FINISHMASTER INC
Form 10-K405
March 29, 2001

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-K

(X) ANNUAL REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2000

Commission File Number 0-23222

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

Indiana	38-2252096
(State or other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification Number)
54 Monument Circle, Suite 600, Indianapolis, IN	46204
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock - without par value	Nasdaq Stock Market

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 ______

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. [X]

The aggregate market value of the voting stock held by non-affiliates of the Registrant as of March 1, 2001 was $13,125,000.

On March 1, 2001, 7,540,804 shares of Registrant's common stock were outstanding.

Documents Incorporated By Reference

Portions of the annual proxy statement for the year ended December 31, 2000 are incorporated by reference into Part III.

FINISHMASTER, INC.
ANNUAL REPORT ON FORM 10-K
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PART I

ITEM 1 - BUSINESS

General

We are the leading national independent distributor of automotive paints, coatings and paint-related accessories primarily to the automotive collision repair industry. As of March 1, 2001, we serve our customers through a 290-person direct sales force in 156 sales outlets and three major distribution centers located in 22 states, making us the only national independent distributor in the industry. We have over 35,000 customers consisting principally of collision repair shops and automobile dealers, to which we provide a comprehensive selection of brand name products. Our product offering consists of over 37,000 stock keeping units ("SKUs"), including leading brands of automotive paints, coatings, thinners and reducers manufactured by BASF, DuPont, and PPG and the leading brands of paint-related accessories manufactured principally by 3M, such as masking materials, body fillers and cleaners. For the

year ended December 31, 2000, net sales were $337.2 million and net income was $3.7 million.

Our vision is to expand our leadership position in the distribution of products, services and technology that are recognized by customers as key factors in their success. We provide our customers with "local" value-added services such as rapid delivery, technical support, product training, management seminars, computerized color matching, inventory management, personnel placement and environmental compliance reporting. These value-added services are backed by "national" expertise in the systems and technology of warehouse distribution and supply chain management, and strategic partnering with the manufacturers of paint and paint-related accessories. Our local focus helps us respond to the unique customer needs in various geographic markets. Our national network allows us to provide better, consistent service at a lower cost than our competition. In addition, we are able to provide certain multi-site customers, such as "collision repair shop" chains and mega-dealerships, with efficient and consistent product distribution throughout their national or regional networks at competitive prices.

We estimate the U.S. automotive paint and paint-related accessories distribution after-market ("distribution after-market") to be approximately $2.5 billion, with automotive collision repair shops being the primary customers for automotive paint and paint-related accessories. In addition to independent collision repair shops and automobile dealers, we supply products to organizations that maintain their own automobile fleet, van conversion companies and other commercial/industrial customers. The distribution after-market is supplied by a small number of manufacturers of paint and paint-related accessories and serves a highly fragmented customer base, consisting of approximately 50,000 collision repair shops alone. Our competitors tend to be family-owned, with one to three distribution sites and typically serve a highly localized customer base.

We are an Indiana based corporation. Our principal executive offices are leased from LDI, Ltd. ("LDI"), an Indiana limited partnership, which indirectly owns 74.1% of our outstanding shares. We believe that the terms of the lease are at least as favorable to us as those that could be obtained by arms-length negotiations with an unaffiliated third party. Our principal executive offices are located at 54 Monument Circle, Suite 600, Indianapolis, Indiana 46204, and our telephone number is (317) 237-3678.

Industry Overview

We estimate the distribution after-market to be approximately $2.5 billion. The end users of the products distributed by us are principally independent collision repair shops and automobile dealers. Additionally, organizations that maintain their own automobile fleet, van conversion companies and other commercial/industrial customers make up a smaller percentage of our customer base. Automotive paint and related supplies, in contrast to labor and parts, represent only a small portion (approximately 7-10%) of the total cost of a typical collision repair job. However, while paint is a relatively minor component of the total repair cost, we play a critical role in the customer's level of satisfaction.

The distribution after-market for automotive paint and related supplies is characterized by a small number of manufacturers of paint and paint-related accessories. The five predominant manufacturers of automotive paint distributed in the United States are Akzo Nobel, BASF, DuPont, PPG and The Sherwin-Williams Company. In addition, several other large foreign manufacturers have recently taken steps to expand the distribution of their paint products in the United States. 3M is the predominant manufacturer of paint-related accessories which include refinishing materials, supplies, accessories and tools such as sand paper, masking tape and paint masks.

The paint manufacturers market is continuing to consolidate. Specifically, in July 1999, PPG acquired Imperial Chemical Industries' global automotive refinish and industrial coatings business and its automotive solvents and thinners business in North America. In March 1999, DuPont acquired Herberts Gmbh, the coatings company of Hoechst. The Herberts acquisition created the world's third largest coatings company and the leading automotive coatings supplier.

While automotive paint manufacturing is highly concentrated, automotive paint distribution and the end users of automotive paint are highly fragmented. We believe that a large number of independent distributors of automotive paint serve an aggregate of approximately 50,000 collision repair shops nationwide. Distributors, which tend to be family-owned with one to three distribution sites, typically serve a highly localized customer base with each distribution site serving customers located within 20 miles of the site depending upon demographics, road access and geography.

Due to the large number of end users and their increasing demands for personalized services, such as multiple daily deliveries, assistance with color-mixing and matching, and assistance with paint application techniques and environmental compliance reporting, manufacturers typically service end users through distributors like us. Nevertheless, some of the paint manufacturers have elected to operate company-owned distribution facilities in selected markets, including markets in which we operate. We believe, however, that the largest automotive paint manufacturers have generally avoided the cost of operating their own distribution network due to their inability to offer multiple lines of paint which prevents them from spreading distribution expenses across the market's entire potential customer base. Consequently, we believe that independent distributors like us, which can sell the products of several paint manufacturers, are better situated to service the end users' needs than the company owned distribution facilities of automotive paint manufacturers.

The market for paints and supplies for automotive collision repairs has changed significantly in recent years. Key factors affecting this market have been:

- a decline in the number of vehicles repaired annually, with this number stabilizing in recent years;
- improvements and paint application technology and advances in paint system productivity;
- environmental regulations which have required the reformulation of paints and the use of more advanced equipment and facilities;
- automobile manufacturers' use of more complex and expensive automotive finishes; and
- an increase in the number of vehicles repaired by insurance companies' designated "direct repair providers".

Collision repair shops have been forced to invest in new equipment and additional training of their workers, while there has been a decline in the number of repair jobs. Accordingly, there has been some consolidation in the highly fragmented collision repair industry among end users of automotive paints and accessories. In addition, collision repair shops and car dealerships are seeking to improve their financial performance and competitive position by developing relationships with distributors that can support their businesses with value-added services. This demand for higher levels of service from distributors, combined with lower unit sales volume of paint and supplies, has resulted in a consolidation among after-market distributors. We have led the consolidation among distributors in recent years, having completed 36 acquisitions over the past nine years.

Although the automotive collision repair industry is experiencing a trend toward consolidation, we believe that our size and current position as a market leader will enable us to continue to grow and remain profitable. We have been able to offset the decline in unit volume by material price increases that we have been able to pass on to our customers due to the technological advancements in paints and coatings. In addition, we believe we will continue to attract new customers due to our value-added services, such as our experience in helping customers comply with environmental regulations. This service, which we currently provide in California and Colorado, will be applicable in other geographic areas as the U.S. Environmental Protection Agency enacts volatile organic compound ("VOC") regulations nationwide.

Products and Suppliers

We offer our customers a comprehensive selection of prominent brand name products and our own PrivateBrand products. The product line consists of over 37,000 SKUs, including the three leading brands of automotive paints and coatings and a leading brand of related accessories. Our PrivateBrand products include some of the most frequently used refinishing accessories such as masking materials, body fillers, thinners, reducers and cleaners.

We rely on four leading suppliers for the majority of our product requirements. BASF, DuPont, and PPG supply virtually all of our paint products, and 3M is our largest supplier of paint-related accessories. Products supplied by BASF, DuPont, 3M and PPG accounted for approximately 85% of purchases in 2000. Although each of these suppliers generally competes with the others along product lines, we do not believe the products are completely interchangeable because of high brand loyalty among customers and their brand-specific color matching computer systems. We continuously seek opportunities with new and existing suppliers to supply the highest quality products.

Whenever practical, we make purchases from suppliers in large volumes to maximize volume discounts. In addition, we participate in periodic, special incentive programs available from suppliers. These programs provide additional purchase discounts and extended payment terms in exchange for large volume purchases. We also benefit from supplier-provided early payment discounts and from other supplier-supported programs.

Services

We offer comprehensive value-added services designed to assist customers in operating their businesses more effectively. These services include:

Rapid Delivery

Products are delivered to customers using our delivery fleet of approximately 750 trucks. We offer multiple daily deliveries to meet our customers' just-in-time inventory needs. Customer concerns for product availability typically take priority over all other competitive considerations, including price.

Technical Support

Our technical support personnel demonstrate and recommend products. In addition, they assist customers with problems related to their particular product applications. Equipment specialists provide information to customers regarding their heavy equipment requirements, such as spray booths and frame straightening equipment.

Product Training

As a result of increasing regulations, manufacturers have introduced technologically advanced, lower VOC paints, which require significantly more sophisticated application techniques. We provide training to customers in order to teach them the techniques required to work with these products. Training sessions are typically conducted jointly by us and by one or more of our major suppliers at the customer's location or at an off-site location.

Management Seminars

Management seminars are conducted at convenient locations to inform our customers about environmental regulations and compliance, techniques to improve productivity, and industry trends.

Color Matching

The growing number of paint colors is a challenge for the refinishing industry. DuPont, for example, has more than 120,000 mix formulas. With sophisticated PC-based color matching equipment and specialists, we provide color-matching services to our customers.

Inventory Management

We perform monthly physical inventories for customers who request this service. We also provide customers with management information reports on product usage.

Assistance with Environmental Compliance Reporting

All states have air quality regulations that mandate paint and application methods which result in reduced atmospheric emissions of paint and other related materials. In California in particular, we arrange demonstrations of new products and application techniques designed to comply with air quality regulations. In addition, in California and Colorado, we assist our customers with environmental reporting requirements by providing special reports designed to simplify their compliance. The EPA has proposed regulations to control VOC emissions from automobile refinishing nationwide and, accordingly, we are considering an expansion of these programs.

Personnel Placement

Certain of our locations assist our customers with filling employment openings and/or persons seeking employment with collision repair shops located in the market served. Upon request from a customer to fill an opening, we may provide the names of one or more persons for the position. Similar services are available to persons seeking employment. We do not charge for this service but benefit from enhanced relationships with our customers and their employees.

Competition

The distribution after-market of the automotive refinishing industry is highly fragmented and competitive with many independent distributors competing primarily on the basis of technical assistance and expertise, price, speed of delivery and breadth of product offering. There are no other independent national distributors of automotive refinish paints and accessories. There are a number of independent regional distributors, many of which are in direct competition with us on a regional or local level. Competition in the purchase of independent distributors and sales outlets may occur between us and other automotive refinishing distributors that are also pursuing growth through acquisitions.

We may also encounter significant sales competition from new market entrants,

automotive paint manufacturers, buying groups or other large distributors that may seek to enter such markets or may seek to compete with us for attractive acquisition candidates. Although the largest automotive paint manufacturers have generally not operated their own distributors, or have done so only on a limited basis, they may decide to expand such activity in the future. For example, Sherwin-Williams distributes its own automotive paints through its sales outlets. In addition, BASF, one of our principal suppliers, also distributes in certain markets through its own outlets in North America. While we do not believe that current direct distribution efforts by automotive paint manufacturers have significantly affected our sales, there can be no assurance that we will not encounter increased competition in the future. We may also compete with our suppliers in selling to certain large volume end users such as van converters, small manufacturers and large fleet operators.

Employees

As of March 1, 2001, we employed approximately 1,520 persons on a full and part-time basis. None of the employees are covered by a collective bargaining agreement, and we consider our relations with our employees to be good.

Governmental and Environmental Regulations

We are subject to various federal, state and local laws and regulations. These regulations impose requirements on our customers and us. Pursuant to the regulations of the U.S. Department of Transportation and certain state transportation departments, a license is required to transport our products and annual permits are required due to the classification of certain of our products as "hazardous." Various state and federal regulatory agencies, such as the Occupational Safety and Health Administration and the United States Environmental Protection Agency, have jurisdiction over the operation of our distribution centers and sales outlets. These agencies require us to comply with various governmental regulations, including worker safety laws, community and employee "right-to-know" laws and laws regarding clean air and water. In addition, state and local fire and environmental regulations extensively control the design and operation of our facilities, the sale of our products, and the application of these products by our customers. Such regulations are complex and subject to change. Regulatory or legislative changes may cause future increases in our operating costs or otherwise negatively affect operations.

ITEM 2 - PROPERTIES

The following table sets forth certain information regarding the facilities operated by us as of March 1, 2001.

State	Number Of Offices	No. of Sales Outlets	No. of Distribution Centers
Alabama.............................		1	
Arizona.............................		3	
California..........................	1	29	1***
Colorado............................		5	1**
Connecticut.........................		3	
Delaware............................		1	
Florida.............................	1*	38	1***
Georgia.............................		3	
Illinois............................		4	
Indiana.............................	1	3	
Maryland............................		4	
Massachusetts.......................		5	
Michigan..........................	1*	12	1***
New Jersey..........................		8	
North Carolina......................		6	1**

Ohio		2	
Oklahoma		1	
Pennsylvania		3	
South Carolina		6	
Texas		12	
Virginia		3	
Wisconsin		4	
Total Offices, Sales Outlets and Distribution Centers	4	156	5

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* Locations where an office and distribution center are combined facilities. Includes Kentwood, MI and Ft. Lauderdale FL.

** Locations where a store and distribution center are combined facilities. Includes Greensboro, NC and Westminster, CO.

*** Denotes major distribution center. Includes Kentwood, MI; Ft. Lauderdale, FL; and Los Angeles, CA.

Our sales outlets range in size from 1,200 square feet to 15,000 square feet. Some of the larger sales outlets are also used as "drop ship" points from which we supply other sales outlets. Sales outlets consist of inventory storage areas, mixing facilities, display and counter space and, in some instances, sales office space. Sales outlets are strategically located in major markets to maximize market penetration, transportation logistics and overall customer service. Our distribution centers range in size from 5,000 square feet to 38,500 square feet. The distribution centers are equipped with efficient material handling and storage equipment.

We own the distribution center and two sales outlets in Michigan, one sales outlet in Indiana, and one in Florida. The remainder of the sales outlets and the other distribution centers are leased with terms expiring from 2001 to 2007, with options to renew. We typically assume the lease of the former owner in acquisitions. In a number of instances, our sales outlets are leased from the former owners of businesses acquired by us. We believe that all of our leases are at fair market rates, that presently no single lease is material to our operations, and that alternative sites are presently available at market rates. We are leasing approximately 15,000 square feet of executive offices for our national headquarters located in Indianapolis, Indiana.

ITEM 3 - LEGAL PROCEEDINGS

In January 1999, we were named in an unfair business practices lawsuit by an automotive paint distributor located in the State of California. The plaintiff in such suit alleged that we offered, in a manner that injured the plaintiff, rebates and cash bonuses to businesses in the Southern California area if those businesses would buy exclusively from us and use our products. The plaintiff claimed damages in the amount of $3.8 million, trebled to $11.4 million. During 2000, the court granted summary judgment in our favor. The plaintiff has not appealed the judgment against it, and the decision is now final.

We are 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. Our 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 our financial condition, results of operations or cash flows.

ITEM 4 - SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

None.

ADDITIONAL ITEM - EXECUTIVE OFFICERS OF THE REGISTRANT

The following sets forth certain information concerning the executive officers of the Company who are not also directors:

Thomas E. Case (age 55) serves as the Senior Vice President of Sales for our West Division. He had previously served as the Senior Vice President and general manager of our Western Division from June 1998 to January 2001. Mr. Case joined us upon completion of our acquisition of Thompson in November 1997. Formerly, Mr. Case was a Vice President of Thompson and served as the general manager of Thompson's California Division.

J.A. Lacy (age 36) serves as our Senior Vice President of Operations. He had previously served as the Senior Vice President of Planning and Marketing from January 1999 to January 2001. From January 1997 to December 1998, Mr. Lacy served as President of Tucker Rocky Distributing Canada, Inc., a leading after-market distributor of motorcycle components and accessories. Prior to this, Mr. Lacy was Vice President of J. Walter Thompson, an advertising agency.

Robert R. Millard (age 43) joined us in October 1998 as the Senior Vice President of Finance, Chief Financial Officer, Secretary and Treasurer. From February 1996 until September 1998, Mr. Millard served as Vice President of Finance, Chief Financial Officer, Secretary and Treasurer of Personnel Management, Inc., a publicly held personnel staffing company based in Indianapolis, Indiana. From July 1991 until January 1996, Mr. Millard served as the Corporate Controller of Lacy Diversified Industries, Ltd., an affiliate of LDI.

Roger A. Sorokin (age 60) serves as our Senior Vice President of Acquisitions and Development since November 1998. Prior to this date, Mr. Sorokin had served as our Vice President of Finance for more than the previous five years.

Charles Stephenson (age 47) has terminated his employment with the Company effective January 31, 2001. He had served as the Senior Vice President and general manager of our Central/Northeastern Division from October 1997 until his resignation. Mr. Stephenson served as our Vice President of Marketing from August 1997 to October 1997. Prior to joining us, Mr. Stephenson served as Director of Sales of Sherwin-Williams Auto Finishes Inc. from September 1994 to August 1997 and as its Regional Director of the Western Region from October 1991 to September 1994.

Charles VanSlaars (age 51) serves as the Senior Vice President of Sales for our East Division. He had previously served as the Senior Vice President and general manager of our Southeastern Division, a position he held from June 1998 to January 2001. From June 1996 until May 1998, Mr. VanSlaars served as an executive officer of LDI AutoPaints, Inc. From 1994 until 1996, Mr. VanSlaars served as Vice President of Parts Depot Company, L.P., a Florida-based distributor of auto paints.

PART II

ITEM 5 - MARKET FOR REGISTRANT'S COMMON EQUITY AND RELATED SHAREHOLDER MATTERS
Our common stock trades on The NASDAQ Stock Market (SmallCap Market) under the symbol FMST. The number of beneficial owners of our common stock at December 31, 2000, was approximately 350.

The range of high and low closing prices reported by NASDAQ for the last twelve quarters were:

Year	Quarter Ended	High	Low
1998	March 31	11.750	7.750
1998	June 30	10.750	8.625
1998	September 30	10.000	5.250
1998	December 31	7.375	3.500
1999	March 31	7.000	5.625
1999	June 30	6.000	4.750
1999	September 30	7.375	5.688
1999	December 31	7.938	5.750
2000	March 31	8.000	6.750
2000	June 30	8.000	4.750
2000	September 30	7.000	5.250
2000	December 31	7.000	4.700

No cash dividends on common stock have been paid during any period and none are expected to be paid in the foreseeable future. We anticipate that all earnings and other cash resources will be retained by us for investment in our business.

On June 30, 1998, we completed the acquisition by merger of LDI AutoPaints, Inc. ("AutoPaints") in exchange for the issuance of 1,542,416 shares of our common stock. Such shares were issued to Lacy Distribution, Inc., our majority shareholder and a wholly owned subsidiary of LDI. Such shares were issued pursuant to the exemption provided in Section 4(2) of the Securities Act of 1933, as amended.

ITEM 6 - SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data as of and for the years ended December 31, 2000, 1999, and 1998, are derived from our audited consolidated financial statements that are included elsewhere herein. The selected consolidated financial data as of and for the year ended December 31, 1997, nine months ended December 31, 1996, and for the year ended March 31, 1996 are derived from our audited consolidated financial statements, which are not included herein. The financial data should be read in conjunction with our audited consolidated financial statements and notes thereto, included elsewhere herein, and with "Management's Discussion and Analysis of Financial Condition and Results of Operations."

	Year Ended December 31,				Nine M End Decemb
(In thousands, except per share data)	2000(2)(3)	1999(2)(3)	1998(2)(3)	1997(2)	19
Per Share					
Net income					
Basic	$ 0.49	$ 0.49	$ 0.29	$ 0.11	$
Diluted	$ 0.49	$ 0.49	$ 0.29	$ 0.11	$
Pro forma net income (loss) (4)	$ -	$ -	$ 0.33	$ (1.01)	$

Statements of Operations Data					
Net sales	$ 337,213	$ 324,490	$ 309,946	$ 130,175	$ 9
Gross margin	$ 122,995	$ 117,002	$ 109,678	$ 47,107	$ 3
Income from operations	$ 19,572	$ 18,745	$ 15,895	$ 3,832	$
Net income	$ 3,727	$ 3,711	$ 1,988	$ 656	$
Pro forma net income (loss) (4)	$ -	$ -	$ 2,459	$ (7,585)	$
Weighted average shares outstanding - Diluted	7,551	7,545	6,780	5,994	
Pro forma weighted average shares outstanding - Diluted	-	-	7,536	7,536	

	December 31,				
	2000(2)(3)	1999(2)(3)	1998(2)(3)	1997(2)	199
Balance Sheet Data					
Net working capital	$ 35,209	$ 48,147	$ 43,452	$ 42,928	$ 2
Total assets	$ 218,317	$ 214,235	$ 226,475	$ 215,418	$ 6
Long-term debt	$ 90,652	$ 111,603	$ 119,120	$ 134,135	$ 1
Shareholders' equity	$ 56,806	$ 53,069	$ 49,348	$ 32,932	$ 3

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(1) We changed our fiscal year end from March 31 to December 31, effective for the period ended December 31, 1996.

(2) The operating results for the years ended December 31, 2000, 1999, 1998 and 1997 are affected by the acquisition of Thompson on November 21, 1997. The operating results of Thompson are included in our consolidated operating results since the acquisition date.

(3) The operating results for the year ended December 31, 2000, 1999, and 1998 are affected by the acquisition of AutoPaints on June 30, 1998. The operating results of AutoPaints are included in our consolidated operating results since the acquisition date.

(4) Pro forma amounts for the years ended December 31, 1998 and 1997 have been prepared to give effect to the acquisitions of Thompson and AutoPaints as if the transactions had occurred on January 1, 1997. These amounts are unaudited and are presented for informational purposes only. No pro forma amounts are presented for acquisitions in 2000 or 1999 as the impact of such acquisitions are not material. The unaudited pro forma financial amounts should be read in conjunction with Item 7 - "Management's Discussion and Analysis of Financial Condition and Results of Operations."

ITEM 7 - MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion and analysis about the Company's financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes presented in this annual report.

Overview

FinishMaster, Inc. is the leading independent distributor of automotive paints,

coatings and paint-related accessories primarily to the automotive collision repair industry in the United States. As of March 1, 2001, the Company serves its customers through 156 sales outlets and three major distribution centers located in 22 states, making it the only national independent distributor in the industry. The Company has over 35,000 customers that it provides a comprehensive selection of brand name products supplied by BASF, DuPont, 3M and PPG in addition to its own FinishMaster PrivateBrand refinishing accessory products. The Company is typically the primary source of supply to its customers and offers a broad range of services designed to enhance the operating efficiencies and competitive positions of its customers and suppliers. The Company's operations are currently organized into two geographical divisions: East and West. The Company aggregates its two divisions into a single reportable segment.

The Company is the leading consolidator in the automotive refinishing distribution industry, having successfully completed as of March 1, 2001 approximately 36 acquisitions over the past nine years, ranging from "add-on" acquisitions to the strategic acquisitions of Thompson and AutoPaints.

On June 30, 1998, the Company completed the acquisition by merger of AutoPaints in exchange for the issuance of 1.5 million shares of the Company's common stock. Since AutoPaints was acquired from the Company's majority shareholder, the acquisition constituted a transaction within a controlled group. Thus, the acquisition was accounted for using the historical cost basis of AutoPaints' net assets, which approximated $14.4 million at the date of acquisition.

The Company intends to continue its strategy of expanding through acquisitions. The Company completed six (6) acquisitions during both 2000 and 1999.

Results of Operations

As a result of the acquisition of AutoPaints and its significance to the Company's results of operations, pro forma results of operations are presented for the year ended December 31, 1998. The Company believes that for purposes of Management's Discussion and Analysis, a more meaningful understanding of the Company's performance can be obtained by comparing the pro forma results for all years. Pro forma amounts for 2000 and 1999 are consistent with historical results as the pro forma effects of the six acquisitions completed in each of the years are not material.

The unaudited pro forma consolidated amounts for the year ended December 31, 1998 have been prepared to give effect to the acquisition of AutoPaints as if the transaction had occurred on January 1, 1998. In calculating the pro forma amounts, the historical amounts of AutoPaints for the entire year have been included with those of the Company. The unaudited pro forma amounts do not purport to be indicative of the results of operations that would have actually been obtained if the transactions had occurred on January 1, 1998, or the results of operations that may be obtained in the future.

Net Sales

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 337,213	3.9%	$ 324,490	4.7%	$ 309,946
Pro forma	$ 337,213	3.9%	$ 324,490	0.9%	$ 321,710

Net sales increased $12.7 million or 3.9% from 1999 to 2000 due to "same outlet sales" growth and acquisitions. "Same outlet sales" grew approximately 2.4% while net sales acquired through acquisitions contributed approximately 1.5%. During 2000, the Company completed six acquisitions.

Pro forma net sales increased $2.8 million or 0.9% from 1998 to 1999 due primarily to acquisitions. During 1999, the Company completed six acquisitions. The Company experienced minimal "same outlet sales" growth as a result of competitive market conditions and flat industry demand.

Approximately 70% of net sales consisted of automotive paint products while the remaining portion was paint-related accessories.

Gross Margin

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 122,995	5.1%	$ 117,002	6.7%	$ 109,678
Percentage of net sales	36.5%		36.1%		35.4%
Pro forma	$ 122,995	5.1%	$ 117,002	2.5%	$ 114,199
Percentage of net sales	36.5%		36.1%		35.5%

Gross margin for 2000 increased $6.0 million or 5.1% over 1999 due to higher sales volume of $4.6 million and improved margins of $1.4 million. Pro forma gross margin for 1999 increased $2.8 million or 2.5% over 1998 due to improved margins of $1.8 million and higher sales volume of $1.0 million. Gross margin as a percentage of net sales has improved over the last two years as a result of supplier incentive programs and the optimization of early payment discounts.

Operating Expenses

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 52,195	6.5%	$ 49,029	(1.0%)	$ 49,518
Percentage of net sales	15.5%		15.1%		16.0%
Pro forma	$ 52,195	6.5%	$ 49,029	(4.1%)	$ 51,103
Percentage of net sales	15.5%		15.1%		15.9%

Operating expenses consist of wages, facility, vehicle and related costs for the Company's store and distribution locations.

Operating expenses as a percentage of net sales increased from 15.1% in 1999 to 15.5% in 2000 due primarily to higher vehicle fuel costs and increased depreciation expense associated with the new point-of-sale computer system implemented during the current year.

Pro forma operating expenses as a percentage of net sales improved from 15.9% in 1998 to 15.1% in 1999 as a result of management's focus during the year on increased productivity and cost containment.

Selling, General and Administrative Expenses

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 44,928	5.9%	$ 42,436	12.3%	$ 37,789
Percentage of net sales	13.3%		13.1%		12.2%
Pro forma	$ 44,928	5.9%	$ 42,436	7.7%	$ 39,404
Percentage of net sales	13.3%		13.1%		12.2%

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 as a percentage of net sales increased from 13.1% to 13.3% from 1999 to 2000 as a result of increased wages and benefit costs, higher bad debt expenses and increased costs associated with attracting and retaining customers.

Pro forma SG&A expenses as a percentage of net sales increased from 12.2% in 1998 to 13.1% in 1999 as a result of higher selling expenses, finalization of staffing requirements at the Company's corporate headquarters, increased costs associated with attracting and retaining customers, and higher professional fees.

Amortization of Intangible Assets

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 6,300	(7.2%)	$ 6,792	4.9%	$ 6,476
Percentage of net sales	1.9%		2.1%		2.1%
Pro forma	$ 6,300	(7.2%)	$ 6,792	(2.9%)	$ 6,996
Percentage of net sales	1.9%		2.1%		2.2%

The decrease in amortization expense between 1999 and 2000, and the decrease in pro forma amortization expense between 1998 and 1999 was a result of certain intangible assets, principally non-compete agreements, becoming fully amortized in those years.

Interest Expense, net

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 11,604	7.4%	$ 10,802	(5.9%)	$ 11,475
Percentage of net sales	3.4%		3.3%		3.7%
Pro forma	$ 11,604	7.4%	$ 10,802	(6.2%)	$ 11,510
Percentage of net sales	3.4%		3.3%		3.6%

The $0.8 million or 7.4% increase in interest expense between 2000 and 1999 was due to increased interest rates of approximately 110 basis points, partially offset by lower average outstanding borrowings. The Company repaid $25.3 million of outstanding borrowings during 2000.

The $0.7 million or 6.2% decrease in pro forma interest expense between 1999 and 1998 was due to lower outstanding borrowings. The implied interest rates on these borrowings remained relatively stable between years. The Company repaid $6.9 million of outstanding borrowings in 1999.

Income Tax Expense

(In thousands)	2000	Change	1999	Change	1998
Historical	$ 4,241	0.2%	$ 4,232	74.0%	$ 2,432
Percentage of net sales	1.3%		1.3%		0.8%
Effective tax rate	53.2%		53.3%		55.0%
Pro forma	$ 4,241	0.2%	$ 4,232	55.2%	$ 2,727
Percentage of net sales	1.3%		1.3%		0.8%
Effective tax rate	53.2%		53.3%		52.6%

The increase in income tax expense between 1999 and 2000, and pro forma income tax expense between 1998 and 1999 was directly attributable to higher income before income taxes. The effective tax rate has remained flat over the periods, and has varied from the statutory rates because of certain expenses, principally nondeductible intangible amortization.

Net Income and Income Per Share

(In thousands, except per share data)	2000	Change	1999	Change	1998
Historical net income	$ 3,727	0.4%	$ 3,711	86.7%	$ 1,988
Percentage of net sales	1.1%		1.1%		0.6%
Net income per share	$ 0.49	0.0%	$ 0.49	69.0%	$ 0.29
Pro forma net income	$ 3,727	0.4%	$ 3,711	50.9%	$ 2,459
Percentage of net sales	1.1%		1.1%		0.8%
Pro forma net income per share	$ .049	0.0%	$ 0.49	48.5%	$ 0.33

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

Inflation and Other Economic Factors

Inflation affects FinishMaster's cost of materials sold, salaries and other related costs of distribution. To the extent permitted by competition, FinishMaster has offset these higher costs of materials through selective price increases.

The Company's business may be negatively affected by cyclical economic downturns in the markets in which it operates. The Company's financial performance is also dependent on its ability to acquire businesses and profitably integrate them into its operations.

Quantitative and Qualitative Disclosure about Market Risk

The Company did not have significant holdings of derivative financial or commodity based instruments at December 31, 2000 or 1999. A review of the Company's other financial instruments and risk exposures indicated the Company has exposure to interest rate risk. Based upon the Company's outstanding debt at December 31, 2000 and the term for which current interest rates are fixed, a 10% increase in interest rates would increase interest expense for 2001 by an estimated $0.4 million.

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. As a result, financial performance for the Company is generally lower during the December and March quarters compared to the June and September quarters. 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. Although the Company continues to investigate strategies to smooth the seasonal pattern of its quarterly results of operations, 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)	2000	1999	1998
Net working capital	$ 35,209	$ 48,147	$ 43,452
Long-term debt	$ 90,652	$ 111,603	$ 119,120
Cash provided by operating activities	$ 29,646	$ 8,781	$ 16,094
Cash used in investing activities	$ (5,059)	$ (2,371)	$ (663)
Cash used in financing activities	$ (23,693)	$ (6,800)	$ (14,786)

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

Net cash generated from operating activities was $29.6 million in 2000 compared with $8.8 million in 1999. This increase was the result of a positive change in operating assets and liabilities, primarily accounts payable and other liabilities. The increase in cash flows of $21.3 million in accounts payable and other liabilities resulted from differences in payment terms between years on large "year end" inventory purchases. Partially offsetting this increase was higher investment in inventory, prepaid and other assets.

Net cash used in investing activities was $5.1 million in 2000 compared with $2.4 million in 1999. The increase was primarily the result of increased capital spending for the implementation of a new "point-of-sale" computer system and a consolidated general ledger system. The Company estimates that capital expenditures for 2001, principally for information technology equipment, will approximate $2.0 million.

Net cash used in financing activities was $23.7 million in 2000, compared with $6.8 million in 1999, primarily from the repayment of debt. The increase in debt repayments was a result of improved working capital management and favorable payment terms with our vendors on "year end" inventory purchases.

Total capitalization at December 31, 2000, was $158.4 million, comprised of $101.6 million of debt and $56.8 million of equity. Debt as a percentage of total capitalization decreased from 69.9% to 64.1% between 1999 and 2000. This improvement was attributable to the increase in equity resulting from current year net income, along with the decrease in debt resulting from repayments.

At December 31, 2000, the Company had term credit and revolving credit facilities totaling $65.4 million and senior subordinated debt of $30 million. The Company was in compliance with the covenants underlying its credit facilities, and had availability under its revolving credit facility of $24.9 million as of year end. The Company also had availability under its acquisitions revolving credit facility of $5.7 million.

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.

Other Matters

The Company has reviewed the impact and subsequent disclosure requirements of Statement of Financial Accounting Standards (SFAS) No. 133, "Accounting for Derivative Instruments and Hedging Activities" and does not expect it to have a material impact on the financial condition or results of operations.

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 in general, 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.

ITEM 8 - FINANCIAL STATEMENTS AND SUPPLEMENTAL DATA

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All other schedules are omitted because they are not applicable or the required information is shown in the financial statements or the notes thereto.

Report of Independent Accountants

To the Board of Directors and Shareholders of FinishMaster, Inc.:

In our opinion, the consolidated financial statements listed in the accompanying index present fairly, in all material respects, the financial position of

FinishMaster, Inc. and its subsidiaries at December 31, 2000 and 1999, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2000 in conformity with accounting principles generally accepted in the United States of America. In addition, in our opinion, the financial statement schedule listed in the accompanying index presents fairly, in all material respects, the information set forth therein when read in conjunction with the related consolidated financial statements. These financial statements and financial statement schedule are the responsibility of the Company's management; our responsibility is to express an opinion on these financial statements and financial statement schedule based on our audits. We conducted our audits of these statements in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit 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.

/s/ PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Indianapolis, Indiana
March 2, 2001

CONSOLIDATED
BALANCE SHEETS
FinishMaster, Inc.

(In thousands, except share amounts)	December 31, 2000	Decem
ASSETS		
Current assets		
Cash	$ 1,513	$
Accounts receivable, net of allowance for doubtful accounts of $1,337 and $1,419, respectively	29,063	
Inventory	63,346	
Refundable income taxes	710	
Deferred income taxes	3,459	
Prepaid expenses and other current assets	4,349	
Total current assets	102,440	
Property and equipment		
Land	368	
Vehicles	1,432	
Buildings and improvements	5,903	
Machinery, equipment and fixtures	11,922	
	19,625	
Accumulated depreciation	(10,649)	
	8,976	
Other assets		
Intangible assets, net	102,858	
Deferred income taxes	1,870	
Other	2,173	

		106,901	
	$	218,317	$
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$	46,470	$
Amounts due to LDI		506	
Accrued compensation and benefits		6,033	
Other accrued expenses and current liabilities		3,232	
Current maturities of long-term debt		10,990	
Total current liabilities		67,231	
Long-term debt, less current maturities		90,652	
Other long-term liabilities		3,628	
Commitments and contingencies (Note 8)			
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; 7,540,804 and 7,537,636 shares issued and outstanding		7,540	
Additional paid-in capital		27,367	
Retained earnings		21,899	
		56,806	
	$	218,317	$

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

CONSOLIDATED STATEMENTS
OF OPERATIONS
FinishMaster, Inc.

(In thousands, except per share data)		Year Ended December 31, 2000		Year Ended December 31, 1999	
Net sales	$	337,213	$	324,490	$
Cost of sales		214,218		207,488	
Gross margin		122,995		117,002	
Expenses					
Operating		52,195		49,029	
Selling, general and administrative		44,928		42,436	
Amortization of intangible assets		6,300		6,792	
		103,423		98,257	
Income from operations		19,572		18,745	
Interest expense, net		11,604		10,802	

Income before income taxes	7,968	7,943	
Income tax expense	4,241	4,232	
Net income	$ 3,727	$ 3,711	$
Net income per share (Note 10):			
Basic	$ 0.49	$ 0.49	$
Diluted	$ 0.49	$ 0.49	$
Weighted average shares outstanding - Basic	7,540	7,536	
Weighted average shares outstanding - Diluted	7,551	7,545	

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

CONSOLIDATED STATEMENTS
OF CASH FLOWS
FinishMaster, Inc.

(In thousands)	Year Ended December 31, 2000	Y En December 1
Operating activities		
Net income	$ 3,727	$ 3,
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	11,144	11,
Deferred income taxes	222	1,
Changes in operating assets and liabilities (excluding the impact of acquisitions):		
Accounts receivable, net	1,854	
Inventories	(4,530)	1,
Prepaid and other assets	(4,091)	
Accounts payable and other liabilities	21,320	(9,
Net cash provided by operating activities	29,646	8,
Investing activities		
Business acquisitions and payments under earn-out provisions for prior acquisitions	(1,853)	(1,
Purchases of property and equipment	(3,110)	(
Proceeds from disposal of property and equipment	10	
Cash acquired through merger with LDI AutoPaints, Inc.	-	
Other	(106)	(
Net cash used in investing activities	(5,059)	(2,
Financing activities		
Proceeds from the exercise of stock options	-	
Debt issuance costs	(166)	(
Proceeds from debt	95,357	98,
Repayment of debt	(118,884)	(104,

Net cash used in financing activities	(23,693)	(6,
Increase(decrease) in cash	894	(
Cash at beginning of period	619	1,
Cash at end of period	$ 1,513	$
Supplemental disclosure of cash flow information		
Cash paid (received) during the period for:		
Interest	$ 10,687	$ 10,
Taxes	$ 4,230	$ 2,
Non-cash activities		
Acquisition of LDI AutoPaints, Inc.:		
Assets acquired		
Less liabilities assumed		
Equity purchased		
Less cash acquired in transaction		
Net assets acquired, excluding cash		
Earn-out adjustments for prior acquisitions	$ -	$

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

CONSOLIDATED STATEMENTS
OF SHAREHOLDERS' EQUITY
FinishMaster, Inc.

(In thousands)	Common Stock	Additional Paid-in Capital	Retained Earnings	Totals
Balances at December 31, 1997	5,993	14,466	12,473	32,932
Options exercised	1	6	-	7
Issuance of stock related to merger of LDI AutoPaints, Inc.	1,542	12,879	-	14,421
Net income for the year	-	-	1,988	1,988
Balances at December 31, 1998	7,536	27,351	14,461	49,348
Stock grants issued	2	8	-	10
Net income for the year	-	-	3,711	3,711
Balances at December 31, 1999	$ 7,538	$ 27,359	$ 18,172	$ 53,069
Stock grants issued	2	8	-	10
Net income for the year	-	-	3,727	3,727
Balances at December 31, 2000	$ 7,540	$ 27,367	$ 21,899	$ 56,806

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

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 March 1, 2001, the Company operated 156 sales outlets and three major distribution centers in 22 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 PrivateBrand refinishing accessory products. The Company is highly dependent on the key suppliers outlined above, which account for approximately 80% 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: From July 9, 1996, the date of acquisition, to June 29, 1998, AutoPaints owned 4,045,100 shares of FinishMaster common stock, representing a 67.5% ownership interest in the Company. AutoPaints was a wholly-owned subsidiary of Lacy Distribution, Inc. ("Distribution"), an Indiana corporation, which is an indirect wholly-owned subsidiary of LDI, Ltd., ("LDI"), an Indiana limited partnership. Effective June 30, 1998, AutoPaints was merged into the Company in exchange for the issuance of an additional 1,542,416 shares of FinishMaster common stock. Upon completion of this transaction, Distribution became the majority shareholder of the Company with 5,587,516 shares of common stock, representing 74.1% of the outstanding shares at December 31, 2000, 1999 and 1998. 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 and certain other expenses. Those expenses amounted to $183,000, $158,000, and $538,000 for the years ended December 31, 2000, 1999, and 1998, respectively. In addition, the Company leases from LDI its corporate office space to which it moved in 1998. Lease expense and payments for repairs and maintenance to LDI totaled approximately $202,000, $214,000, and $105,000 for the years ended December 31, 2000, 1999 and 1998, 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 and Cash Equivalents: The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. At December 31, 2000, and 1999, checks drawn on future deposits and borrowings of $10,622,000 and $3,300,000, respectively, were classified as accounts payable. These amounts represent outstanding checks in excess of funds on deposit.

Receivables: Trade accounts receivable represents amounts due primarily from automotive body repair shops and dealerships. Trade receivables are typically not collateralized. No single customer exceeds 10% of the Company's receivables at December 31, 2000.

Inventories: Inventories are stated at the lower of first-in, first-out 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 2000, 1999 and 1998 was $2,215,000, $2,427,000 and $2,772,000, respectively.

Revenue Recognition: Revenues from product sales are recognized at the time of shipment or delivery to the customer. The company has reviewed the accounting and disclosure requirements of Staff Accounting Bulletin (SAB) No. 101 "Revenue Recognition in Financial Statements" and has determined that it is in compliance.

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 ("SFAS") 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.

Intangibles: Intangibles consist primarily of the excess of cost over the fair market value of net assets of acquired businesses ("goodwill"). Intangible assets, including goodwill and non-compete agreements, are amortized on a straight-line basis over periods ranging from 5 to 30 years. The majority of the Company's goodwill relates to its November 1997 acquisition of Thompson and is being amortized over 30 years. The carrying value of goodwill is periodically reviewed to determine if an impairment has occurred. The Company measures for potential impairment of recorded goodwill based on the estimated undiscounted cash flows of acquired entities over the remaining amortization period. If the estimated future undiscounted cash flows are less than the carrying amount of such goodwill, an impairment would be deemed to have occurred and a loss would be recognized. Such loss would be determined based upon expected discounted cash flows or market prices. Debt issuance costs are amortized over the term of the related debt agreements.

Internal Use Software: Costs incurred to develop or obtain software for internal use within the business are capitalized in accordance with the provisions of Accounting Standards Executive Committee Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." During 2000 and 1999, the Company capitalized approximately $2,223,000 and $589,000, respectively, of costs related to efforts to migrate to a single information technology platform. Once placed in service, software costs incurred are depreciated over their estimated useful life that range from 3 to 5 years.

Derivative Instruments and Hedging Activities: As the Company is not routinely involved in derivative and hedging activities, the adoption of SFAS No. 133 "Accounting for Derivative Instruments and Hedging Activities" beginning in the first quarter of 2001 is not expected to have a material impact on the financial condition or results of operations.

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. The total delivery costs incurred for 2000, 1999, and 1998 are estimated at $17,564,000, $17,035,000, and $16,465,000, respectively.

Reclassification: Certain amounts in the 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 FinishMaster in each of the periods presented. All acquisitions, except for the merger with AutoPaints discussed below, have been accounted for as purchases and accordingly, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition. Intangible assets related to goodwill and covenants not to compete were recorded with each acquisition, if appropriate. Operating results of acquired entities have been included in FinishMaster's consolidated financial statements from the respective date of purchase.

(In thousands)	Year Ended December 31, 2000	Year Ended December 31, 1999
Accounts receivable	$ 782	$ 708
Inventory	1,985	725
Deferred taxes	-	-
Equipment and other	370	202
Intangible assets	1,278	650
	4,415	2,285
Less liabilities assumed	513	714
Acquisition price	3,902	1,571
Acquisition debt	2,049	291
Net assets of businesses acquired, net of acquisition debt	$ 1,853	$ 1,280

Number of acquisitions	6	6

During 2000, the Company completed six acquisitions. The acquisitions occurred in California, South Carolina, Washington DC, Ohio and Texas, and were funded with cash and debt.

During 1999, the Company completed six acquisitions. The acquisitions occurred in Illinois, New Jersey and Texas, and were funded with cash and debt.

On June 30, 1998, the Company completed the acquisition by merger of AutoPaints pursuant to which the Company merged with AutoPaints and issued to LDI an additional 1,542,416 shares of common stock. Since this was a transaction within a controlled group, the acquisition of AutoPaints was accounted for using its historical cost basis. Equity securities issued to LDI in exchange for the net assets of AutoPaints were recorded at the historical cost basis of the net assets acquired as of the effective date of the transaction.

The following table sets forth the unaudited pro forma results of operations for 1998 for the acquisition occurring during such period as if the transaction was consummated as of January 1, 1998. The acquisitions in 2000 and 1999 did not have a significant impact on the Company's unaudited results of operations including sales, net income and earnings per share, and therefore are not presented in the table. The unaudited pro forma results of operations consist of the historical results of the Company and the acquired entity, as adjusted to give effect to additional interest, depreciation and amortization expense arising from the acquisitions. This pro forma information does not include reductions to operating expenses resulting from the elimination of duplicate functions and facilities directly attributable to the acquisitions. This pro forma information does not purport to be indicative of the combined results of operations which would have actually been obtained had the acquisition been made as of that date, or which may be obtained in the future.

(In thousands)		Year Ended December 31, 1998
Pro forma net sales	$	321,710
Pro forma net income (loss)	$	2,459
Pro forma net income (loss) per common share:		
Basic	$	0.33
Diluted	$	0.33
Weighted average number of common shares - Diluted		7,536

3. INTANGIBLE ASSETS

Intangible assets consisted of the following:

(In thousands)		December 31, 2000		December 31, 1999
Goodwill	$	121,018	$	120,364
Non-compete agreements		12,262		11,534
Debt issuance costs		2,179		2,013
		135,459		133,911

Less accumulated amortization	32,601	25,796
Intangible assets, net	$ 102,858	$ 108,115

4. LONG-TERM DEBT

Long-term debt consisted of the following:

(In thousands)	December 31, 2000	December 31, 1999
Revolving Credit Facility	$ 35,100	$ 48,900
Acquisition Revolving Credit Facility	1,797	-
Term Credit Facility	28,495	35,495
Senior Subordinated Debt	30,000	30,000
Notes payable to former owners of acquired businesses with interest at various rates up to 11%, due at various dates through 2007	4,624	6,905
Other long-term financing at various rates, due at various dates through 2010	1,626	1,821
	101,642	123,121
Less current maturities	10,990	11,518
	$ 90,652	$ 111,603

Revolving Credit Facility: The Company has a revolving credit facility with a syndicate of banks, limited to the lesser of (1) $60 million less letter of credit obligations, or (2) 80 percent of eligible accounts receivable plus 65 percent of eligible inventory plus $7.5 million less letter of credit obligations and a reserve for three months facility rent. Principal is due on November 19, 2003. Interest rates and payment dates are variable based upon interest rate and term options selected by management. Interest rates at December 31, 2000 on outstanding revolving credit borrowings varied from 8.91% to 10.25%. Revolving credit borrowings are subject to interest rates, which fluctuate based on the Company's Leverage Ratio, as defined in the Credit Facility, which in 2000 was 2.25% over LIBOR or 0.75% over prime in the case of Floating Rate Advances. Effective January 1, 2001, the interest rates will be 2.00% over LIBOR or 0.50% over prime based upon the Company's Leverage Ratio as of September 30, 2000. The Company is charged an annual administrative fee of $50,000, and an annual commitment fee, payable monthly, that ranges between 0.2% and 0.5% of the unused portion of the revolving line of credit. At December 31, 2000, the Company had $24.9 million of available borrowings under its revolving credit facility.

Acquisitions Revolving Credit Facility: The Company has a revolving credit facility with a syndicate of banks to finance future business acquisitions. Interest rates and payments are based upon one of two options selected by management, LIBOR plus 3.0% or an alternative base rate that is prime plus 1%. The Company is charged a commitment fee of 0.5% on the average daily unused portion of the facility, due quarterly. This credit facility expires in February 2002.

Term Credit Facility: The term loan, which expires on November 19, 2003, requires quarterly principal payments that began on March 31, 1999. Quarterly principal payments in 2000 were $1.5 million and increase in amount each year

over the remaining term of the loan. Interest rates and payment dates are variable based upon interest rate and term options selected by management. Interest rates at December 31, 2000 were at 8.98% on outstanding term borrowings. Term borrowings are subject to interest rates, which fluctuate based on the Company's Leverage Ratio, as defined in the Credit Facility, of 2.25% over LIBOR. Effective January 1, 2001, the interest rate will be 2.00% over LIBOR based upon the Company's Leverage Ratio as of September 30, 2000.

Combined Facilities: Substantially all of the Company's assets serve as collateral for the revolving credit facility and term credit facility. These credit agreements contain various quarterly and annual covenants pertaining to, among other things, achieving a minimum fixed charge coverage ratio, a maximum leverage ratio, a minimum interest expense coverage ratio and a minimum consolidated net worth level. The covenants also limit purchases and sales of assets and restrict payment of dividends.

As of December 31, 2000, the Company was in compliance with its covenants.

Senior Subordinated Debt: The senior subordinated debt owed to LDI and two LDI affiliated trusts matures May 19, 2004. Interest accrues at 9.0% annually and is payable quarterly. The subordinated debt is expressly subordinate in right of payment to all senior indebtedness.

The aggregate principal payments for the next five years subsequent to December 31, 2000 are as follows:

(In thousands)

2001	$ 10,990
2002	11,066
2003	47,319
2004	30,673
2005	268
Thereafter	1,326
	$ 101,642

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.

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 up to 25% of each $1.00 contributed by employees up to 6% of their annual compensation. In addition, the Company may contribute, at the discretion of the Board of Directors, an additional amount up to 4% of employees' annual compensation. Company contributions charged to operations under the Plan were approximately $279,000, $213,000 and $191,000 for years ended December 31, 2000, 1999 and 1998, respectively. Employees of Thompson and AutoPaints were merged into the plan during 1999 and 1998, respectively.

6. STOCK OPTIONS

The Company has a stock option plan that was amended on April 29, 1999, under which officers, key employees, and directors may be granted options to purchase stock. The amendments included increasing the number of shares of common stock reserved for issuance under the plan from 600,000 to 750,000 and changing the

method for determining the exercise price of the options on the date of grant. 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 grants prior to 1998 were fully vested at the date of issue. Certain stock options granted in 2000, 1999 and 1998 were also fully vested at the date of issue, while others vest over periods ranging from one to four years.

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 SFAS 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:

(In thousands, except per share data)	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Net income:			
As reported	$ 3,727	$ 3,711	$ 1,988
Pro forma	$ 3,135	$ 3,201	$ 1,299
Net income per share:			
As reported, Basic	$ 0.49	$ 0.49	$ 0.29
As reported, Diluted	$ 0.49	$ 0.49	$ 0.29
Pro forma, Basic	$ 0.42	$ 0.42	$ 0.19
Pro forma, Diluted	$ 0.42	$ 0.42	$ 0.19

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, 2000, 1999, and 1998 respectively: Risk free interest rate of 6.4%, 5.6%, and 5.0%; no dividend yield; expected option lives of nine years; and stock price volatility of 48.5%, 50.4%, and 49.6%.

	December 31, 2000		December 31, 1999	
	Options	Weighted -Average Exercise Price	Options	Weigh -Aver Exerc Pr
Outstanding-beginning of year	524,034	$ 8.35	426,490	$ 8
Granted	92,200	$ 7.28	100,024	$ 6
Exercised	-	$ -	-	$
Forfeited	3,900	$ 8.50	2,480	$ 8
Outstanding-end of year	612,334	$ 8.13	524,034	$ 8
Exercisable-end of year	563,534	$ 8.06	363,034	$ 8

	Exercise Price Range		
	$5.34-$8.25	$10.25-$11.55	To
Options outstanding	412,624	199,710	
Weighted average exercise price	$ 6.83	$ 10.82	$
Average remaining contractual life	8.1 years	7.9 years	
Options exercisable	392,624	170,910	
Weighted average exercise price	$ 6.88	$ 10.78	$

The weighted-average fair value of options granted during the years ended December 31, 2000, 1999, and 1998 were $4.75, $3.84, and $4.62 per option, respectively, where the exercise price of the options equaled the market price on the date of grant. Certain options were granted during 2000, 1999 and 1998 where the exercise price of the options exceeded the market value of the stock on the date of grant. The weighted-average fair value of these options was $4.61, $3.67 and $6.51 per option at December 31, 2000, 1999 and 1998, respectively. The remaining contractual life of options outstanding at December 31, 2000 is 8.1 years.

7. INCOME TAXES

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

(In thousands)	Year Ended December 31, 2000	Year Ended December 31, 1999	Year Ended December 31, 1998
Current:			
Federal	$ 3,202	$ 2,383	$ 96
State	817	724	87
	4,019	3,107	183
Deferred:			
Federal	193	952	2,082
State	29	173	167
	222	1,125	2,249
	$ 4,241	$ 4,232	$ 2,432

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,	Year Ended December 31,	Decembe

	2000	1999	
Federal statutory tax rate	34.0%	34.0%	34
State tax provision	7.0%	7.5%	3
Nondeductible intangible amortization	8.4%	8.4%	14
Other	3.8%	3.4%	2
Effective tax rate	53.2%	53.3%	55

Significant components of the Company's deferred tax assets as of December 31, 2000, and 1999 are as follows:

(In thousands)	December 31, 2000	December 31, 1999
Deferred tax assets:		
Depreciation	$ 553	$ 887
Amortization of intangibles	1,167	1,450
Allowances	856	838
Inventory	1,065	915
Accrued expenses and other	1,688	1,461
	$ 5,329	$ 5,551

8. COMMITMENTS AND CONTINGENCIES

FinishMaster 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, 2000:

(In thousands)	
2001	$ 7,540
2002	6,092
2003	4,680
2004	3,445
2005	2,077
Thereafter	858
	$ 24,692

Rent expense charged to operations, including short-term leases, totaled approximately $8.4 million, $8.5 million, and $6.3 million for the years ended December 31, 2000, 1999, and 1998, 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 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 programs to the Company. To the extent these programs are changed or terminated, there could be a material adverse impact to the Company.

In January 1999, we were named in an unfair business practices lawsuit by an automotive paint distributor located in the State of California. The plaintiff

in such suit alleged that we offered, in a manner that injured the plaintiff, rebates and cash bonuses to businesses in the Southern California area if those businesses would buy exclusively from us and use our products. The plaintiff claimed damages in the amount of $3.8 million, trebled to $11.4 million. During 2000, the court granted summary judgment in our favor. The plaintiff has not appealed the judgment against it, and the decision is now final.

The Company is subject to various claims and contingencies arising out of the normal course of business, including those relating to commercial transactions, product and vehicle liability, 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.

9. QUARTERLY RESULTS OF OPERATIONS (UNAUDITED)

The following table presents the quarterly results of operations for each period presented.

	Three Month		
(In thousands, except per share data)	March 31, 2000	June 30, 2000	
Net sales	$ 84,670	$ 87,343	$
Gross margin	$ 29,933	$ 31,359	$
Income from operations	$ 4,643	$ 5,457	$
Income before income taxes	$ 1,755	$ 2,407	$
Net income	$ 904	$ 1,061	$
Net income per share - Diluted	$ 0.12	$ 0.14	$

	Three Month		
(In thousands, except per share data)	March 31, 1999	June 30, 1999	
Net sales	$ 80,106	$ 83,212	$
Gross margin	$ 28,620	$ 29,777	$
Income from operations	$ 5,073	$ 5,270	$
Income before income taxes	$ 2,326	$ 2,609	$
Net income	$ 1,176	$ 1,302	$
Net income per share - Diluted	$ 0.16	$ 0.17	$

10. NET INCOME PER SHARE

In 1997, the Company adopted the provisions of SFAS No. 128, "Earnings Per Share." SFAS No. 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:

(In thousands, except per share data)	Year Ended December 31, 2000	Year Ended December 31, 1999	
Numerator:			
Net income	$ 3,727	$ 3,711	$
Denominator:			
Basic-weighted average shares	7,540	7,536	
Effect of dilutive stock options	11	9	
Diluted-weighted average shares	7,551	7,545	
Basic net income per share	$ 0.49	$ 0.49	$
Diluted net income per share	$ 0.49	$ 0.49	$

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

ITEM 9 - CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

PART III

ITEM 10 - DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

Item 10 is incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of December 31, 2000.

ITEM 11 - EXECUTIVE COMPENSATION

Item 11 is incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of December 31, 2000.

ITEM 12 - SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

Item 12 is incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of December 31, 2000.

ITEM 13 - CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS

Item 13 is incorporated by reference from the Registrant's definitive proxy statement to be filed within 120 days of December 31, 2000.

PART IV

ITEM 14 - EXHIBITS, FINANCIAL STATEMENT SCHEDULES AND REPORTS ON FORM 8-K

(a) The following documents have been filed as a part of this report, or where noted, incorporated by reference:

(1) Financial Statements: The Consolidated Financial Statements of the Company are included in Item 8 of this report.

(2) Financial Statement Schedule: The financial statement schedule filed in response to Item 8 and Item 14(d) of Form 10-K is listed in the Index to Consolidated Financial Statements included in Item 8 of this report.

(3) The Exhibits filed herewith or incorporated herein by reference are set forth in the Exhibit Index on page 35.

(b) Reports on Form 8-K: None

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 March 28, 2001

FINISHMASTER, INC.

By: /s/ Robert R. Millard

Robert R. Millard

Senior Vice President, Finance
And Chief Financial Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

Signature	Date	Title
(1) Principal Executive Officer:		
/s/ Andre B. Lacy Andre B. Lacy	March 28, 2001	Chairman of the Board
(2) Principal Financial and Accounting Officer:		
/s/ Robert R. Millard Robert R. Millard	March 28, 2001	Senior Vice President, Finance and Chief Financial Officer
(3) A Majority of the Board of Directors:		
/s/ Andre B. Lacy		

Andre B. Lacy	March 28, 2001	Director
/s/ Thomas U. Young Thomas U. Young	March 28, 2001	Director
/s/ Margot L. Eccles Margot L. Eccles	March 28, 2001	Director
/s/ Wes N. Dearbaugh Wes N. Dearbaugh	March 28, 2001	Director
/s/ Peter L. Frechette Peter L. Frechette	March 28, 2001	Director
/s/ David W. Knall David W. Knall	March 28, 2001	Director
/s/ Michael L. Smith Michael L. Smith	March 28, 2001	Director
/s/ Walter S. Wiseman Walter S. Wiseman	March 28, 2001	Director

FINISHMASTER, INC. AND SUBSIDIARIES
ANNUAL REPORT ON FORM 10-K

EXHIBITS

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 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)

10.2* FinishMaster, Inc. Deferred Compensation Plan dated as of November 1, 2000

21* Subsidiaries of the Registrant

23* Consent of Independent Accountants

99(a) Amended and Restated Credit Agreement, dated as of February 1, 2000, among FinishMaster, Inc., the Institutions from Time to Time Parties Thereto as Lenders and Bank One, Indiana, N.A., as Agent (previously filed with Form 10-K dated March 29, 2001)

99(b) Subordinated Note Agreement, dated as of November 19, 1997, by and between FinishMaster, Inc. and LDI, Ltd. (previously filed with Form 8-K dated December 3, 1997)

*filed herein

Schedule II - Valuation and Qualifying Accounts (In thousands)

		Additions	
Description	Balance at Beginning of Period	Charged to Costs and Expenses	Charged to Other Accounts
Year ended December 31, 2000:			

(A) Represents allowance for doubtful accounts of acquired entities.

(B) Represents uncollectible accounts written off, less recoveries.