,623	\$ 4,916	\$ 4,623

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

(unaudited)

	Common Stock	Paid-in Capital	Accumulated Comprehensive Loss	Retained Earnings	Totals
Balances at December 31, 2006	\$ 7,774	\$ 28,386	\$ -	\$ 104,269	\$ 140,429
Adjustment to initially apply FIN 48				117	117
Comprehensive income:					
Net income for the year	-	-	-	14,934	14,934
Other comprehensive income:					
Interest rate swap, net of tax benefit of (\$237)	-	-	(348)	-	(348)
Total comprehensive income					\$ 14,586
Dividends paid				(31,499)	(31,499)
Stock grants issued and options exercised	101	1,554	-	-	1,655
Balances at December 31, 2007	\$ 7,875	\$ 29,940	\$ (348)	\$ 87,821	\$ 125,288
Comprehensive income:					
Net income for the quarter	-	-	-	11,634	11,634
Other comprehensive income:					
Interest rate swap, net of tax benefit of \$67	-	-	(99)	-	(99)
Total comprehensive income					\$ 11,535
Stock grants issued and options exercised	2	34	-	-	36
Balances at June 30, 2008	\$ 7,877	\$ 29,974	\$ (447)	\$ 99,455	\$ 136,859

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

FINISHMASTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. SIGNIFICANT ACCOUNTING POLICIES

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 independent distributor of automotive paints, coatings, and paint-related accessories to the automotive collision repair industry. As of June 30, 2008, the Company operates 175 branch locations and three major distribution centers in 39 of the 50 largest metropolitan areas in the United States, and is organized into seven major geographical regions: Deep South, Mid-Atlantic, Midwest, Northeast, South, Southeast and West. The Company aggregates its seven 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 private label, SMART brand, 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 74.6% of the outstanding shares at June 30, 2008. LDI and Distribution are collectively referred to herein 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 \$1,943,000, and \$1,936,000 for the six months ended June 30, 2008 and 2007, respectively. In addition, the Company leases from LDI its corporate office space. Lease expense and payments for repairs and maintenance to LDI totaled approximately \$218,000 and \$172,000 for the six months ended June 30, 2008 and 2007, respectively.

Cash and Cash Equivalents: Cash and cash equivalents include cash and temporary investments with an initial maturity of three months or less. At June 30, 2008, checks drawn on future deposits and borrowings of \$2,416,000 were classified as accounts payable. This amount represents outstanding checks in excess of funds on deposit.

Receivables: Trade accounts receivable represent amounts due from customers. Trade receivables are typically not collateralized. No single customer exceeds 10% of the Company’s receivables at June 30, 2008 and December 31, 2007. 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.

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 the six months ended June 30, 2008 and 2007 was \$1,179,000 and \$975,000, 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.

Investments in Customers: The Company makes cash payments and consigns or invests inventory and equipment 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 to their net realizable value over the purchase commitment period. 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 were \$3,689,000 and \$3,024,000 for the six months ended June 30, 2008 and 2007, 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 \$14,345,000 and \$13,124,000 for the six months ended June 30, 2008 and 2007, respectively.

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.

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.

2. ACQUISITIONS

During 2008, the Company completed two acquisitions: Auto Paint & Supply, Inc. with locations in Leesburg and Ocala, Florida and Cave Auto Body Supply Company, Inc. with locations in Charleston and Summerville, South Carolina. These acquisitions were funded with cash and issuance of notes payable to owners.

During 2007, the Company completed eight acquisitions: Motorways House of Color, LLC with one location in Glen Burnie, Maryland; C/Y South Suburban Body Shop Supplies, Inc. with one location in Orland Park, Illinois; Chuck's Bumper & Glass, Inc. with one location in Greenville, South Carolina; Eline Automotive Finishes with one location in Lester, Pennsylvania; Miller Bumper & Supply, Inc. with one location in Amarillo, Texas; Auto Color Co., Inc. with seventeen locations in Georgia, Alabama, and South Carolina; the Pompano, Florida automotive paint operations of Parts Depot, Inc.; and the Memphis, Tennessee automotive paint operations of Mattos Profinishes. These acquisitions were funded with cash and issuance of notes payable to owners.

3. OTHER INCOME

The Company was one of multiple plaintiffs in litigation that was settled in 2007. The final settlement amount of \$5,224,000 was received and recorded in March 2008 representing the Company's court approved, pro-rata share distribution from the net settlement fund. A partial settlement in the amount of \$6,452,000 was recorded in December 2006 and received in January 2007.

4. LITIGATION

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 a superfund site investigation 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.

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 June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Numerator:				
Net income	\$ 5,287	\$ 4,593	\$ 11,634	\$ 7,796
Denominator:				
Basic-weighted average shares	7,876	7,774	7,875	7,774
Effect of dilutive stock options	12	57	13	57
Diluted-weighted average shares	7,888	7,831	7,888	7,831
Net income per share				
Basic	\$ 0.67	\$ 0.59	\$ 1.48	\$ 1.00
Diluted	\$ 0.67	\$ 0.59	\$ 1.47	\$ 1.00