

Edgar Filing: FINISHMASTER INC - Form 10-Q

FINISHMASTER INC
Form 10-Q
August 14, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES
EXCHANGE ACT OF 1934

For The Quarter Ended June 30, 2001

Commission File Number 0-23222

FINISHMASTER, INC.
(Exact Name of Registrant as Specified in its Charter)

Indiana
(State or other Jurisdiction of
Incorporation or Organization)

38-2252096
(I.R.S. Employer
Identification Number)

54 Monument Circle, Suite 600, Indianapolis, IN
(Address of principal executive offices)

46204
(Zip Code)

Registrant's Telephone Number, including area code: (317) 237-3678

Indicate by check mark whether the registrant (1) has filed all annual, quarterly and other reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding twelve months and (2) has been subject to the filing requirements for at least the past 90 days.

Yes X No
----- -----

On July 1, 2001, there were 7,637,559 shares of the Registrant's common stock outstanding.

FINISHMASTER, INC.
FORM 10-Q
For the Quarter Ended June 30, 2001

TABLE OF CONTENTS

	PAGE
Part I. Financial Information	3
Item 1. Financial Statements (unaudited)	
Condensed Consolidated Balance Sheets	3

Edgar Filing: FINISHMASTER INC - Form 10-Q

Condensed Consolidated Statements of Operations	4
Condensed Consolidated Statements of Cash Flows	5
Notes to Condensed Consolidated Financial Statements	6
Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations	9
Part II. Other Information	14
Item 6. Exhibits and Reports on Form 8-K	14
Signatures	15

PART I. FINANCIAL INFORMATION

FINISHMASTER, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS (in thousands, except share data)

	June 30, 2001
	(unaudited)
ASSETS	
Current Assets	
Cash	\$ 2,180
Accounts receivable, net of allowance for doubtful accounts of \$1,356 and \$1,337, respectively	31,638
Inventory	50,527
Refundable income taxes	-
Prepaid expenses and other current assets	6,644
Total Current Assets	90,989
Property and Equipment, net	8,720
Other Assets	
Intangible assets, net	104,539
Other	2,497
	107,036

Edgar Filing: FINISHMASTER INC - Form 10-Q

	\$ 206,745
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current Liabilities	
Accounts payable	\$ 45,438
Amounts due LDI	730
Accrued compensation and benefits	6,936
Accrued expenses and other current liabilities	2,534
Current maturities on long-term debt	6,380

Total Current Liabilities	62,018
Long-Term Debt, less current maturities	80,755
Other Long-Term Liabilities	3,850
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; 7,637,559 and 7,540,804 shares issued and outstanding	7,638
Additional paid-in capital	27,936
Other comprehensive income (loss)	(172)
Retained earnings	24,720

	60,122

	\$ 206,745
	=====

(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,		
	2001	2000	
Net Sales	\$ 86,241	\$ 87,343	\$
Cost of Sales	54,581	55,984	

Edgar Filing: FINISHMASTER INC - Form 10-Q

Gross Margin	31,660	31,359	
	-----	-----	-----
Expenses			
Operating	13,312	13,325	
Selling, general and administrative	11,041	11,033	
Amortization of intangible assets	1,396	1,544	
	-----	-----	-----
	25,749	25,902	
	-----	-----	-----
Income from Operations	5,911	5,457	
Interest Expense, net	1,975	3,050	
	-----	-----	-----
Income Before Income Taxes and Extraordinary Loss	3,936	2,407	
Income Tax Expense	1,954	1,346	
	-----	-----	-----
Net Income Before Extraordinary Loss	1,982	1,061	
Extraordinary Loss on Early Extinguishments of Debt, net of income tax benefit of \$324	-	-	
	-----	-----	-----
Net Income	\$ 1,982	\$ 1,061	\$
	=====	=====	=====
Net Income per Share - Basic and Diluted			
Net Income before Extraordinary loss	\$ 0.26	\$ 0.14	\$
Extraordinary loss, net of income taxes	-	-	
	-----	-----	-----
Net Income	\$ 0.26	\$ 0.14	\$
	=====	=====	=====
Weighted Average Shares Outstanding - Basic	7,603	7,539	
	=====	=====	=====
Weighted Average Shares Outstanding - Diluted	7,651	7,544	
	=====	=====	=====

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

FINISHMASTER, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands, unaudited)

Edgar Filing: FINISHMASTER INC - Form 10-Q

	Six Months E June 30,
	----- 2001 -----
Operating Activities	
Net income	\$ 2,821
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation and amortization	5,895
Changes in operating assets and liabilities: (excluding the impact of acquisitions):	
Accounts receivable	(1,233)
Inventories	15,183
Prepaid expenses and other current assets	2,312
Accounts payable and accrued expenses	(1,276)
Net Cash Provided by Operating Activities	----- 23,702 -----
Investing Activities	
Business acquisitions and payments under earn-out provisions of prior acquisition agreements	(4,447)
Purchases of property and equipment	(446)
Other	-
Net Cash Used In Investing Activities	----- (4,893) -----
Financing Activities	
Debt issuance costs	(1,322)
Proceeds from debt	116,575
Repayments of debt	(133,395)
Net Cash Used in Financing Activities	----- (18,142) -----
Increase in Cash	667
Cash at Beginning of Period	1,513
Cash at End of Period	----- \$ 2,180 =====

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

Edgar Filing: FINISHMASTER INC - Form 10-Q

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. The condensed consolidated financial statements and notes are presented as permitted by the requirements for Form 10-Q and do not contain certain information included in the Company's annual consolidated financial statements and notes. This Form 10-Q should be read in conjunction with the Company's consolidated financial statements and notes included in its 2000 Annual Report on Form 10-K.

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 June 30, 2001, the Company operated 159 sales outlets and three major distribution centers in 23 states and is organized into two major geographical divisions - East and West. The Company aggregates its two geographic divisions into a single reportable segment. The Company has over 35,000 customers to which it provides a comprehensive selection of brand name products supplied by BASF, DuPont, 3M and PPG, in addition to its own FinishMaster Private Brand 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 inter-company 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, is a wholly-owned subsidiary of LDI, Ltd. ("LDI"), an Indiana limited partnership, and is the majority shareholder of the Company with 5,587,516 shares of common stock, representing 73.2% of the outstanding shares at June 30, 2001. 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.

Derivative Instruments and Hedging Activities: The Company utilizes derivative financial instruments, principally 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 are recorded each period in the Other Comprehensive Income (Loss) section of Shareholders' Equity.

Shipping and Handling Fees and Costs: The Company includes the cost of delivering the product to the customer in the Operating Expense section of the Consolidated Statements of Operations. Total delivery costs primarily include wages, benefits, vehicle costs, and freight. The total delivery costs incurred for the six months ended June 31, 2001 and 2000, are estimated at \$8.8 million and \$8.9 million, respectively.

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

Edgar Filing: FINISHMASTER INC - Form 10-Q

2. ACQUISITIONS

On May 7, 2001, the Company acquired the assets of Badger Paint Plus, Inc., a Wisconsin corporation, Badger Paint Plus of the Twin Cities, Inc., Badger Paint Plus of Duluth, Inc., Badger Paint Plus of St. Cloud, Inc., Lakeland Sales, Inc., each a Minnesota corporation, and Badger Paint Plus of Chicago, Inc., an Illinois corporation (collectively "Badger"). Badger, like FinishMaster, was an aftermarket distributor of automotive paints, coatings, and paint-related accessories. The purchase price, including related acquisition costs, was \$7.2 million and includes the issuance of 93,999 shares of common stock of the Company. The acquisition has been accounted for as a purchase and accordingly, the acquired assets and liabilities have been recorded at their estimated fair values on the date of the acquisition. Goodwill associated with the acquisition is being amortized over 15 years. Operating results of Badger have been included in the Company's consolidated financial statements from the effective date of the acquisition.

3. 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,		Si
	2001	2000	2
Numerator:			
Net income	\$ 1,982	\$ 1,061	\$
Denominator:			
Basic-weighted average shares	7,603	7,539	
Effect of dilutive stock options	48	5	
Diluted-weighted average shares	7,651	7,544	
Basic net income per share	\$ 0.26	\$ 0.14	\$
Diluted net income per share	\$ 0.26	\$ 0.14	\$

4. COMMITMENTS AND CONTINGENCIES

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 the 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 terms, and other incentive

Edgar Filing: FINISHMASTER INC - Form 10-Q

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. 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 the Company's financial condition, results of operations or cash flows.

5. LONG-TERM DEBT

On March 29, 2001, the Company entered into a new \$100.0 million senior secured credit facility with a syndicate of banks and a new \$20.0 million senior subordinated term credit facility with LDI. The new senior secured credit facility consists of a \$40.0 million term credit facility and a \$60.0 million revolving credit facility. The term credit facility, which expires on June 30, 2006, requires quarterly principal payments that increase in amount over the term of the loan. Quarterly principal payments begin on June 30, 2001, and are \$1.0 million per quarter in 2001. The revolving credit facility is limited to the lesser of (1) \$60.0 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. Both the revolving credit and term facilities are subject to interest rates, which fluctuate based on the Company's Leverage Ratio, as defined in the Credit Facility, which range from 1.75% to 2.75% over LIBOR or 0.00% to 0.75% over prime. For a period of six months after the close of the transaction, the interest rate is fixed at LIBOR plus 3.00%.

To convert the Company's new senior term credit facility from a floating to a fixed interest rate obligation, the Company entered into interest rate swap agreements with notional amounts of \$40.0 million. The weighted average fixed interest rate under these agreements is 5.43%. The current quarterly period change in the fair value of the interest rate swap was \$0.2 million, which was recorded in the Other Comprehensive Income (Loss) section of Shareholders' Equity.

Concurrent with funding the senior secured credit facility, the Company repaid its \$30.0 million senior subordinated term credit facility and entered into a new \$20.0 million senior subordinated term credit facility with LDI. All outstanding principal is due on March 29, 2007, and interest is payable quarterly at a rate of 12.2% per annum.

6. RECENT ACCOUNTING PRONOUNCEMENT

In July 2001, the Financial Accounting Standards Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ("FAS 141") and No. 142, Goodwill and Other Intangible Assets ("FAS 142"). FAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. The Company is required to adopt FAS 141 for acquisitions made after July 1, 2001. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of FAS 142 apply to goodwill and intangible assets acquired after

Edgar Filing: FINISHMASTER INC - Form 10-Q

June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt FAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of FAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

ITEM 2

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Net Sales

	Three Months Ended June 30,			Six Months En	
(In thousands)	2001	Change	2000	2001	Cha
Net Sales	\$ 86,241	(1.3%)	\$ 87,343	\$ 169,476	(1.

Net sales for the second quarter decreased \$1.1 million, or 1.3%, and for the first half of 2001, \$2.5 million, or 1.5% due primarily to a decline in "same store sales" on a year-to-date basis of approximately 1.5%. The Company experienced soft market conditions throughout most of its distribution network. Factors leading to the softening in demand include slower overall economic conditions; continued productivity improvements in the use of automotive paint by our customers; flat to declining number of automobiles being repaired; and changes in vendor supported marketing programs used to attract and retain customers.

Gross Margin

	Three Months Ended June 30,			Six Months	
(In thousands)	2001	Change	2000	2001	Ch
Gross Margin	\$ 31,660	1.0%	\$ 31,359	\$ 62,013	1
Percentage of net sales	36.7%		35.9%	36.6%	

Gross margin increased \$0.3 million, or 1.0% for the second quarter of 2001 and \$0.7 million, or 1.2% for the first half of 2001 compared to the prior year periods. Strong margin as a percentage of net sales more than offset the negative impact of lower net sales volume. Gross margin as a percentage of net sales increased 80 basis points to 36.7%, positively impacting margin by \$0.7 million for the quarter, and increased 100 basis points to 36.6%, positively impacting margin by \$1.6 million for the first half of 2001. Lower net sales volume negatively impacted margin by \$0.4 million and \$0.9 million for the

Edgar Filing: FINISHMASTER INC - Form 10-Q

quarter and first half of 2001, respectively. The improvement in margin as a percentage of net sales is primarily the result of large inventory purchases made prior to manufacturers' price increases and the implementation of improved inventory management procedures. Margin can be affected by purchasing opportunities presented to the Company by its vendors. The Company's ability to maintain the strong margin realized during the first six months is dependent upon the availability of favorable purchasing programs from its vendors and its ability to recover future vendor price increases from its customers.

Operating Expenses

	Three Months Ended June 30,			Six Months En	
(In thousands)	2001	Change	2000	2001	Cha
Operating Expenses	\$ 13,312	(0.1%)	\$ 13,325	\$ 26,651	(0.
Percentage of net sales	15.4%		15.3%	15.7%	

Operating expenses consist of wages, facility, vehicle and related costs for the Company's branch and distribution locations. Operating expenses decreased slightly for the second quarter and the first half of 2001 as a result of reduced labor, communication and supplies costs. Partially offsetting these items were higher utility, freight, and vehicle expenses due to increased energy costs for gasoline, natural gas and electricity, increased vehicle insurance costs and higher vehicle lease costs.

Selling, General and Administrative Expenses

	Three Months Ended June 30,			Six Months	
(In thousands)	2001	Change	2000	2001	
Selling, General and Administrative Expenses	\$ 11,041	0.1%	\$ 11,033	\$ 21,912	2
Percentage of net sales	12.8%		12.6%	12.9%	

Selling, general and administrative expenses ("SG&A") consist of costs associated with the Company's corporate support staff, and expenses for commissions, wages, and customer sales support activities. SG&A expenses for the second quarter of 2001 remained flat compared to the prior year period. Increased costs associated with attracting and retaining customers, wages and benefits, and vehicle insurance were offset by lower data communication costs and depreciation expense.

SG&A expenses for the first half of 2001 increased \$0.6 million, or 2.6% compared to the prior year period as a result of higher labor and employee

Edgar Filing: FINISHMASTER INC - Form 10-Q

benefit costs, higher bank charges, and increased costs associated with attracting and retaining customers.

Amortization of Intangible Assets

	Three Months Ended June 30,			Six Months En	
(In thousands)	2001	Change	2000	2001	Cha
Amortization of					
Intangible Assets	\$ 1,396	(9.6%)	\$ 1,544	\$ 2,744	(10
Percentage of net sales	1.6%		1.8%	1.6%	

Intangible amortization expense for the second quarter decreased \$0.1 million, or 9.6%, and for the first half of 2001, \$0.3 million, or 10.4%, as a result of certain intangible assets, principally non-compete agreements, becoming fully amortized.

Interest Expense, net

	Three Months Ended June 30,			Six Months En	
(In thousands)	2001	Change	2000	2001	Cha
Interest Expense, net	\$ 1,975	(35.2%)	\$ 3,050	\$ 4,283	(27
Percentage of net sales	2.3%		3.5%	2.5%	

Interest expense for the second quarter decreased \$1.1 million, or 35.2%, and for the first half of 2001, \$1.7 million, or 27.9%, primarily due to lower average outstanding borrowings. Average outstanding borrowings were lower by \$38.4 million and \$32.2 million compared to the prior year for the three and six month periods ended June 30, 2001, respectively. Lower effective interest rates in the current year periods also contributed to the favorable decreases in interest expense.

Income Tax Expense

	Three Months Ended June 30,			Six Months En	
(In thousands)	2001	Change	2000	2001	Cha
Income Tax Expense	\$ 1,954	45.2%	\$ 1,346	\$ 3,107	41

Edgar Filing: FINISHMASTER INC - Form 10-Q

Percentage of net sales	2.3%	1.5%		1.8%
Effective tax rate	49.6%	55.9%		48.4%

Income tax expense increased \$0.6 million, or 45.2%, for the second quarter, and for the first half of 2001, \$0.9 million, or 41.4% due to higher income before income taxes. The effective tax rate varied from the federal statutory rate as a result of certain expenses, principally nondeductible intangible amortization. In 2000, the Company's effective tax rate for the year was 53.2%. A slightly lower effective tax rate is anticipated for 2001.

Net Income and Income Per Share

	Three Months Ended June 30,			Six Months En	
(In thousands)	2001	Change	2000	2001	Cha
Net Income	\$ 1,982	86.8%	\$ 1,061	\$ 2,821	43
Percentage of net sales	2.3%		1.2%	1.7%	
Net income per share	\$ 0.26		\$ 0.14	\$ 0.37	

Factors contributing to the changes in net income and the related per share amounts are discussed above.

Seasonality and Quarterly Fluctuations

The Company's sales and operating results have varied from quarter to quarter due to various factors and the Company expects these fluctuations to continue. Among these factors are seasonal buying patterns of the Company's customers and the timing of acquisitions. Historically, sales have slowed in the late fall and winter of each year largely due to inclement weather and the reduced number of business days during the holiday season. In addition, the timing of acquisitions may cause substantial fluctuations of operating results from quarter to quarter. The Company takes advantage of periodic special incentive programs available from its suppliers that extend the due date of inventory purchases beyond terms normally available with large volume purchases. The timing of these programs can contribute to fluctuations in the Company's quarterly cash flows. There can be no assurance that the Company's net sales, results of operations and cash flows will not continue to display seasonal patterns.

Financial Condition, Liquidity and Capital Resources

(In thousands)	June 30, 2001	December 31, 2000
Working capital	\$ 28,971	\$ 35,209
Long-term debt	\$ 80,755	\$ 90,652

Edgar Filing: FINISHMASTER INC - Form 10-Q

Six Months Ended June 30,

(In thousands)	2001	2000
Cash provided by operating activities	\$ 23,702	\$ 5,952
Cash used in investing activities	\$ (4,893)	\$ (2,406)
Cash used in financing activities	\$ (18,142)	\$ (3,233)

The Company's primary sources of funds are from operations and borrowings under its credit facilities. The Company's principal uses of cash are to fund working capital, capital expenditures, acquisitions, and the repayment of outstanding borrowings.

Net cash generated from operating activities was \$23.7 million in the first six months of 2001 compared with \$6.0 million in 2000 due primarily to a positive change in operating assets and liabilities. This positive change resulted from the sale of inventory prior to its payment. Favorable payment terms were obtained by the Company from its vendors on end of year inventory purchases.

Net cash used in investing activities, primarily for acquisitions, was \$4.9 million in the first six months of 2001, compared to \$2.4 million in 2000. In 2001, \$4.2 million of cash was used for the acquisition of Badger.

Net cash used by financing activities, primarily the repayment of borrowings, was \$18.1 million in the first six months of 2001, compared to \$3.2 million in the prior year period. The increase in net debt repayments was a result of improved cash flows from operating activities. The use of cash for debt issuance costs related to the new credit facilities was \$1.3 million.

Total capitalization at June 30, 2001, was \$147.3 million, comprised of \$87.1 million of debt and \$60.1 million of equity. Debt as a percentage of total capitalization was 59.2% at June 30, 2001 compared to 64.1% at December 31, 2000.

On March 29, 2001, the Company entered into a new \$100.0 million senior secured credit facility with a syndication of banks and a new \$20.0 million senior subordinated term credit facility with LDI. The new senior secured credit facility consists of a \$40.0 million term credit facility and a \$60.0 million revolving credit facility. The term credit facility, which expires on June 30, 2006, requires quarterly principal payments that increase in amount over the term of the loan. Quarterly principal payments are \$1.0 million per quarter in 2001, beginning on June 30, 2001. The revolving credit facility is limited to the lesser of (1) \$60.0 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. Both the revolving credit and term facilities are subject to interest rates, which fluctuate based on the Company's Leverage Ratio, as defined in the Credit Facility, which range from 1.75% to 2.75% over LIBOR or 0.00% to 0.75% over prime. For a period of six months after the close of the transaction, the interest rate is fixed at LIBOR plus 3.00%.

To convert the Company's new senior term credit facility from a floating to a fixed interest rate obligation, the Company entered into interest rate swap agreements with notional amounts of \$40.0 million. The weighted average fixed interest rate under these agreements is 5.43%. The current quarterly period change in the fair value of the interest rate swap was \$0.2 million, which was recorded in the Other Comprehensive Income (Loss) section of Shareholders' Equity.

Concurrent with funding the senior secured credit facility, the Company repaid

Edgar Filing: FINISHMASTER INC - Form 10-Q

its \$30.0 million senior subordinated term credit facility and entered into a new \$20.0 million senior subordinated term credit facility with LDI. All outstanding principal is due on March 29, 2007, and interest is payable quarterly at a rate of 12.2% per annum.

The Company was in compliance with the covenants underlying its credit facilities, and had estimated availability under its revolving credit facilities of \$31.6 million as of July 1, 2001, based upon the June 30, 2001 borrowing base calculation.

Based on current and projected operating results and giving effect to total indebtedness, the Company believes that cash flow from operations and funds available from lenders and other creditors will provide adequate funds for ongoing operations, debt service and planned capital expenditures.

Forward-Looking Statements

This Report contains certain forward-looking statements pertaining to, among other things, the Company's future results of operations, cash flow needs and liquidity, acquisitions, and other aspects of its business. The Company may make similar forward-looking statements from time to time. These statements are based largely on the Company's current expectations and are subject to a number of risks and uncertainties. Actual results could differ materially from these forward-looking statements. Important factors to consider in evaluating such forward-looking statements include changes in external market factors, changes in the Company's business strategy or an inability to execute its strategy due to changes in its industry or the economy generally, difficulties associated with assimilating acquisitions, the emergence of new or growing competitors, seasonal and quarterly fluctuations, governmental regulations, the potential loss of key suppliers, and various other competitive factors. In light of these risks and uncertainties, there can be no assurance that the future developments described in the forward-looking statements contained in this Report will in fact occur.

PART II - OTHER INFORMATION

Item 6. Exhibits and Reports on Form 8-K

- (a) Exhibits. The following exhibits, unless otherwise indicated, have been filed as exhibits to documents otherwise filed by the Registrant, and are hereby incorporated by reference.

Exhibit No.	Description of Document
-----	-----
2.1	Agreement and Plan of Merger, dated as of October 14, 1997, by and among FinishMaster, Inc., FMST Acquisition Corporation and Thompson PBE, Inc. (incorporated by reference to Exhibit (c)(2) of Schedule 14D-1 previously filed by FMST Acquisition Corporation on October 21, 1997).
2.2	Agreement and Plan of Merger, dated February 16, 1998, by and among FinishMaster, Inc., LDI AutoPaints, Inc. and Lacy Distribution, Inc. (previously filed with Form 10-K dated March 31, 1998)
3.1	Articles of Incorporation of FinishMaster, Inc., an Indiana corporation, as amended June 30, 1998 (previously filed with

Edgar Filing: FINISHMASTER INC - Form 10-Q

Form 10-Q dated August 14, 1998)

- 3.2 Amended and Restated Code of Bylaws of FinishMaster, Inc., an Indiana corporation (previously filed with Form 10-K/A dated April 14, 1998)
- 10.1 FinishMaster, Inc. Stock Option Plan (Amended and Restated as of April 29, 1999) (previously filed with Registrant's proxy statement on Schedule 14/A dated April 9, 1999)
- 21 Subsidiaries of the Registrant (previously filed with Form 10-K dated March 30, 2000)
- 99(a) Credit Agreement, dated as of March 29, 2001, among FinishMaster, Inc., the Institutions from Time to Time Parties Thereto as Lenders and National City Bank of Indiana, as Agent (previously filed with Form 10-Q dated May 10, 2001)
- 99(b) Subordinated Note Agreement, dated as of March 29, 2001, by and between FinishMaster, Inc. and LDI, Ltd. (previously filed with Form 10-Q dated May 10, 2001)

* filed herein.

- (b) Reports on Form 8-K. There were no reports on Form 8-K filed in the quarter ended June 30, 2001.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date August 14, 2001

FINISHMASTER, INC.

By: /s/ Wesley N. Dearbaugh

Wesley N. Dearbaugh
President and Chief Operating Officer

By: /s/ Robert R. Millard

Robert R. Millard
Senior Vice President and
Chief Financial Officer