

FINISHMASTER, INC. AND SUBSIDIARIES

Financial Statements

At September 30, 2005 and 2004

FINISHMASTER, INC.

TABLE OF CONTENTS

Financial Information (unaudited)	PAGE
Condensed Consolidated Balance Sheets	3
Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Condensed Consolidated Statements of Shareholders' Equity	6
Notes to Condensed Consolidated Financial Statements	7

FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands, except per share data)

	September 30, 2005	December 31, 2004 ⁽¹⁾
ASSETS	(unaudited)	
Current assets		
Cash	\$ 5,669	\$ 2,482
Accounts receivable, net of allowance for doubtful accounts of \$1,301 and \$1,319, respectively	38,037	33,020
Inventory	60,116	60,200
Deferred income taxes	4,361	4,156
Prepaid expenses and other current assets	6,443	6,670
Total current assets	114,626	106,528
 Property and equipment, net	 7,085	 6,503
 Other assets		
Intangible assets, net	5,398	5,907
Goodwill, net	96,548	96,548
Other	9,809	6,347
	111,755	108,802
	\$ 233,466	\$ 221,833
 LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	\$ 41,553	\$ 34,210
Amounts due to LDI	922	1,075
Accrued compensation and benefits	8,688	7,840
Other accrued expenses and current liabilities	4,187	2,429
Current maturities of long-term debt	32,278	12,652
Total current liabilities	87,628	58,206
 Long-term debt, less current maturities	 23,306	 54,462
Other long-term liabilities	8,633	7,389
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; 7,770,513 and 7,701,752 shares issued and outstanding	7,771	7,702
Additional paid-in capital	28,206	28,141
Accumulated comprehensive loss	(41)	(227)
Retained earnings	77,963	66,160
	113,899	101,776
	\$ 233,466	\$ 221,833

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

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

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

	<u>Three Months Ended September 30,</u>		<u>Nine Months Ended September 30,</u>	
	<u>2005</u>	<u>2004</u>	<u>2005</u>	<u>2004</u>
Net sales	\$ 109,345	\$ 98,375	\$ 319,094	\$ 290,610
Cost of sales	<u>76,698</u>	<u>69,408</u>	<u>224,079</u>	<u>203,854</u>
Gross margin	32,647	28,967	95,015	86,756
Expenses				
Operating	10,701	9,730	31,793	29,257
Selling, general and administrative	13,169	11,786	38,052	35,144
Amortization of intangible assets	<u>404</u>	<u>387</u>	<u>1,171</u>	<u>1,166</u>
	<u>24,274</u>	<u>21,903</u>	<u>71,016</u>	<u>65,567</u>
Income from operations	8,373	7,064	23,999	21,189
Interest expense, net	<u>1,306</u>	<u>1,306</u>	<u>4,065</u>	<u>4,415</u>
Income before income taxes	7,067	5,758	19,934	16,774
Income tax expense	<u>2,764</u>	<u>2,263</u>	<u>8,131</u>	<u>6,834</u>
Net income	<u>\$ 4,303</u>	<u>\$ 3,495</u>	<u>\$ 11,803</u>	<u>\$ 9,940</u>
Net income per share				
Basic	<u>\$ 0.55</u>	<u>\$ 0.45</u>	<u>\$ 1.52</u>	<u>\$ 1.29</u>
Diluted	<u>\$ 0.55</u>	<u>\$ 0.45</u>	<u>\$ 1.52</u>	<u>\$ 1.28</u>
Weighted average shares outstanding				
Basic	<u>7,771</u>	<u>7,701</u>	<u>7,753</u>	<u>7,701</u>
Diluted	<u>7,809</u>	<u>7,760</u>	<u>7,790</u>	<u>7,757</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)

	Nine Months Ended September 30,	
	2005	2004
Operating activities		
Net income	\$ 11,803	\$ 9,940
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	5,611	4,515
Deferred income taxes	842	2,125
Issuance of stock grants	25	15
Loss on disposal of property and equipment	4	9
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	(4,538)	(3,371)
Inventories	1,378	15,092
Prepaid expenses and other assets	(6,131)	(6,493)
Accounts payable and other liabilities	9,531	(19,524)
Net cash provided by operating activities	18,525	2,308
Investing activities		
Business acquisitions and payments under earn-out provisions of prior acquisition agreements	(1,220)	(1,738)
Purchases of property and equipment	(1,607)	(2,084)
Net cash used in investing activities	(2,827)	(3,822)
Financing activities		
Proceeds from exercise of stock options	880	-
Repurchases of stock	(771)	-
Changes in cash overdrafts	68	2,703
Proceeds from debt	61,810	88,874
Repayment of debt	(74,498)	(84,384)
Net cash provided (used) in financing activities	(12,511)	7,193
Increase in cash	3,187	5,679
Cash at beginning of period	2,482	2,022
Cash at end of period	\$ 5,669	\$ 7,701

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(in thousands)

(unaudited)

(In thousands)	Common Stock	Paid-in Capital	Retained Earnings	Accumulated Comprehensive Loss	Totals
Balances at December 31, 2003	\$ 7,699	\$ 28,119	\$ 52,856	\$ (776)	\$ 87,898
Comprehensive income:					
Net income for the year	-	-	13,304	-	13,304
Other comprehensive income:					
Interest rate swap, net of tax of \$369	-	-	-	549	549
Total comprehensive income					\$ 13,853
Stock grants issued and options exercised	3	22	-	-	25
Balances at December 31, 2004	\$ 7,702	\$ 28,141	\$ 66,160	\$ (227)	\$ 101,776
Comprehensive income:					
Net income through September 30, 2005	-	-	11,803	-	11,803
Other comprehensive income:					
Interest rate swap, net of tax of \$96	-	-	-	186	186
Total comprehensive income					11,989
Repurchases of stock	(58)	(713)	-	-	(771)
Stock grants issued and options exercised	127	778	-	-	905
Balances at September 30, 2005	\$ 7,771	\$ 28,206	\$ 77,963	\$ (41)	\$ 113,899

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 distributor of automotive paints, coatings, and paint-related accessories to the automotive collision repair industry. As of September 30, 2005, the Company operated 171 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 14,000 customer credit accounts to which it provides a comprehensive selection of brand name products supplied by BASF, DuPont, PPG and 3M, in addition to its own FinishMaster PrivateBrand refinishing accessory products. The Company is highly dependent on the key suppliers outlined above, which account for approximately 84% of its purchases.

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

Majority Shareholder: Lacy Distribution, Inc. (“Distribution”), an Indiana corporation, which is a wholly owned subsidiary of LDI Ltd., LLC, an Indiana limited liability corporation, owns 5,878,561 shares of common stock, representing 75.7% of the outstanding shares at September 30, 2005. LDI and Distribution are collectively referred to herein as “LDI.”

Use of Estimates: The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. ACQUISITIONS

During the first nine months of 2005, the Company completed three acquisitions: Vallet Paint Service Company, Inc. with two locations in Ohio, California Car Color, LLC with four locations in California, and the Las Vegas, Nevada operations of Single Source, 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 Virginia. These acquisitions were funded with cash and debt.

3. GOODWILL AND OTHER INTANGIBLE ASSETS

Information regarding intangible assets is as follows:

(In thousands)

	Gross Carrying Amount	Accumulated Amortization	Net Book Value
Balance as of September 30, 2005			
Customer lists	\$ 6,551	\$ 3,347	\$ 3,204
Exclusive fulfillment contract	1,601	320	1,281
Agreements not to compete	13,489	12,771	718
Debt issuance costs	1,328	1,133	195
Total	<u>\$ 22,969</u>	<u>\$ 17,571</u>	<u>\$ 5,398</u>

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

Intangible amortization for the third quarter of 2005 and 2004 was \$0.4 million. Intangible amortization for the nine months ended September 30, 2005 and 2004 was \$1.2 million. Estimated amortization for each of the five succeeding fiscal years based on intangible assets as of December 31, 2004 is expected to be as follows:

(In thousands)

2004	\$ 1,725
2005	1,494
2006	1,186
2007	532
2008	354

Debt issuance cost amortization is included in interest expense, and for the third quarter of 2005 and 2004 was \$0.1 million. Debt issuance cost amortization for the nine months ended September 30, 2005 and 2004 was \$0.3 million.

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 three superfund site investigations, two in Florida and one in Georgia. Management believes that the ultimate liability, if any, in excess of amounts already provided or covered by insurance, is not likely to have a material adverse effect on its financial condition, results of operations or cash flows.

The Company has been named as one of a number of defendants in the automotive refinishing industry in a class action complaint by a group of collision repair centers in California. The plaintiffs claim to represent similar businesses throughout the state of California and allege that paint manufacturers engaged in a horizontal price fixing conspiracy. The plaintiffs further allege that the manufacturers together with paint distributors engaged in a vertical price fixing conspiracy. Specifically, the plaintiffs allege that manufacturers and distributors agreed not to extend their most favorable pricing terms to the collision repair centers. The court has stayed the vertical pricing fixing component of the class action pending resolution of the horizontal price fixing allegations. Consequently there are no pending deadlines or trial dates with respect to the Company. The Company believes that the class action is without merit and it intends to vigorously defend its position. At this time the amount of damages has not been specified.

5. NET INCOME PER SHARE

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

(in thousands, except per share data)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2005	2004	2005	2004
Numerator:				
Net income	\$ 4,303	\$ 3,495	\$ 11,803	\$ 9,940
Denominator:				
Basic-weighted average shares	7,771	7,701	7,753	7,701
Effect of dilutive stock options	38	59	37	56
Diluted-weighted average shares	7,809	7,760	7,790	7,757
Net income per share				
Basic	\$ 0.55	\$ 0.45	\$ 1.52	\$ 1.29
Diluted	\$ 0.55	\$ 0.45	\$ 1.52	\$ 1.28