



**THE BOYD GROUP INC.**

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**THE BOYD GROUP INC.**

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**INTERIM REPORT  
TO SHAREHOLDERS**

**SIX MONTHS ENDED  
June 30, 2001**

# Report to Shareholders

We are pleased to provide shareholders of The Boyd Group Inc.<sup>1</sup> with this interim report, which summarizes the activities of the Company during the most recent quarter and provides financial results for the quarter and the six months ended June 30, 2001.

The Company continued to execute its strategy of growth through the acquisition of market leading collision repair businesses. The acquisition of five new locations during the first six months of 2001, along with the 12 locations acquired throughout 2000, contributed to sales for the quarter increasing to \$33.3 million in 2001 from \$24.1 million in the second quarter last year, an increase of approximately 38%. Sales for the six months ended June 30, 2001, increased to \$67.0 million compared to \$44.7 million during the same period last year, an increase of approximately 50%. The Company's annualized sales are now estimated to be \$133 million.

Earnings before interest, taxes, depreciation and amortization ("EBITDA") for the quarter increased to \$3.1 million from \$2.4 million in the second quarter of 2000, a 26% increase. EBITDA for the six months ended June 30 increased to \$6.5 million, or approximately 35%, compared to \$4.8 million for the same period last year. Net earnings rose slightly to \$0.7 million for the quarter, compared to \$0.6 million for the second quarter of 2000. Net earnings for the six months ended June 30 increased to \$1.8 million from \$1.4 million in the prior year, an increase of approximately 29%. Earnings per share for the second quarter increased to \$0.043 per share from \$0.042 in the same period last year. Year-to-date earnings per share increased to \$0.116 compared to \$0.093 for the first six months of 2000, an increase of nearly 26%.

Along with the progress that has been made toward achieving financial objectives for the year 2001, we continue to work on the balance of our year 2001 goals. We also continue to identify, review and negotiate for the acquisition of additional collision repair businesses in both new and existing markets in Canada and the United States.

Your management team remains focused and committed to its strategy of profitable growth and enhancing shareholder value through consolidation of the \$40 billion North American collision repair industry.



**Terry Smith**  
*President & Chief Executive Officer*

*August 21, 2001*

1. Also referred to as "The Boyd Group", "Boyd", or the "Company" within this report. Pre-1998 historical references to "Boyd" or the "Company" within this report include references to the business under its predecessor limited partnership structure.

## 9. SHARE CAPITAL (cont'd)

Issued:

| June 30<br>2001 | December 31<br>2000 |  | June 30<br>2001      | December 31<br>2000  |
|-----------------|---------------------|--|----------------------|----------------------|
| 13,705,684      | 13,026,657          | Class A (Subordinate Restricted Voting) shares | \$ 17,458,943        | \$ 15,505,182        |
| 100             | 100                 | Class D voting shares                          | 10                   | 10                   |
| 238,000         | 238,000             | Class E voting shares                          | 1                    | 1                    |
|                 |                     |  | <b>\$ 17,458,954</b> | <b>\$ 15,505,193</b> |

For the period ended June 30, 2001, an additional 679,027 Class A (Subordinate Restricted Voting) shares were issued for a value of \$1,953,761 comprised of:

- Class A (Subordinate Restricted Voting) shares issued as partial consideration in the acquisition of automotive collision repair facilities accounting for 687,177 Class A (Subordinate Restricted Voting) shares valued at \$1,933,636;
- The exercise of stock options during the period accounting for 5,600 Class A (Subordinate Restricted Voting) shares valued at \$6,520;
- The conversion of Series I and II convertible debentures during the period accounting for 34,050 Class A (Subordinate Restricted Voting) shares valued at \$37,800.

The Company initiated a Normal Course Issuer Bid to acquire for cancellation up to 5.0% of the outstanding Class A (Subordinate Restricted Voting) shares during the period commencing on September 6, 2000 and ending on September 5, 2001. Pursuant to this Normal Course Issuer Bid, the Company purchased and cancelled during the period ended June 30, 2001, 22,300 Class A (Subordinate Restricted Voting) shares, having a book value of \$32,040, for an amount of \$41,850. The premium paid to acquire the shares, in the amount of \$9,810 has been charged to retained earnings. A further 6,000 Class A (Subordinate Restricted Voting) shares have been purchased for an amount of \$10,950, but not cancelled. The premium paid to acquire these shares has been charged to share capital pending cancellation. At December 31, 2000, the Company had purchased but not cancelled 25,500 Class A (Subordinate Restricted Voting) shares, having a book value of \$31,100, for an amount of \$49,895. The premium, in the amount of \$18,795, had been charged to share capital pending cancellation. During the period ended June 30, 2001, these shares were cancelled and the premium was charged to retained earnings.

## 10. SEGMENTED REPORTING

The Company has one reportable segment, being automotive collision repair and related services, with all revenues relating to a group of similar services. For the six month period ended June 30, 2001, all of the Company's revenues were derived within Canada or the United States of America. All capital assets and goodwill are located within these two geographic areas.

|               | Revenues      | Capital Assets<br>and Goodwill |
|---------------|---------------|--------------------------------|
| Canada        | \$ 27,183,733 | \$ 17,990,600                  |
| United States | 39,850,424    | 43,668,351                     |
| Total         | \$ 67,034,157 | \$ 61,658,951                  |

The Company's revenues are largely derived from the insurers of its customers, who are generally automobile owners. In three Canadian provinces where the Company operates, government-owned insurance companies have, by legislation, either exclusive or semi-exclusive rights to provide insurance to the Company's customers. Although the Company's services in these markets are predominately paid for by these government-owned insurance companies, the Company's customers (automobile owners) have freedom of choice of repair provider.

## 7. LONG-TERM DEBT

|  | June 30<br>2001      | December 31<br>2000  |
|--|----------------------|----------------------|
| Extendible revolving credit facility, drawn portion convertible to term loan after one year, secured by a General Security Agreement and subsidiary guarantees, incentive priced interest rates ranging from prime/U.S. base rate plus 1.0% to 1.75% on prime based or U.S. base rate based loans, or Libor/Bankers' Acceptances stamp fee plus 2.5% to 3.25% on Libor or Bankers' Acceptances loans, repayable in quarterly installments commencing July 1, 2003, interest paid monthly and the majority of the facility repayable in U.S. funds. Interest rate fixed using an interest rate swap at 5.82% plus incentive pricing spread on \$18.0 million (U.S). | \$ 32,493,923        | \$ -                 |
| Bank credit facilities including extendible revolving credit facility, revolving credit facility and term facilities. Terms and conditions on the same basis as contained in the Company's 2000 Annual Report.   | -                    | 25,388,976           |
| Vendor notes payable on the financing of certain acquisitions. Terms and conditions on the same basis as contained in the Company's 2000 Annual Report.  | 1,131,561            | 1,298,291            |
| Other loans  | 5,527                | 66,235               |
|  | <b>33,631,011</b>    | <b>26,753,502</b>    |
| Current portion  | <b>226,645</b>       | <b>2,981,135</b>     |
|  | <b>\$ 33,404,366</b> | <b>\$ 23,772,367</b> |

## 8. OBLIGATIONS UNDER CAPITAL LEASES

|  | June 30<br>2001     | December 31<br>2000 |
|--|---------------------|---------------------|
| Equipment leases with terms and conditions on the same basis as contained in the Company's 2000 Annual Report. | \$ 116,488          | \$ 93,939           |
| Vehicle leases with terms and conditions on the same basis as contained in the Company's 2000 Annual Report.   | 2,350,153           | 1,829,944           |
|  | <b>2,466,641</b>    | <b>1,923,883</b>    |
| Current portion  | <b>911,619</b>      | <b>825,450</b>      |
|  | <b>\$ 1,555,022</b> | <b>\$ 1,098,433</b> |

## 9. SHARE CAPITAL

### Authorized:

- Unlimited number of Class A (Subordinate Restricted Voting) shares
- Unlimited number of Class B voting shares
- Unlimited number of Class C non-voting redeemable preferred shares
- 100 Class D voting shares
- Unlimited number of Class E voting cumulative redeemable convertible preferred shares

# Management's Discussion & Analysis

The following review of the Company's operating and financial results for the quarter and six months ended June 30, 2001, as well as management's expectations for the year ahead should be read in conjunction with the Company's 2000 Annual Report and the unaudited financial statements, included on pages 11 to 19 of this report.

## RESULTS OF OPERATIONS

### Highlights

Highlights of events and corporate initiatives during the first six months of 2001 which had, and which will continue to have a significant impact on the Company's financial results and financial position include:

- Credit facilities, tailored to the Company's acquisition strategy and arranged with the Toronto-Dominion Bank and Scotiabank were increased from \$40 million to \$50 million in March 2001 to support continued growth;
- Continued expansion into the U.S. market, with an additional platform acquisition in the state of Georgia;
- Two acquisition transactions, collectively comprising five locations, representing approximately \$22.7 million in annualized sales were successfully completed and integrated into the Company's operations.

### Acquisitions

Acquisitions during the first six months of 2001, representing approximately \$22.7 million in annualized sales, are summarized below:

| Date       | Acquired Business                | Location           | No. of Locations |
|------------|----------------------------------|--------------------|------------------|
| February 1 | Rush's Collision & Safety Center | Flagstaff, Arizona | 1                |
| March 5    | Car-Tech Holdings                | Atlanta, Georgia   | 4                |

Consistent with the Company's strategy, the newly acquired operations shared the common attributes of being profitable market leaders with strong management. In the Atlanta platform acquisition, the vendor has joined Boyd in a management position, and in both acquisitions, existing employee management were retained post-closing.

The Company's strategy contemplates continued growth through acquisition during 2001. The Company expects to continue to acquire platform operations in select markets, as well as expand operations through further acquisitions in those regions where a platform has been established. The Company's annualized sales from U.S. operations now represents approximately 63% of the total annualized sales of \$133 million.

## 2nd Quarter Comparison – Three Months Ended June 30 - 2001 versus 2000

### Sales

Sales increased to \$33.3 million for the second quarter of 2001, an increase of \$9.2 million or 38% over the same period in 2000. The sales increase consists of the following components:

|  |                    | Acquired Sales | Sales Growth  |
|--|--------------------|----------------|---------------|
| 2000 Exit Operations – (acquired prior to<br>2nd Qtr 2000) | – (\$000)<br>– (%) | 1,301<br>5.4%  | 1,726<br>7.1% |
| 2000 Exit Operations – (acquired 3rd &<br>4th Qtr 2000)    | – (\$000)<br>– (%) | 985<br>4.1%    |               |
| 2001 Acquisitions  | – (\$000)<br>– (%) | 5,179<br>21.4% |               |

Sales in markets that the Company operated in the first half of 2000 and 2001 increased approximately 12.5% in 2001 when compared to 2000. This increase resulted from the full quarter impact in 2001 of acquisitions completed during the first half of 2000, as well as same store sales/comparable period sales growth. Sales in new markets entered in 2000 through acquisitions that occurred after the first half accounted for 4.1% of the sales increase in the second quarter of 2001. Sales from acquisitions in the first half of 2001 accounted for the remaining increase.

### Gross Margin and Operating Expenses

*Gross Margin* in the second quarter of \$15.1 million or 45.3% of sales, compared to \$10.9 million or 44.9% of sales in the second quarter of 2000 reflects increased gross margin dollars resulting from increased sales. Consolidated gross margin percentages improved slightly due the impact of gross profit improvement initiatives in certain maturing U.S. markets.

*Operating Expenses* in the second quarter of \$12.0 million, or 36.1% of sales, increased from \$8.4 million or 34.9% of sales in same period in 2000. Contributing to this increase were higher salaries, wage and benefit costs principally in the newly acquired operations. Higher utilities costs, resulting from the increase in market prices for oil and natural gas products, also negatively impacted operating expenses.

Salaries, wages and benefits increased to 21.3% of sales in the second quarter of 2001 from 19.5% of sales in the same period of 2000 due primarily to the impact of higher salary and benefit costs as a percentage of sales in the newly acquired U.S. operations and the impact of adding personnel to support the Company's accelerated growth.

### EBITDA

*Earnings before interest, taxes, depreciation and amortization ("EBITDA")* for the quarter increased to \$3.1 million or 9.2% of sales from \$2.4 million or 10.1% of sales in the same quarter of the prior year, reflecting EBITDA on increased sales, offset principally by lower gross margins in newly acquired operations, higher operating expenses in certain markets, and softer performance, compared to last year, in one of the Company's four store markets.

### Depreciation and Amortization

*Depreciation and Amortization* expense increased to \$1.2 million or 3.5% of sales during the

#### 4. CAPITAL ASSETS

|                                  | June 30, 2001       |                          |                     | December 31, 2000    |                 |
|----------------------------------|---------------------|--------------------------|---------------------|----------------------|-----------------|
|                                  | Cost                | Accumulated Depreciation | Net Book Value      | Net Book Value       | Rates           |
| Land                             | \$ 52,472           | \$ —                     | \$ 52,472           | \$ 174,972           | —               |
| Buildings                        | 316,889             | 38,609                   | 278,280             | 1,386,839            | 5%              |
| Shop equipment/paint spraybooths | 11,746,802          | 3,194,536                | 8,552,266           | 6,698,996            | 15%             |
| Equipment – office               | 1,079,706           | 384,058                  | 695,648             | 590,686              | 20%             |
| Computer hardware                | 1,615,801           | 654,081                  | 961,720             | 814,139              | 30%             |
| Computer software                | 1,096,029           | 424,254                  | 671,775             | 659,913              | 3-5 yrs. S.L.   |
| Signage                          | 526,725             | 245,248                  | 281,477             | 178,840              | 15%             |
| Vehicles                         | 4,906,476           | 1,713,781                | 3,192,695           | 2,581,509            | 10-20%          |
| Leasehold improvements           | 4,939,086           | 1,348,107                | 3,590,979           | 3,008,295            | 10-20 yrs. S.L. |
|                                  | <b>\$26,279,986</b> | <b>\$ 8,002,674</b>      | <b>\$18,277,312</b> | <b>\$ 16,094,189</b> |                 |

Included in the above are assets under capital lease with a cost of \$3,960,776 (2000 - \$3,168,169) and a net book value of \$2,636,754 (2000 - \$2,031,182). For the period ended June 30, 2001, assets acquired through capital lease amounted to \$917,938.

#### 5. DEFERRED COSTS

|                                   | June 30<br>2001   | December 31<br>2000 |
|-----------------------------------|-------------------|---------------------|
| Pre-operating period costs        | \$ 248,326        | \$ 240,387          |
| Convertible debenture issue costs | 203,752           | 203,752             |
| Contract costs                    | 200,000           | 200,000             |
| Financing costs                   | 644,546           | 254,121             |
|                                   | <b>1,296,624</b>  | <b>898,260</b>      |
| Less accumulated amortization     | (496,049)         | (396,863)           |
|                                   | <b>\$ 800,575</b> | <b>\$ 501,397</b>   |

#### 6. OTHER ASSETS

|                               | June 30<br>2001      | December 31<br>2000  |
|-------------------------------|----------------------|----------------------|
| Goodwill                      | \$ 45,032,912        | \$ 35,885,345        |
| Franchise fees                | 270,000              | 270,000              |
|                               | <b>45,302,912</b>    | <b>36,155,345</b>    |
| Less accumulated amortization | (1,772,464)          | (1,222,395)          |
|                               | <b>\$ 43,530,448</b> | <b>\$ 34,932,950</b> |

# Notes to Interim Consolidated Financial Statements

## 1. INCORPORATION AND DESCRIPTION OF THE BUSINESS

The Company is incorporated under The Corporations Act (Manitoba). Its business consists of the ownership and operation of autobody/autoglass repair facilities acquired either through the acquisition of existing businesses, or through site development resulting in new locations. In addition, the Company has licensed its trade names, trademarks and systems to independently owned repair facilities under license agreement.

The Class A (Subordinate Restricted Voting) shares of the Company are listed on the Toronto Stock Exchange under the trading symbol BYD.A.

## 2. ACCOUNTING POLICIES

These interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles as applied in Canada. Users should refer to the audited consolidated financial statements contained in the Company's 2000 Annual Report for a summary of significant accounting policies.

## 3. ACQUISITIONS

For the period ended June 30, 2001, the Company acquired five collision repair facilities:

- i) On February 1, 2001, the shares of Rush's Collision and Safety Center, Inc. in Flagstaff, Arizona (one repair facility);
- ii) On March 5, 2001, the shares of Car-Tech Holdings, Inc. in Atlanta, Georgia. Car-Tech Holdings, Inc. is the parent company of four operating subsidiaries located in the Atlanta and surrounding area (four repair facilities).

The Company has accounted for these acquisitions using the purchase method as follows:

|   |               |
|---|---------------|
| Fair value of assets acquired                             | \$ 5,980,509  |
| Fair value of liabilities assumed                         | (2,682,354)   |
| <hr/>   |               |
| Fair value of net assets acquired                         | 3,298,155     |
| Goodwill and other intangible assets                      | 7,574,788     |
| <hr/>   |               |
| Total purchase consideration, including acquisition costs | \$ 10,872,943 |
| <hr/>   |               |
| Consideration provided                                    |               |
| Cash  | \$ 9,001,348  |
| Class A (Subordinate Restricted Voting) shares            | 1,871,595     |
| <hr/>   |               |
| Total consideration provided                              | 10,872,943    |
| Vendor financing  | Nil           |
| <hr/>   |               |
|   | \$ 10,872,943 |

The allocation and amount of the purchase price has been revised from the preliminary amounts reported for the period ended March 31, 2001 as additional information became available. Further adjustments may be recorded through the balance of 2001 as purchase price adjustments are finalized.

second quarter of 2001 compared to \$802 thousand or 3.3% of sales in the same period of the prior year. The increase is attributable to the Company's growth during the year as additional capital assets and goodwill were acquired.

### Interest Expense

*Interest Expense* in the second quarter of 2001 increased to \$965 thousand or 2.9% of sales, from \$589 thousand or 2.4% of sales in the same quarter of 2000. The higher interest expense resulted primarily from the increase in bank debt quarter over quarter, partially offset by a gradual reduction in interest rates over this period.

### Income Taxes

*Income Tax* expense for the quarter decreased to \$228 thousand or 0.7% of sales compared to \$390 thousand or 1.6% of sales in second quarter of 2000. The decrease in income tax expense is primarily due to the higher proportion of income from U.S. operations subject to lower income tax rates, combined with the positive effect of income tax deductions available to the Company as a result of effective tax planning of U.S. acquisitions.

### Net Earnings and Earnings Per Share

*Net Earnings* for the second quarter increased to \$0.7 million from \$0.6 million in the same quarter of 2000, resulting from higher sales and lower income tax expense in relation to sales, partially offset by higher depreciation, amortization and interest costs.

*Earnings Per Share* for the second quarter was \$0.043 per share compared to \$0.042 per share in the same period of 2000. Fully Diluted Earnings Per Share, which is calculated under the assumption that all convertible securities had been converted and stock options had been exercised at the date of issue (where such conversion and exercise would have the effect of reducing earnings per share), was \$0.037 per share for the quarter compared to \$0.036 per share in the same quarter of the prior year. The increase in earnings per share and fully diluted earnings per share resulted from growth in net earnings at a rate that exceeded the growth in the number of shares issued during the quarter.

### Year-to-Date Comparison – Six Months Ended June 30 – 2001 versus 2000

#### Sales

Sales increased to \$67.0 million for the six months ended June 30, 2001, an increase of \$22.3 million or nearly 50% over the same period in 2000. The sales increase consists of the following components:

|  |                    | Acquired Sales | Sales Growth  |
|--|--------------------|----------------|---------------|
| 2000 Exit Operations – (acquired prior to<br>2nd Qtr 2000) | – (\$000)<br>– (%) | 8,749<br>19.6% | 3,619<br>8.1% |
| 2000 Exit Operations – (acquired 3rd-<br>4th Qtr 2000)     | – (\$000)<br>– (%) | 2,411<br>5.4%  |               |
| 2001 Acquisitions  | – (\$000)<br>– (%) | 7,535<br>16.8% |               |

Sales in markets that the Company operated in the first half of 2000 and 2001 increased approximately 27.7% in 2001 when compared to 2000. This increase resulted from the full quarter impact in 2001 of acquisitions completed during the first half of 2000, as well as same store sales/comparable period sales growth. Sales in new markets entered in 2000 through acquisitions that occurred after the first half accounted for 5.4% of the sales increase in the second quarter of 2001. Sales from acquisitions in the first half of 2001 accounted for the remaining increase.

### **Gross Margin and Operating Expenses**

*Gross Margin* in the first six months of 2001 of \$29.9 million or 44.5% of sales, compared to \$20.2 million or 45.1% of sales in the same period of 2000 reflects increased gross margin dollars resulting from increased sales. Year-to-date consolidated gross margin percentages were temporarily reduced, being impacted by new acquisitions in the U.S. market in late 2000 and early 2001. The Company expects to be able to continue to improve gross margins over time through wider application of gross profit improvement initiatives to the more recently acquired U.S. operations.

*Operating Expenses* in the first half of 2001 of \$23.3 million, or 34.9% of sales, increased from \$15.4 million or 34.4% of sales in same period in 2000. Contributing to this increase were higher salaries, wage and benefit costs principally in the newly acquired operations. Higher utilities costs, resulting from the increase market prices for oil and natural gas products, also negatively impacted overall operating expenses.

Salaries, wages and benefits increased to 19.9% of sales in the first half of 2001 from 18.8% of sales in the same period of 2000 due primarily to the impact of higher salary and benefit costs as a percentage of sales in the newly acquired U.S. operations and the impact of adding personnel to support the Company's accelerated growth.

### **EBITDA**

*Earnings before interest, taxes, depreciation and amortization ("EBITDA")* for the first six months increased to \$6.5 million or 9.7% of sales from \$4.8 million or 10.7% of sales in the same period last year, reflecting EBITDA on increased sales, offset principally by lower gross margins in newly acquired operations, higher operating expenses in certain markets, and softer performance, compared to last year, in one of the Company's four store markets..

### **Depreciation and Amortization**

*Depreciation and Amortization* expense increased to \$2.1 million or 3.2% of sales during the first half of 2001 compared to \$1.5 million or 3.3 % of sales in the same period of the prior year. The increase is attributable to the Company's growth during the year as additional capital assets and goodwill were acquired.

### **Interest Expense**

*Interest Expense* in the first half of 2001 increased to \$1.8 million or 2.7% of sales, from \$1.0 million or 2.3% of sales in the same period of 2000. The higher interest expense resulted primarily from the increase in bank debt, partially offset by a gradual reduction in interest rates over this period. The Company has entered into interest rate swap agreements on a significant portion of its bank debt in efforts to hedge its variable interest rate exposure, and expects to make further use of such hedging in 2001.

## Interim Consolidated Statements of Cash Flows (unaudited)

Three Months Ended June 30

|   | 2001         | 2000         |
|---|--------------|--------------|
| <b>Cash flows from operating activities</b>   |              |              |
| Net earnings                                  | \$ 694,122   | \$ 649,286   |
| Items not affecting cash                      |              |              |
| Future taxes                                  | 66,300       | 276,620      |
| Depreciation and amortization                 | 1,183,091    | 801,966      |
| Amortization of unearned income               | (295,794)    | (159,323)    |
| Gain on disposal of capital assets            | (218,722)    | (25,012)     |
| Non-controlling interest                      | –            | 2,463        |
|   | 1,428,997    | 1,546,000    |
| Changes in non-cash working capital items     | (182,798)    | (575,860)    |
|   | 1,246,199    | 970,140      |
| <b>Cash flows from financing activities</b>   |              |              |
| Issue of share capital                        | –            | 22,720       |
| Repurchase of share capital                   | (31,872)     | –            |
| Increase in obligations under long-term debt  | 1,236,560    | 9,712,848    |
| Repayment of long-term debt                   | (85,280)     | (2,251,592)  |
| Repayment of obligations under capital leases | (201,334)    | (153,009)    |
| Increase in unearned income                   | –            | 2,062,440    |
| Increase in other long-term liabilities       | 245,688      | –            |
| Dividends paid                                | (118,256)    | (118,256)    |
|   | 1,045,506    | 9,275,151    |
| <b>Cash flows from investing activities</b>   |              |              |
| Proceeds on sale of capital assets            | 1,518,955    | 73,083       |
| Acquisition of capital assets                 | (607,093)    | (431,697)    |
| Acquisition and development of businesses     | (1,102,904)  | (1,953,226)  |
| Deferred costs                                | (370,195)    | (18,165)     |
| Acquisition of other assets                   | 1,113,249    | (5,078,081)  |
|   | 552,012      | (7,408,086)  |
| Foreign exchange                              | (317,944)    | (34,757)     |
| Net increase in cash position                 | 2,525,773    | 2,802,448    |
| Cash position, beginning of period            | (2,799,744)  | (16,166)     |
| Cash position, end of period                  | \$ (273,971) | \$ 2,786,282 |
| Income taxes paid                             | \$ 328,135   | \$ 819,116   |
| Interest paid                                 | \$ 689,666   | \$ 481,153   |

**Interim Consolidated Statements of Earnings and Retained Earnings** (unaudited)*Three Months Ended June 30*

|   | 2001          | 2000          |
|---|---------------|---------------|
| Sales   | \$ 33,337,022 | \$ 24,145,755 |
| Cost of sales   | 18,239,491    | 13,292,078    |
| Gross margin  | 15,097,531    | 10,853,677    |
| Operating expenses  | 12,026,877    | 8,423,730     |
| Earnings before interest, taxes, depreciation and amortization  | 3,070,654     | 2,429,947     |
| Depreciation and amortization   | 1,183,091     | 801,966       |
| Interest expense  | 974,143       | 592,312       |
| Interest income   | (8,732)       | (3,731)       |
|   | 2,148,502     | 1,390,547     |
| Earnings before income taxes  | 922,152       | 1,039,400     |
| Income taxes  | 228,030       | 390,114       |
| Net earnings  | 694,122       | 649,286       |
| Dividends on Class E shares   | (118,256)     | (118,256)     |
| Premium paid on Class A (Subordinate Restricted Voting)<br>shares purchased and cancelled ( <i>Note 9</i> ) | (5,452)       | —             |
| Retained earnings, beginning of period  | 4,542,806     | 2,088,541     |
| Retained earnings, end of period  | \$ 5,113,220  | \$ 2,619,571  |
| Average number of shares outstanding  | 13,532,694    | 12,671,486    |
| <b>Basic earnings per share</b>   | \$ 0.0426     | \$ 0.0419     |
| <b>Fully diluted earnings per share</b>   | \$ 0.0373     | \$ 0.0361     |

## **Income Taxes**

*Income Tax* expense for the first six months of 2001 decreased to \$768 thousand or 1.1% of sales compared to \$937 thousand or 2.1% of sales in the same period of 2000. The decrease in income tax expense is primarily due to the higher proportion of income from U.S. operations subject to lower income tax rates, combined with the positive effect of income tax deductions available to the Company as a result of effective tax planning of U.S. acquisitions.

## **Net Earnings and Earnings Per Share**

*Net Earnings* for the first half of 2001 increased to \$1.8 million from \$1.4 million in the same period of 2000, resulting from higher EBITDA on increased sales and lower income tax expense in relation to sales, partially offset by higher depreciation, amortization and interest costs.

Earnings Per Share for the first half was \$0.116 per share compared to \$0.093 per share in the same period of 2000. Fully Diluted Earnings Per Share, which is calculated under the assumption that all convertible securities had been converted and stock options had been exercised at the date of issue (where such conversion and exercise would have the effect of reducing earnings per share), was \$0.102 per share for the first six months compared to \$0.079 per share in the same period of the prior year. The increase in earnings per share and fully diluted earnings per share resulted from growth in net earnings at a rate that exceeded the growth in the number of shares issued during the period.

## **LIQUIDITY AND CAPITAL RESOURCES**

The Company's objective is to ensure, in advance, that it has ample capital resources to allow it to execute its growth plan. It strives to combine an appropriate mix of equity and debt within its capital structure.

### **Equity**

During the six months ended June 30, 2001, the Company raised additional equity through the issuance of Class A (Subordinate Restricted Voting) shares as follows:

- An additional 679,027 Class A (Subordinate Restricted Voting) shares issued during the period, at premiums to market pricing, with a total value of approximately \$1.9 million, as partial consideration paid to vendors for acquisitions;
- The exercise of stock options during the period resulting in the issuance of 5,600 Class A (Subordinate Restricted Voting) shares for cash proceeds of \$6,520;
- The conversion of Series I and II convertible debentures into 34,050 Class A (Subordinate Restricted Voting) shares with a value of \$37,800.

As indicated in last year's annual report, the Company did not anticipate needing, nor did it ultimately require, new equity in the first half of 2001, beyond the issue of shares to vendors as partial payment for acquisitions.

During 2000, Company management began to perceive that the Company's long-term value was not being adequately reflected in the price of the Class A (Subordinate Restricted Voting) common shares. Accordingly, on September 6, 2000, the Company initiated,

through the Toronto Stock Exchange, a Normal Course Issuer Bid in order to repurchase up to 5% of the Company's outstanding shares. As of June 30, 2001, the Company has repurchased a total of 87,100 Class A (Subordinate Restricted Voting) shares at an average price of \$2.12.

In July 1999, the Company entered into agreements with strategic trading partners that provide, among other things, approximately \$25.0 million in forgivable capital funding over a period of three to six years, to be used for acquisition or start-up of new repair operations. Subject to certain obligations and performance criteria, which the Company anticipates it will meet, the Company will not be required to repay this funding. The nature of this capital funding provides the Company with another source of available capital, without interest cost or dilution, to support its acquisition strategy. During the first half of 2001, the Company received approximately \$2.8 million (\$2.4 million in first half of 2000) in forgivable capital funding toward first quarter 2001 and 2000 acquisitions.

Other than for the issue of shares to vendors as partial payment for acquisitions, the Company does not anticipate a need for significant amounts of new equity in 2001 to fund its planned acquisitions. The Company will, however, raise new debt or equity in advance of requiring the funds where a market opportunity exists and where the objective is to ensure ample capital is available for future growth.

### **Debt Financing**

On March 20, 2001, the Company entered into a new seven-year syndicated loan agreement with the Toronto-Dominion Bank and Scotiabank, to be effective April 1, 2001. The new credit facilities were used initially to repay the existing facilities, and provide the Company with an ongoing ability to pay for a portion of future acquisitions using bank debt, thereby stretching its contributed equity and minimizing dilution to shareholders.

The new facility includes a \$5.0 million operating credit and a \$45.0 million revolving term facility to be used for acquisitions and new start-up locations. Availability of funds under both the operating credit and the revolving term facility are subject to annual renewal. However, once advanced, borrowings under the revolving term facility were committed, for a total of seven years, subject to repayment requirements and covenant performance. As is normal for financings of this nature, the credit facility is secured by the Company's assets.

At June 30, 2001, the Company had approximately \$32.5 million (\$25.4 million – December 31, 2000) of debt outstanding under the revolving term facility and approximately \$3.7 million (\$4.1 million – December 31, 2000) outstanding under its operating line of credit.

During 2001, the Company will continue to supplement its debt financing, by negotiating with vendors, in certain acquisitions, to provide financing to the Company in the form of term notes. The notes payable to vendors are typically at favorable interest rates and for terms of 5-10 years. Although this source of financing does partially impact the total availability of funds under the new credit facility, it is another means of supporting the Company's growth, at a relatively low cost.

## Interim Consolidated Statements of Cash Flows (unaudited)

Six Months Ended June 30

|   | 2001         | 2000         |
|---|--------------|--------------|
| <b>Cash flows from operating activities</b>   |              |              |
| Net earnings                                  | \$ 1,792,070 | \$ 1,387,666 |
| Items not affecting cash                      |              |              |
| Future taxes                                  | 66,300       | 143,587      |
| Depreciation and amortization                 | 2,141,714    | 1,456,907    |
| Amortization of unearned income               | (545,748)    | (252,718)    |
| Gain on disposal of capital assets            | (224,969)    | (26,226)     |
| Non-controlling interest                      | –            | 5,017        |
|   | 3,229,367    | 2,714,233    |
| Changes in non-cash working capital items     | 1,338,052    | (579,618)    |
|   | 4,567,419    | 2,134,615    |
| <b>Cash flows from financing activities</b>   |              |              |
| Issue of share capital                        | 6,520        | 42,415       |
| Repurchase of share capital                   | (52,800)     | –            |
| Increase in obligations under long-term debt  | 10,574,169   | 20,016,114   |
| Repayment of long-term debt                   | (3,648,211)  | (3,335,273)  |
| Repayment of obligations under capital leases | (375,367)    | (338,525)    |
| Increase in unearned income                   | 2,086,810    | 3,261,938    |
| Increase in other long-term liabilities       | 269,137      | 200,000      |
| Dividends paid                                | (236,512)    | (236,512)    |
|   | 8,623,746    | 19,610,157   |
| <b>Cash flows from investing activities</b>   |              |              |
| Proceeds on sale of capital assets            | 1,579,115    | 80,406       |
| Acquisition of capital assets                 | (1,223,359)  | (847,957)    |
| Acquisition and development of businesses     | (2,890,322)  | (3,294,836)  |
| Deferred costs                                | (398,430)    | (25,842)     |
| Acquisition of other assets                   | (7,078,782)  | (14,375,180) |
|   | (10,011,778) | (18,463,409) |
| Foreign exchange                              | (215,634)    | (78,104)     |
| Net increase in cash position                 | 2,963,753    | 3,203,259    |
| Cash position, beginning of period            | (3,237,724)  | (416,977)    |
| Cash position, end of period                  | \$ (273,971) | \$ 2,786,282 |
| Income taxes paid                             | \$ 523,014   | \$ 1,116,345 |
| Interest paid                                 | \$ 1,608,737 | \$ 905,215   |

**Interim Consolidated Statements of Earnings and Retained Earnings** (unaudited)*Six Months Ended June 30*

|   | 2001          | 2000          |
|---|---------------|---------------|
| Sales   | \$ 67,034,157 | \$ 44,722,650 |
| Cost of sales   | 37,182,575    | 24,528,830    |
| Gross margin  | 29,851,582    | 20,193,820    |
| Operating expenses  | 23,370,742    | 15,397,102    |
| Earnings before interest, taxes, depreciation and amortization  | 6,480,840     | 4,796,718     |
| Depreciation and amortization   | 2,141,714     | 1,456,907     |
| Interest expense  | 1,794,040     | 1,020,207     |
| Interest income   | (15,014)      | (4,689)       |
|   | 3,920,740     | 2,472,425     |
| Earnings before income taxes  | 2,560,100     | 2,324,293     |
| Income taxes  | 768,030       | 936,627       |
| Net earnings  | 1,792,070     | 1,387,666     |
| Dividends on Class E shares   | (236,512)     | (236,512)     |
| Premium paid on Class A (Subordinate Restricted Voting)<br>shares purchased and cancelled ( <i>Note 9</i> ) | (28,605)      | –             |
| Retained earnings, beginning of period  | 3,586,267     | 1,468,417     |
| Retained earnings, end of period  | \$ 5,113,220  | \$ 2,619,571  |
| Average number of shares outstanding  | 13,359,915    | 12,411,368    |
| <b>Basic earnings per share</b>   | \$ 0.1164     | \$ 0.0927     |
| <b>Fully diluted earnings per share</b>   | \$ 0.1017     | \$ 0.0790     |

## **Working Capital**

Net working capital (current assets less current liabilities) increased to approximately \$4.9 million at June 30, 2001, from approximately \$0.7 million at December 31, 2000. As a result of entering into the new syndicated loan agreement, under which repayment of the credit facilities will only commence on July 1, 2003, the working capital position at June 30, 2001, no longer includes any current portion of long-term bank debt due within one year. The Company expects to continue to operate at or above a working capital ratio of 1:1.

## **Capital Expenditures**

Excluding expenditures for acquisitions, the Company spent approximately \$1.2 million (\$2.1 million, net of obligations under capital leases of \$918 thousand) or 1.8% of sales on capital expenditures in the first six months of 2001, compared to \$848 thousand (\$1.2 million, net of obligations under capital leases of \$356 thousand) or 1.9% of sales in the same period of 2000. The Company expects that the level of capital expenditures, as a percentage of sales, will be at, or near the current level in the future.

## **RISKS AND UNCERTAINTIES**

The Company is subject to certain risks inherent in the operation of its business, including customer concentration in certain public insurance markets, competition from other businesses, competition from other acquirers of collision repair businesses, ongoing access to sources of capital, increases in operating costs caused by general and location specific economic conditions, labour relations, environmental and regulatory risks and changes in interest rates, tax rates, foreign currency exchange rates and other operating expenses. The Company manages risk and risk exposures through a combination of insurance, its system of internal controls and sound operating practices. For a more detailed discussion of these risks and uncertainties, please refer to the Company's Annual Report.

## **OUTLOOK**

The Company anticipates continuing favourable results in 2001 and expects to achieve meaningful growth in sales, operating profit and earnings per share.

It will continue to execute an acquisition based growth strategy targeting market leading collision repair facilities.

In order to achieve the desired rate of growth, the Company is expected to grow in both the U.S. and Canadian markets. The Company will also continue to work on improving same store sales growth, gross margins and EBITDA margins of all operations, including acquisitions.

The Company continues to develop its systems and its infrastructure to support its growth.

The Company is confident in its ability to continue to enhance shareholder value.

## FORWARD-LOOKING INFORMATION

This interim report contains forward-looking information, other than historical facts, which reflect the views of the Company's management with respect to future events. Forward-looking information typically contains statements with words such as "anticipate", "believe", "expect", "plan" or similar words suggesting future outcomes or events. Such forward-looking information reflects the current views of the Company's management on the basis of information currently available.

Although management believes that its expectations are reasonable, readers are cautioned not to place undue reliance on forward-looking information because it is possible that predictions, forecasts, projections and other forms of forward-looking information will not be achieved. By its nature, the forward-looking information contained herein is subject to inherent risks and uncertainties, and assumptions relating to the operations, results of operations, financial position, business prospects and strategies of the Company. The Company can give no assurance that its expectations with respect to forward-looking information will prove to be correct.

The Company assumes no obligation to update, publicly or otherwise, the forward-looking information contained herein or update the reasons why actual results could differ from those contemplated by the forward-looking information, whether as a result of new information, future events or otherwise.

# Interim Consolidated Financial Statements

## Interim Consolidated Balance Sheets (unaudited)

June 30, 2001 and December 31, 2000

|   | June 30<br>2001      | December 31<br>2000  |
|---|----------------------|----------------------|
| <b>Assets</b>                                       |                      |                      |
| Current   |                      |                      |
| Accounts receivable                                 | \$ 10,444,927        | \$ 11,183,811        |
| Income taxes recoverable                            | 930,799              | 1,089,508            |
| Inventory   | 3,287,537            | 2,961,238            |
| Prepaid expenses                                    | 1,649,436            | 1,230,335            |
|   | <b>16,312,699</b>    | 16,464,892           |
| Capital assets (Note 4)                             | 18,277,312           | 16,094,189           |
| Deferred costs (Note 5)                             | 800,575              | 501,397              |
| Other assets (Note 6)                               | 43,530,448           | 34,932,950           |
|   | <b>\$ 78,921,034</b> | <b>\$ 67,993,428</b> |
| <b>Liabilities</b>                                  |                      |                      |
| Current   |                      |                      |
| Bank indebtedness                                   | \$ 273,971           | \$ 3,237,724         |
| Accounts payable and accrued liabilities            | 9,927,202            | 8,744,748            |
| Due to related parties                              | 19,417               | 16,012               |
| Current portion of long-term debt                   | 226,645              | 2,981,135            |
| Current portion of obligations under capital leases | 911,619              | 825,450              |
|   | <b>11,358,854</b>    | 15,805,069           |
| Long-term debt (Note 7)                             | 33,404,366           | 23,772,367           |
| Obligations under capital leases (Note 8)           | 1,555,022            | 1,098,433            |
| Convertible debentures – debt component             | 1,652,967            | 1,678,485            |
| Future taxes  | 389,456              | 317,005              |
| Unearned income                                     | 7,004,854            | 5,457,792            |
| Other long-term liabilities                         | 604,638              | 347,195              |
|   | <b>55,970,157</b>    | 48,476,346           |
| <b>Equity</b>                                       |                      |                      |
| Share capital (Note 9)                              | 17,458,954           | 15,505,193           |
| Convertible debentures – equity component           | 275,950              | 288,232              |
| Retained earnings                                   | 5,113,220            | 3,586,267            |
| Cumulative translation adjustment                   | 102,753              | 137,390              |
|   | <b>22,950,877</b>    | 19,517,082           |
|   | <b>\$ 78,921,034</b> | <b>\$ 67,993,428</b> |