

FINISHMASTER, INC.

Financial Statements

At September 30, 2006 and 2005

FINISHMASTER, INC.

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FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2006	December 31, 2005 ⁽¹⁾
	(unaudited)	
ASSETS		
Current assets		
Cash	\$ 2,394	\$ 3,821
Accounts receivable, net of allowance for doubtful accounts of \$1,314 and \$1,468, respectively	39,254	38,353
Inventory	61,069	52,045
Deferred income taxes	4,565	4,542
Prepaid expenses and other current assets	11,444	8,773
Total current assets	118,726	107,534
Property and equipment, net	8,885	8,799
Other assets		
Intangible assets, net	4,536	5,430
Goodwill, net	96,548	96,548
Other	13,911	13,461
	114,994	115,439
	\$ 242,606	\$ 231,772
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 33,720	\$ 37,204
Amounts due to LDI	974	1,028
Accrued compensation and benefits	8,783	9,079
Other accrued expenses and current liabilities	3,029	2,824
Current maturities of long-term debt	21,376	2,039
Total current liabilities	67,882	52,174
Long-term debt, less current maturities	31,220	52,536
Other long-term liabilities	10,643	9,124
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; 7,773,651 and 7,773,153 shares issued and outstanding	7,774	7,773
Additional paid-in capital	28,386	28,377
Accumulated comprehensive loss	-	(19)
Retained earnings	96,701	81,807
	132,861	117,938
	\$ 242,606	\$ 231,772

⁽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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Net sales	\$ 114,309	\$ 109,345	\$ 343,111	\$ 319,094
Cost of sales	79,468	76,698	239,872	224,079
Gross margin	34,841	32,647	103,239	95,015
Expenses				
Operating	10,686	10,701	32,793	31,793
Selling, general and administrative	14,159	13,169	41,544	38,052
Amortization of intangible assets	418	404	1,253	1,171
	25,263	24,274	75,590	71,016
Income from operations	9,578	8,373	27,649	23,999
Interest expense, net	1,134	1,306	3,514	4,065
Income before income taxes	8,444	7,067	24,135	19,934
Income tax expense	3,252	2,764	9,241	8,131
Net income	\$ 5,192	\$ 4,303	\$ 14,894	\$ 11,803
Net income per share				
Basic	\$ 0.67	\$ 0.55	\$ 1.92	\$ 1.52
Diluted	\$ 0.66	\$ 0.55	\$ 1.90	\$ 1.52
Weighted average shares outstanding				
Basic	7,774	7,771	7,773	7,753
Diluted	7,829	7,809	7,822	7,790

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)
(unaudited)

	<u>Three Months Ended</u> <u>September 30,</u>		<u>Nine Months Ended</u> <u>September 30,</u>	
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
Operating activities				
Net income	\$ 5,192	\$ 4,303	\$ 14,894	\$ 11,803
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation and amortization	2,250	2,348	6,737	5,611
Deferred income taxes	208	281	897	842
Issuance of stock grants	-	-	10	25
Loss on disposal of property and equipment	-	-	78	4
Changes in operating assets and liabilities (excluding the impact of acquisitions):				
Accounts receivable, net	820	179	(730)	(4,538)
Inventories	(1,230)	2,112	(9,024)	1,378
Prepaid expenses and other assets	(6,482)	(2,744)	(6,808)	(6,131)
Accounts payable and other liabilities	(30)	1,472	(3,258)	9,531
Net cash provided by operating activities	<u>728</u>	<u>7,951</u>	<u>2,796</u>	<u>18,525</u>
Investing activities				
Business acquisitions	(40)	(357)	(871)	(1,220)
Purchases of property and equipment	(549)	(250)	(1,435)	(1,607)
Net cash used in investing activities	<u>(589)</u>	<u>(607)</u>	<u>(2,306)</u>	<u>(2,827)</u>
Financing activities				
Proceeds from exercise of stock options	-	-	-	880
Repurchases of stock	-	-	-	(771)
Changes in cash overdrafts	515	(2,063)	62	68
Proceeds from debt	26,580	17,000	83,204	61,810
Repayment of debt	(28,841)	(21,244)	(85,183)	(74,498)
Net cash used in financing activities	<u>(1,746)</u>	<u>(6,307)</u>	<u>(1,917)</u>	<u>(12,511)</u>
Increase (decrease) in cash	(1,607)	1,037	(1,427)	3,187
Cash at beginning of period	<u>4,001</u>	<u>4,632</u>	<u>3,821</u>	<u>2,482</u>
Cash at end of period	<u>\$ 2,394</u>	<u>\$ 5,669</u>	<u>\$ 2,394</u>	<u>\$ 5,669</u>

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, 2004	\$ 7,702	\$ 28,141	\$ (227)	\$ 66,160	\$ 101,776
Comprehensive income:					
Net income for the year	-	-	-	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	(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
Comprehensive income:					
Net income for the period	-	-	-	14,894	14,894
Other comprehensive income:					
Interest rate swap, net of tax of \$3	-	-	19	-	19
Total comprehensive income					14,913
Stock grants issued	1	9	-	-	10
Balances at September 30, 2006	\$ 7,774	\$ 28,386	\$ -	\$ 96,701	\$ 132,861

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

FINISHMASTER, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. ORGANIZATION

Basis of Presentation: The interim financial statements are unaudited but, in the opinion of management, reflect all adjustments necessary for a fair presentation of financial position, results of operations and cash flows for the periods presented. These adjustments consist of normal recurring items. The results of operations for any interim period are not necessarily indicative of results for the full year.

Nature of Business: FinishMaster, Inc. ("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 September 30, 2006, the Company operated 167 branch locations and three major distribution centers in 28 states, and is organized into six major geographical regions: East, Midwest, Upper Midwest, West, South and Southeast. The Company aggregates its six geographical regions into a single reportable segment. The Company has approximately 13,000 customer credit accounts to which it provides a comprehensive selection of brand name products supplied by BASF, DuPont, PPG and 3M, in addition to its own FinishMaster PrivateBrand refinishing accessory products. The Company is highly dependent on the key suppliers outlined above, which account for approximately 85% of its purchases.

Principles of Consolidation: The Company's consolidated financial statements include the accounts of FinishMaster and its wholly owned subsidiaries from the dates of their respective acquisition. All significant intercompany accounts and transactions have been eliminated. References to the Company or FinishMaster throughout this report relate to the consolidated entity.

Majority Shareholder: Lacy Distribution, Inc. ("Distribution"), an Indiana corporation, which is a wholly owned subsidiary of LDI Ltd., LLC, an Indiana limited liability corporation, owns 5,878,561 shares of common stock, representing 75.6% of the outstanding shares at September 30, 2006. 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 \$2,276,000 and \$2,657,000 for the nine months ended September 30, 2006 and 2005, respectively. In addition, the Company leases from LDI its corporate office space. Lease expense and payments for repairs and maintenance to LDI totaled approximately \$226,000 and \$200,000 for the nine months ended September 30, 2006 and 2005, respectively. The Company also has subordinated debt payable to LDI in the amount of \$19,850,000 as of September 30, 2006 and December 31, 2005.

Cash: At September 30, 2006 and December 31, 2005, checks drawn on future deposits and borrowings of \$2,882,000 and \$2,820,000, respectively, were classified as accounts payable. These amounts represent 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 September 30, 2006 and December 31, 2005. 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 other long-term assets in the accompanying consolidated balance sheets and amounted to \$4,801,000 and \$5,235,000, net of reserves, at September 30, 2006 and December 31, 2005, 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 \$187,000 and \$322,000, net of accumulated depreciation and reserves, at September 30, 2006 and December 31, 2005, 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 the nine months ended September 30, 2006 and 2005 was \$1,310,000 and \$1,291,000, 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 for the nine months ended September 30, 2006 and 2005 were \$4,368,000 and \$3,868,000, 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 \$5,562,000 and \$4,784,000 at September 30, 2006 and December 31, 2005, respectively. The non-current portion of deferred charges is classified within other long-term assets and amounted to \$8,566,000 and \$7,548,000 at September 30, 2006 and December 31, 2005, 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. All of the Company's interest rate swap agreements expired as of June 30, 2006.

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 \$18,718,000 and \$17,001,000 for the nine months ended September 30, 2006 and 2005, 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.

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

2. ACQUISITIONS

During the nine months ended September 30, 2006, the Company completed two acquisitions: the Raleigh, North Carolina automotive paint operations of Barnes Motor & Parts Company, Inc. and the Conway, South Carolina location of Spectrum Auto Paint and Supply, Inc. The acquisitions were funded with cash and debt.

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.

3. 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 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.

4. 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 September 30,		Nine Months Ended September 30,	
	2006	2005	2006	2005
Numerator:				
Net income	\$ 5,192	\$ 3,495	\$ 14,894	\$ 11,803
Denominator:				
Basic-weighted average shares	7,774	7,701	7,773	7,753
Effect of dilutive stock options	55	59	49	37
Diluted-weighted average shares	7,829	7,760	7,822	7,790
Net income per share				
Basic	\$ 0.67	\$ 0.45	\$ 1.92	\$ 1.52
Diluted	\$ 0.66	\$ 0.45	\$ 1.90	\$ 1.52