# Consolidated Interim Report

# 2

2nd quarter
period ended June 30, 2008

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## MANAGEMENT REPORT

This Management Report on the operating results and cash flows of the Company for the period ended June 30, 2008 compared to the period ended June 30, 2007 and on its financial position for the period ended June 30, 2008 compared to December 31, 2007 should be read in conjunction with the consolidated financial statements and accompanying notes. The information contained in this Management Report takes into account any major event that occurred prior to August 5, 2008, on which date the financial statements and Management Report were approved by the Board of Directors of the Company. It presents the status and business context of the Company as they were, to management's best knowledge, at the time these lines were written.

Additional information on Uni-Select, including the audited financial statements as at December 31, 2007 and the Annual Information Form of the Company, is available on SEDAR's website at: www.sedar.com.

In this Management Report, "Uni-Select" or the "Company" designates, as the case may be, Uni-Select Inc., or its subsidiaries, divisions or joint ventures. Unless otherwise indicated, all financial amounts appearing in this Management Report, including tabular amounts, are expressed in thousands of Canadian dollars, and all comparisons are made with the previous period.

Certain sections of this Management Report contain forward-looking statements which, by their very nature, include risks and uncertainties, such that actual results could differ from those indicated in these forward-looking statements. Unless required to do so pursuant to applicable securities legislation, management assumes no obligation as to the updating or revision of the forward-looking statements as a result of new information, future events or other changes.

The interim financial statements for the period ended June 30, 2008 have not been reviewed by the auditors of the Company.

## SUMMARY

**Uni-Select recorded sales of $332,631 for the second quarter of 2008, an increase of 6.2% compared to the same quarter in 2007. With respect to net earnings, Uni-Select reports an 8.7% increase compared to the same period a year ago, having reached $12,689 or $0.64 per share. These results are due notably to the contribution of the acquisitions completed in 2007 and 2008, as well as the profitability improvement plans put in place at the end of 2007.**

## 1. FINANCIAL HIGHLIGHTS OF THE SECOND QUARTER

(in thousands of dollars, except for per-share amounts and percentages)

| | Second Quarters ended | | | Six-month periods ended | | |
|---|---|---|---|---|---|---|
| **OPERATING RESULTS** | **June 30 2008** | June 30 2007 | % | **June 30 2008** | June 30 2007 | % |
| Sales | **332,631** | 313,257 | 6.2% | **614,329** | 586,422 | 4.8% |
| Operating income (EBITDA) | **24,452** | 23,138 | 5.7% | **38,984** | 36,540 | 6.7% |
| *EBITDA margin* | ***7.4%*** | *7.4%* | | ***6.3%*** | *6.2%* | |
| Earnings before income taxes and non-controlling interest | **20,182** | 19,156 | 5.4% | **30,119** | 28,945 | 4.1% |
| Net earnings | **12,689** | 11,675 | 8.7% | **18,750** | 17,503 | 7.1% |
| **COMMON SHARE DATA** | **June 30 2008** | June 30 2007 | | **June 30 2008** | June 30 2007 | |
| Earnings and diluted earnings per share | **0.64** | 0.59 | | **0.95** | 0.89 | |
| Dividend paid per share | **0.108** | 0.108 | | **0.215** | 0.208 | |
| Number of shares issued and outstanding | **19,727,958** | 19,736,558 | | **19,727,958** | 19,736,558 | |
| Weighted average number of outstanding shares | **19,731,769** | 19,725,562 | | **19,734,163** | 19,718,736 | |
| **FINANCIAL POSITION** | | | | **June 30 2008** | Dec. 31 2007 | |
| Working capital | | | | **353,354** | 326,941 | |
| Total assets | | | | **690,512** | 615,573 | |
| Total net indebtedness | | | | **150,761** | 134,945 | |
| Long-term debt to shareholders' equity ratio | | | | ***35.7%*** | *32.7%* | |
| Funded debt to EBITDA | | | | **1.90** | 1.76 | |
| Return on shareholders' equity | | | | **13.6%** | 13.9% | |
| Book value per share | | | | **16,40** | 15.43 | |

## 2. DESCRIPTION OF THE ACTIVITIES OF THE COMPANY

**Founded in 1968, Uni-Select Inc. ("Uni-Select" or the "Company") is the second largest distributor of automotive replacement parts and accessories in Canada, and the seventh largest in the United States. Uni-Select's business is segmented into three distinct reportable sectors:**

• **Automotive Group Canada**, comprised of various subsidiaries, joint ventures and divisions, specializes in the distribution of automotive replacement parts, tools and accessories across Canada. Its customer base consists primarily of 536 independent jobbers serving installers and collision repair centres, as well as large national chains of installers. Through its 13 distribution centres located in all of Canada's major regions and its 36 corporate stores, Automotive Group Canada manages some 350,000 different products, mainly national brands, which it sources from a pool of North American and international manufacturers. Besides distribution services, the group provides merchant members with a broad selection of services on a menu basis, including several differentiating marketing programs under distinctive banners, training activities, IT management tools, financing and various programs aimed at supporting its customers' operations and expansion.

• **Automotive Group USA**, comprised of Uni-Select USA, Inc., is a subsidiary owned 86.9% by the Company, conducts similar operations in the United States. This group currently operates 62 distribution centres and 236 corporate stores in 25 different states. This network provides it with coverage of approximately 70% of the U.S. registered vehicle fleet. Automotive Group USA serves some 1,544 independent merchants to whom it offers a large selection of products and services.

• **Heavy Duty Group,** of which Uni-Select's wholly-owned subsidiary Palmar Inc. is a part of, is involved in the distribution and sale of replacement parts and accessories for heavy duty trucks, trailers and buses, as well as specialty tools and wheels for all types of vehicles. It operates one distribution centre in Quebec, along with 23 corporate stores in Quebec, New Brunswick, Nova Scotia, Prince Edward Island and Ontario and Alberta.

## 3. ECONOMIC CONDITIONS

**Risks related to Industry and Economic Conditions**
Although not as cyclical as the new vehicles market, the replacement parts market relies upon last year's new vehicle sales. The Heavy Duty Group is also affected by external factors, such as the economy and the transport industry in general.

The multiplicity of vehicle models, combined with increased longevity, translates into a proliferation of replacement parts, which forces distributors and merchants to supply a larger range of products in order to meet demand. The increase in the number of parts required to serve customers increases the requirements in terms of capital and sophistication of management. In addition, technological developments that require a constant adaptation to the market are barriers to effective penetration of the market.

The Canada/US exchange rate may affect the Company's consolidated results when converting the results of the Automotive USA Group into Canadian currency. Nevertheless, the potential impact on profitability is diminished by the fact that the Company, to some extent, benefits from a natural protection in splitting its sales and purchases between the two currencies. Furthermore, the Company is of the opinion that the increase in the Canadian dollar over the last few years has resulted in deflation in the value of replacement parts sold in Canada, which has had a negative impact on sales and profit margin.

Management has, nevertheless, taken measures to lessen the effects of these risks.

**Risks Relating to the Business Model and Strategic Plan of Uni-Select**

Uni-Select's business model, which is based on serving its merchant members, requires special measures to ensure the loyalty and longevity of these relationships. Uni-Select has implemented different programs to so ensure and remains proactive and open to the needs of its members (increasing product range, administrative services on a menu basis such as marketing, training and financial support).

Growth through acquisitions has its own risks. However, Uni-Select has fine-tuned its expertise in this domain. To limit risks, the Company applies a targeted and selective strategy, conducts stringent due diligence reviews and develops detailed integration plans.

## 4. NON GAAP PERFORMANCE MEASURES

The information contained in this report also includes some figures that are not performance measures consistent with Canadian generally accepted accounting principles ("GAAP").

For instance, the Company uses "EBITDA", which represents operating income before interests, amortization, income taxes and non-controlling interest, because this measure is a widely accepted financial indicator of a company's ability to service and incur debt. It should not be considered by an investor as an alternative to operating income or net earnings, as an indicator of operating performance or cash flows, nor as a measure of liquidity, but as complementary information. As EBITDA is not a measurement defined by Canadian GAAP, it may not be comparable to the EBITDA of other companies. In the Company's statement of earnings, EBITDA corresponds to *"Earnings before the following items"*. The EBITDA margin corresponds to the percentage of EBITDA divided by sales.

The Company also uses the "organic growth" measure, which consists in quantifying the increase in consolidated and segmented sales between two given periods, excluding the impact of acquisitions, strategic alliances and exchange rate fluctuations and, if applicable, the different number of billing days between the periods. Uni-Select uses this measure because it enables the Company to judge the intrinsic trend in the sales generated by its operational base in comparison with the rest of the market. The determination of the organic growth rate, which is based on reasonable findings according to management, could differ from actual organic growth rates. This measure may also not correspond to similarly titled measures used by other companies.

Also, the Company uses "total net indebtedness", which consists of long-term debt and merchant members' deposits in a guarantee fund (including current portions), net of cash and cash equivalents and temporary investments. It also uses the total net debt to total invested capital ratio, which corresponds to the percentage of total net debt divided by the sum of total net debt and shareholders' equity. These measurements are not defined by Canadian GAAP and may therefore not be comparable to similarly titled measures used by other companies. They are used by Uni-Select because they are widely accepted indicators of a company's short and long-term financial health.

Finally, the Company uses the funded debt to EBITDA ratio which corresponds to bank indebtedness, long term debt, merchant members' deposits in guarantee funds (including current portion) and the fair value of the derivative financial instruments to EBITDA.

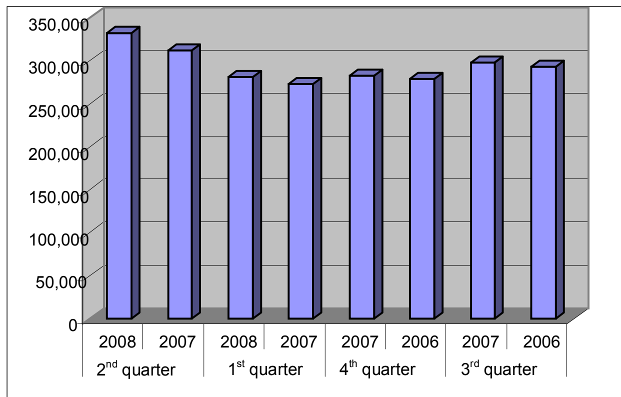
## 5. CONSOLIDATED QUARTERLY OPERATING RESULTS

The following table summarizes the main financial information contained in the consolidated interim financial statements for each of the last eight quarters.

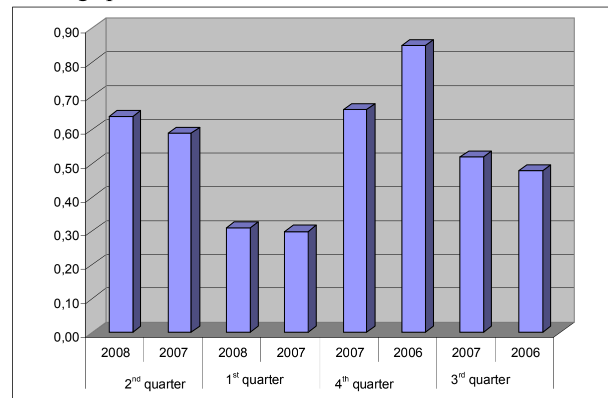
(in thousands of dollars, except for per-share amounts and percentages)

| | 2nd quarter | | 1st quarter | | 4th quarter | | 3rd quarter | |
|---|---|---|---|---|---|---|---|---|
| | **2008** | **2007** | 2008 | 2007 | 2007 | 2006 | 2007 | 2006 |
| Sales | **332,631** | **313,257** | 281,698 | 273,165 | 283,111 | 279,827 | 298,756 | 293,421 |
| Operating income (EBITDA) | **24,452** | **23,138** | 14,532 | 13,402 | 23,505 | 30,479 | 19,965 | 18,800 |
| *EBITDA margin* | ***7,4%*** | ***7.4%*** | *5.2%* | *4.9%* | *8.3%* | *10.9%* | *6.7%* | *6.4%* |
| Net earnings | **12,689** | **11,675** | 6,061 | 5,828 | 13,080 | 16,677 | 10,258 | 9,402 |
| Earnings per share | **0.64** | **0.59** | 0.31 | 0.30 | 0.66 | 0.85 | 0.52 | 0.48 |
| Diluted earnings per share | **0.64** | **0.59** | 0.31 | 0.30 | 0.66 | 0.84 | 0.52 | 0.48 |
| Dividend per share | **0.108** | **0.108** | 0.108 | 0.10 | 0.108 | 0.10 | 0.108 | 0.10 |

Sales




Earnings per share



## 6. DISCUSSION AND ANALYSIS OF CONSOLIDATED RESULTS

(in thousands of dollars, except for percentages)

| | Second Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **%** | **2008** | 2007 | **%** |
| Sales | **332,631** | 313,257 | 6.2% | **614,329** | 586,422 | 4.8% |
| EBITDA | **24,452** | 23,138 | 5.7% | **38,984** | 36,540 | 6.7% |
| EBITDA margin | **7.4%** | *7.4%* | | **6.3%** | *6.2%* | |

**Sales**

The increase of $19,374 or 6.2% in sales in the second quarter ($32,120 or 10.3% excluding the depreciation of the US dollar in relation to the Canadian dollar) is attributable to the following:

- Sales generated by acquisitions completed in the previous quarters representing $41,024 or 13.1%;

Partially offset by:

- A negative organic growth explained by:
  - The economic slowdown observed in both Canada and the USA;
  - The loss of an important customer during the fourth quarter of 2007 in the Northwest region of the USA and the notable decrease in sales to another customer due to more stringent credit policies.

**Operating Income**

The EBITDA margin was stable at 7.4% due to the following factors:

- A larger proportion of sales to installers, for which the gross margin is higher;
- The achievement of synergies resulting from the latest acquisitions in both Canada and the USA ;
- Profit improvement plans implemented in the USA and for the Heavy Duty Group;

Offset by:

- An increase in operating expenses due to acquisitions and an increase in distribution costs to service the installers;
- The semi-variable costs that could not be lowered proportionately with sales;
- An increase in bad debt expense resulting from the slowdown in the US economy;
- An increase in delivery costs at the stores level due to increased fuel costs.

## YEAR-TO-DATE ANALYSIS:

### Sales

The increase of $27,907 or 4.8% in sales for the first six months of the year ($61,803 or 10.6% excluding the depreciation of the US dollar in relation to the Canadian dollar) is mainly explained by the same factors as those that have affected the quarter; sales generated by acquisitions completed in the previous quarters represented an increase in sales of $76,017 or 13.0%.

### Operating Income

The improvement of the EBITDA margin to 6.3% is mainly due to the same factors as those that have affected the quarter; the bad debt expense for the second quarter having a lower impact over the six-month period.

## 7. DISCUSSION AND ANALYSIS OF SEGMENTED RESULTS

### 7.1 Automotive Group USA

(in thousands of dollars, except for percentages)

| | Second Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **%** | **2008** | 2007 | **%** |
| Sales | **168,181** | 158,813 | 5.9% | **318,100** | 307,351 | 3.5% |
| EBITDA | **12,037** | 10,526 | 14.4% | **21,214** | 18,458 | 14.9% |
| EBITDA margin | **7.2%** | *6.6%* | | **6.7%** | *6.0%* | |

**Sales**

Automotive Group USA realized an increase of $9,368 or 5.9% in its sales over the corresponding quarter of the previous year ($22,114 or 13.9% excluding the depreciation of the US dollar in relation to the Canadian dollar). This increase is explained as follows:

- The increase in sales generated by acquisitions completed during the course of the previous quarters representing $27,464 or 17.3%;

In part offset by:

- A negative organic growth explained by:
  - The economic slowdown observed in both Canada and the USA;
  - The loss of an important customer during the fourth quarter of 2007 in the Northwest region and the notable decrease in sales to another customer due to more stringent credit policies.

**Operating Income**

The improvement of the EBITDA margin of Automotive Group USA to 7.2% is mainly due to the following factors:

- An increased proportion of sales to installers stemming from the purchase of stores with more considerable gross margins;
- An improvement in buying conditions;
- The realization of synergies pursuant to the integration of acquisitions;
- A profit improvement plan put in place at the end of 2007 which begin to show some results;

In part offset by:

- An increase in operating expenses due to acquisitions and an increase in distribution costs to service installers;
- An increase in delivery costs at the stores level due to increased fuel costs;
- The semi-variable costs that could not be lowered proportionately with sales;
- An increase in bad debt expense resulting from the slowdown in the US economy.

## YEAR-TO-DATE ANALYSIS:

### Sales

The increase of $10,749 or 3.5% in sales for the first six months of the year ($44,645 or 14.5% excluding the depreciation of the US dollar in relation to the Canadian dollar) is mainly explained by the same factors as those that have affected the quarter; sales generated by acquisitions completed in the previous quarters representing an increase in sales of $53,654 or 17.5%.

### Operating Income

The improvement of the EBITDA margin to 6.7% for the six-month period is mainly due to the same factors as those that have affected the quarter.

## 7.2 Automotive Group Canada

(in thousands of dollars, except for percentages)

| | Second Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **%** | **2008** | 2007 | **%** |
| Sales | **149,504** | 139,385 | 7.3% | **268,269** | 250,217 | 7.2% |
| EBITDA | **12,980** | 13,269 | (2.2%) | **19,448** | 19,887 | (2.2%) |
| EBITDA margin | **8.7%** | *9.5%* | | **7.2%** | *7.9%* | |

**Sales**

Automotive Group Canada realized an increase of $10,119 or 7.3% in its sales over the corresponding quarter of the previous year. This situation is due to the following factors:

- The acquisitions completed during the course of previous quarters for a contribution of $13,560 or 9.7%;

In part offset by:

- An organic decrease of 2.5% resulting from the economic slowdown.

**Operating Income**

During the second quarter, the contribution of Automotive Group Canada decreased by 0.8%. This decrease in the EBITDA margin is explained by the following factors:

- The increase in operating expenses resulting from:
  - An increased proportion of sales to installers following the purchase of stores with more considerable operation costs;
  - The semi-variable costs that could not be lowered proportionately with sales;

In part offset by:

- A higher gross margin due to a larger proportion of sales to installers resulting from the acquisition of wholesalers;
- The contribution and synergies from the acquisitions realized in the last quarters.

**YEAR-TO-DATE ANALYSIS:**

**Sales**

Automotive Group Canada's sales increase of $18,052 or 7.2% for the first six months of the year is principally explained by the same factors as those that have affected the quarter; sales generated by acquisitions completed in the last quarters accounting for $22,363 or 8.9%.

**Operating Income**

For the six-month period, the contribution of Automotive Group Canada decreased by 0.7%. This decrease of the EBITDA margin is mainly explained by the same factors as those that have affected the quarter, adding to those factors non-recurrent costs and a change in sales mix related to damages incurred at the Boucherville distribution centre in the first quarter.

### 7.3 Heavy Duty Group

(in thousands of dollars, except for percentages)

| | Second Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **%** | **2008** | 2007 | **%** |
| Sales | **14,946** | 15,059 | (0.8%) | **27,960** | 28,854 | (3.1%) |
| EBITDA | **(565)** | (657) | (14.0%) | **(1,678)** | (1,805) | (7.0%) |
| EBITDA margin | **(3.8%)** | *(4.4%)* | | **(6.0%)** | *(6.3%)* | |

**Sales**

A 0.8% decrease in sales for the Heavy Duty Group compared to the same quarter a year earlier is principally due to the slowdown in the manufacturing sector in Quebec which negatively affected the transportation industry and, by the same token, in the demand for parts in this sector.

**Operating Income**

The Heavy Duty Group recorded a negative margin of 3.8%, compared to a negative margin of 4.4% for the corresponding period in 2007. The improvement in the operating margin comes from a higher gross margin resulting from the different strategies implemented since last year.

**YEAR-TO-DATE ANALYSIS:**

**Sales**

A 3.1% decrease in sales for the Heavy Duty Group compared to the six-month period a year earlier is principally due to the slowdown in the manufacturing sector in Quebec as mentioned for the quarter.

**Operating Income**

The Heavy Duty Group recorded a negative margin of 6.0%, compared to a negative margin of 6.3% for the same six-month period in 2007. This improvement is explained by the same factors already mentioned for the quarter.

## 8. DISCUSSION AND ANALYSIS OF OTHER ITEMS AND AMOUNTS RELATING TO CONSOLIDATED RESULTS

(in thousands of dollars, except for percentages

| | Second Quarter | | | Year-to-Date | | |
|---|---|---|---|---|---|---|
| | **2008** | 2007 | **%** | **2008** | 2007 | **%** |
| Interest | **1,591** | 1,618 | 1.7% | **3,490** | 2,955 | 18.1% |
| Amortization | **2,679** | 2,364 | 13.3% | **5,375** | 4,640 | 15.8% |
| Income taxes | **6,582** | 6,656 | (1.1%) | **9,779** | 10,004 | (2.2%) |
| *Tax rates* | ***32.6%*** | *34.7%* | | ***32.5%*** | *34.6%* | |

### 8.1 Interest

The interest expense has been relatively stable for the second quarter; the decrease in interest rate offsetting the increase in long term debt used to finance the acquisitions realized over the last quarters.

For the six-month period, the 18.1% increase is explained by a higher level of debt required to finance acquisitions realized in 2007 and in the beginning of 2008, partly offset by the interest rate decrease.

### 8.2 Amortization

The 13.3% increase in amortization costs for the second quarter (15.8% for the six-month period) is due to the acquisitions completed in 2007 and during the first six months of the fiscal year as well as the acquisition of fixed assets in 2007 required to modernize management systems and increase the number of vehicles.

### 8.3 Income Taxes

During the second quarter, the effective tax rate decreased by 2.1% compared to the corresponding quarter in 2007. The decrease in tax rate is partially explained by a decrease in the Canadian federal tax rate, a different geographic weighting and by a reorganisation in our U.S. operations at the end of 2007.

## 9. CASH FLOWS

The following table summarizes cash flows.

(in thousands of dollars)

| | Second Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Cash flows generated by operations before working capital items | **16,121** | 13,810 | **25,898** | 22,396 |
| Working capital items | **12,839** | 21,475 | **2,917** | 75 |
| Operating activities | **28,960** | 35,285 | **28,815** | 22,471 |
| Investing activities | **(14,784)** | (5,577) | **(35,622)** | (5,058) |
| Financing activities | **(14,356)** | (29,767) | **6,706** | (18,329) |
| Changes in cash and cash equivalents | **(180)** | (59) | **(101)** | (916) |

### 9.1 Cash Flows from Operating Activities

Cash flows from operating activities (before working capital items) improved due, in large part, to an increase in operating profits and a decrease in income taxes. Working capital items used cash flows of $12,839 in 2008 compared to $21,475 in 2007. This change is due, in large part, from an on-going inventory reduction program started in the second quarter of 2007.

### 9.2 Cash Flows from Investing Activities

The main investing activities in the second quarter are the following:

- In order to pursue its expansion, the Company used $11,228 in the second quarter ($29,625 for the six-month period) in cash for business acquisitions in the USA and Canada. For further details, please refer to the accompanying notes to the quarterly financial statements;

- The Company also purchased fixed assets of $3,798 in the second quarter ($6,166 for the six-month period). These purchases will allow, amongst other things, the pursuit of the modernization of the management systems and the acquisition of automotive equipment to increase the number of vehicles.

The $9,207 variation in the investing activities for the second quarter of 2008 compared to 2007 ($30,564 for the six-month period), results from, in addition to the business acquisitions, the sale and leaseback of a warehouse in the USA (in addition to the sale and leaseback of a warehouse in the first quarter) and cashing in of a temporary investment valued at $6,897.

### 9.3 Cash Flows used in Financing Activities

The principal financing activities in the second quarter were as follows:

- The reimbursement of bank indebtedness of $25,255 for the quarter (($1,257) for the six-month period);
- New long-term debt of $13,617 for the quarter ($13,628 for the six-month period) to finance a portion of the business acquisitions;
- The payment of dividends of $2,121 to holders of common shares for the second quarter ($4,243 for the six-month period).

## 10. FINANCIAL POSITION

**Analysis of the main items of the consolidated balance sheets.**

(in thousands of dollars)

| | **June 30 2008** | Dec. 31 2007 | Variance | Impact from acquisitions | Residual amount net of acquisitions | Explanation for remaining net variances |
|---|---|---|---|---|---|---|
| Working capital items excluding cash and cash equivalents and bank indebtedness | **388,467** | 362,229 | 26,238 | (23,367) | 2,871 | The increase is mainly due to the exchange rate, partly offset by a $4,700 decrease in inventory. |
| Financing costs | **795** | 488 | 307 | - | 307 | Due to the renewal of the credit agreement, amortization and exchange rate. |
| Goodwill | **73,878** | 64,858 | 9,020 | (7,940) | 1,080 | Explained by the fluctuation of the exchange rate. |
| Long-term debt | **107,830** | 91,786 | 16,044 | 11,831 | 4,213 | Mainly explained by the fluctuation of the exchange rate. |

## 11. CAPITAL RESOURCES

Cash flows generated by operations, together with credit facilities available to the Company, are sufficient to meet the needs of the Company with respect to acquisitions, purchase of fixed assets (approximately $20,000 planned for 2008 mainly for the development of information systems and the increase in the number of vehicles) and the payment of dividends.

As at June 30, the Company had approximately $175,000 unused credit facilities available for its development ($91,000 as at December 31, 2007).

The credit facilities are composed of a revolving credit coming to term in October 2011 and, thereafter, renewable annually for additional one-year periods. The credit facilities also include an operating credit which is renewable annually.

Derivative financial instruments are utilized to reduce interest rate risk on the Company's debt. The Company does not enter into financial instruments for trading or speculative purposes. In January 2008, the Company entered into various interest rate swap agreements as part of the Company's program to manage the floating interest rate of the Company's total debt portfolio and related overall cost of borrowing. These agreements, for an amount of $60,000, expire in three instalments of $20,000 in 2011, 2012 and 2013 and bear interest at a rate of 3.94%.

### 11.1 Indebtedness

(in thousands of dollars except for percentages)

| | **June 30, 2008** | Dec. 31, 2007 | % |
|---|---|---|---|
| Shareholders' equity | **323,583** | 304,573 | 6.2% |
| Total net indebtedness | **150,761** | 134,945 | 11.7% |
| Total net debt to total invested capital ratio | ***31.8%*** | *30.7%* | |

The increase of the debt ratio is directly related to the increase of the long-term debt following the acquisitions completed during the course of the second quarter. Note that the acquisitions of the previous quarters have not contributed to the period results in the same proportion as the increase in long-term debt. Uni-Select benefits from a solid financial position to pursue its current operations and expansion projects.

### 11.2 Capital stock

(in thousands of shares)

| | Second Quarter | | Year-to-Date | |
|---|---|---|---|---|
| | **2008** | 2007 | **2008** | 2007 |
| Number of shares issued and outstanding | **19,728** | 19,737 | **19,728** | 19,737 |
| Weighted average number of outstanding shares | **19,732** | 19,726 | **19,734** | 19,719 |

For the quarter, no shares were issued.

In the course of its share redemption program, the Company has redeemed 8,600 common shares for an amount of $197 including a redemption premium of $176.

As at August 5, 2008, the Company's capital stock consists of 19,727,958 issued and outstanding shares and options to purchase 101,928 shares.

## 12. CHANGES IN ACCOUNTING POLICIES

**Financial Instruments**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of the CICA Handbook included in Section 3862 Financial Instruments - Disclosures and Section 3863 Financial Instruments - Presentation. Section 3862 describes the required disclosures related to the significance of financial instruments on the financial position and performance of the Company and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of these Sections resulted in the Company presenting additional disclosure regarding risk management arising from financial instruments and a sensitivity analysis regarding interest rate risk. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year those Sections are adopted.

**Capital disclosures**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of the CICA Handbook included in Section 1535 Capital Disclosures. This Section establishes standards for disclosing information about the capital of the Company and how it is managed to enable users of financial statements to evaluate the objectives, policies and procedures of the Company for managing capital.

**Inventories**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of the CICA Handbook included in Section 3031 Inventories. This Section provides new guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to the net realizable value as well as on the cost formulas that are used to assign costs to inventories. The Section also requires additional disclosure.

The adoption of this Section resulted in the Company expanding its disclosure in a new note on inventory.

## 13. FUTURE ACCOUNTING STANDARDS

**International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards (“IFRS”) established by the International Accounting Standards Board will be required for fiscal years beginning January 1st, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada’s current GAAP for those enterprises.

The Company is currently establishing a convergence plan and evaluating the impact of the adoption of IFRS on its consolidated financial statements.

**Goodwill and Intangible Assets**

In February 2008, the CICA issued Handbook Section 3064 Goodwill and intangible assets in replacement of Section 3062 Goodwill and other intangible assets. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This new standard is applicable to fiscal years beginning on or after October 1st, 2008. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. The Company will implement this standard in its first quarter of fiscal year 2009 and is currently evaluating the impact of its adoption on its consolidated financial statements.

## 14. INTERNAL CONTROL OVER FINANCIAL REPORTING

Management is responsible for establishing and maintaining adequate internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with GAAP. The President and Chief Executive Officer and the Vice President and Chief Financial Officer have evaluated whether there were changes to internal controls over financial reporting during the quarter ended June 30, 2008 that have materially affected, or are reasonably likely to materially affect, its internal controls over financial reporting. No such changes were identified through their evaluation.

## 15. PERSPECTIVES

Recent acquisitions contributed, to a large extent, to the improved quarterly results. The continued improvement, integration and reorganization programs put in place in 2007 should continue to improve margins and profitability during the next six months of 2008. The Company continues to seek expansion projects in Canada as well as in the United States. The strength of the Canadian dollar compared to the US dollar facilitates this expansion. Of note is that at the current exchange rate of $1.01, the results for the last six months of the year are not expected to vary significantly whereas currency fluctuations had a negative impact of more than $0.06 per share in the first six months of 2008. Lastly, as mentioned in the first quarter, there is a temporary weakened demand in North America for automotive parts due to the increase in fuel prices. Past experience leads to believe that consumers will know how to adapt to this situation.

Richard G. Roy, CA
President and Chief Executive Officer

Denis Mathieu, CA
Vice President and Chief Financial Officer

Approved by the Audit Committee on August 4, 2008 and by the Board of Directors on August 5, 2008.

**Uni-Select Inc.**

**Consolidated Interim Financial Statements**
**June 30, 2008 and 2007**

Financial Statements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**Notice related to the review of interim financial statements**

The consolidated interim financial statements for the period ended June 30, 2008 have not been reviewed by the auditors of the Company.

**CONSOLIDATED EARNINGS**
**THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**
(in thousands of dollars, except earnings per share, unaudited)

| | 2nd QUARTER | | 6 MONTHS | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| **SALES** | **332 631** | 313 257 | **614 329** | 586 422 |
| **Earnings before the following items** | **24 452** | 23 138 | **38 984** | 36 540 |
| Interest (Note 4) | **1 591** | 1 618 | **3 490** | 2 955 |
| Amortization (Note 4) | **2 679** | 2 364 | **5 375** | 4 640 |
| | **4 270** | 3 982 | **8 865** | 7 595 |
| **Earnings before income taxes and non-controlling interest** | **20 182** | 19 156 | **30 119** | 28 945 |
| Income taxes | | | | |
| Current | **6 686** | 7 658 | **9 488** | 11 124 |
| Future | **(104)** | (1 002) | **291** | (1 120) |
| | **6 582** | 6 656 | **9 779** | 10 004 |
| **Earnings before non-controlling interest** | **13 600** | 12 500 | **20 340** | 18 941 |
| Non-controlling interest | **911** | 825 | **1 590** | 1 438 |
| **Net earnings** | **12 689** | 11 675 | **18 750** | 17 503 |
| **Basic earnings and diluted earnings per share (Note 5)** | **0,64** | 0,59 | **0,95** | 0,89 |
| Number of issued and outstanding shares | **19 727 958** | 19 736 558 | **19 727 958** | 19 736 558 |

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

**CONSOLIDATED RETAINED EARNINGS**
**THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**
(in thousands of dollars, unaudited)

| | 6 MONTHS | |
|---|---|---|
| | **2008** | **2007** |
| | **$** | **$** |
| **Balance, beginning of period** | **287 712** | 255 355 |
| Net earnings | **18 750** | 17 503 |
| | **306 462** | 272 858 |
| Redemption of common shares [a] | **176** | - |
| Dividends | **4 243** | 4 239 |
| **Balance, end of period** | **302 043** | 268 619 |

[a] During the period, the Company redeemed 8,600 common shares for a cash consideration of $197 including a share redemption premium of $176.

**CONSOLIDATED COMPREHENSIVE INCOME**
**THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**
(in thousands of dollars, unaudited)

| | 2nd QUARTER | | 6 MONTHS | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| **Net earnings** | **12 689** | 11 675 | **18 750** | 17 503 |
| **Other comprehensive income:** | | | | |
| Unrealized gains (losses) on derivative financial instruments designated as cash flow hedges, net of income taxes of ($653) and $6 for the three-month and the six-month periods respectively | **1 401** | - | **(13)** | - |
| Reclassification of realized gains (losses) to net earnings on derivative financial instruments designated as cash flow hedges, net of income taxes of ($46) and ($67) for the three-month and the six-month periods respectively ($22 and $42 in 2007) | **99** | (46) | **145** | (89) |
| Unrealized gains (losses) on translating financial statements of self-sustaining foreign operations | **(1 261)** | (9 202) | **4 569** | (10 439) |
| Other comprehensive income | **239** | (9 248) | **4 701** | (10 528) |
| **Comprehensive income** | **12 928** | 2 427 | **23 451** | 6 975 |

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

**CONSOLIDATED CASH FLOWS**
**THREE-MONTH AND SIX-MONTH PERIODS ENDED JUNE 30, 2008 AND 2007**
(in thousands of dollars, except dividends paid per share, unaudited)

| | 2nd QUARTER | | 6 MONTHS | |
|---|---|---|---|---|
| | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| **OPERATING ACTIVITIES** | | | | |
| Net earnings | **12 689** | 11 675 | **18 750** | 17 503 |
| Non-cash items | | | | |
| Amortization | **2 679** | 2 364 | **5 375** | 4 640 |
| Amortization of deferred gain on a sale-leaseback arrangement | **(54)** | ( 52) | **(108)** | (65) |
| Future income taxes | **(104)** | (1 002) | **291** | (1 120) |
| Non-controlling interest | **911** | 825 | **1 590** | 1 438 |
| | **16 121** | 13 810 | **25 898** | 22 396 |
| Changes in working capital items | **12 839** | 21 475 | **2 917** | 75 |
| CASH FLOWS FROM OPERATING ACTIVITIES | **28 960** | 35 285 | **28 815** | 22 471 |
| **INVESTING ACTIVITIES** | | | | |
| Temporary investments | **-** | 6 897 | **-** | 6 897 |
| Business acquisitions (Note 6) | **(11 228)** | (12 459) | **(29 625)** | (16 056) |
| Non-controlling interest | **-** | (178) | **-** | (178) |
| Investments | **(325)** | - | **(325)** | - |
| Advances to joint ventures | | - | | - |
| Advances to merchant members | **(1 324)** | (511) | **(2 013)** | (1 147) |
| Receipts on advances to merchant members | **1 766** | 902 | **2 331** | 1 857 |
| Fixed assets | **(3 798)** | (2 332) | **(6 166)** | (3 987) |
| Disposal of fixed assets | **125** | 2 104 | **176** | 7 556 |
| CASH FLOWS FROM INVESTING ACTIVITIES | **(14 784)** | (5 577) | **(35 622)** | (5 058) |
| **FINANCING ACTIVITIES** | | | | |
| Bank indebtedness | **(25 252)** | (27 847) | **(1 257)** | (13 888) |
| Balance of purchase price | **337** | (505) | **-** | (898) |
| Financing costs | **-** | - | **(414)** | - |
| Long-term debt | **13 617** | 1 346 | **13 628** | 1 818 |
| Repayment of long-term debt | **(907)** | (778) | **(972)** | (1 486) |
| Merchant members' deposits in guarantee fund | **167** | (25) | **161** | (314) |
| Issuance of shares | **-** | 161 | **-** | 528 |
| Share redemption | **(197)** | - | **(197)** | - |
| Dividends paid | **(2 121)** | (2 119) | **(4 243)** | (4 089) |
| CASH FLOWS FROM FINANCING ACTIVITIES | **(14 356)** | (29 767) | **6 706** | (18 329) |
| **Decrease in cash and cash equivalents** | **(180)** | (59) | **(101)** | (916) |
| Cash and cash equivalents, beginning of period | **678** | 273 | **599** | 1 130 |
| **Cash and cash equivalents, end of period** | **498** | 214 | **498** | 214 |
| Dividends paid per share | **0,108** | 0,108 | **0,215** | 0,208 |

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

**CONSOLIDATED BALANCE SHEETS**
**JUNE 30, 2008 AND 2007 AND DECEMBER 31, 2007**
(in thousands of dollars, unaudited)

| | JUNE 30, 2008 | JUNE 30, 2007 | DEC. 31, 2007 Audited |
|---|---|---|---|
| | $ | $ | $ |
| **ASSETS** | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | **498** | 214 | **599** |
| Accounts receivable | **170 067** | 150 245 | **141 043** |
| Income taxes receivable | **8 313** | 7 475 | **1 370** |
| Inventory (Note 7) | **367 136** | 298 534 | **341 545** |
| Prepaid expenses | **6 487** | 4 959 | **4 959** |
| Derivative financial instrument | **-** | 123 | **-** |
| Future income taxes | **8 756** | 7 039 | **8 671** |
| | **561 257** | 468 589 | **498 187** |
| Investments and volume discounts receivable | **7 230** | 6 951 | **7 406** |
| Fixed assets | **44 187** | 35 998 | **41 526** |
| Financing costs | **795** | 660 | **488** |
| Covenants not to compete | **261** | 438 | **330** |
| Derivative financial instrument | **193** | - | **-** |
| Goodwill | **73 878** | 45 639 | **64 858** |
| Future income taxes | **2 711** | 1 685 | **2 778** |
| | **690 512** | 559 960 | **615 573** |
| **LIABILITIES** | | | |
| CURRENT LIABILITIES | | | |
| Bank indebtedness (Note 8) | **35 611** | 12 002 | **35 887** |
| Accounts payable | **170 064** | 148 672 | **132 660** |
| Dividends payable | **2 122** | 2 120 | **2 122** |
| Instalments on long-term debt and on merchant members' deposits in guarantee fund | **45** | 146 | **577** |
| Future income taxes | **61** | 39 | **-** |
| | **207 903** | 162 979 | **171 246** |
| Deferred gain on a sale-leaseback arrangement | **2 302** | 2 650 | **2 338** |
| Long-term debt | **107 830** | 58 062 | **91 786** |
| Merchant members' deposits in guarantee fund | **7 773** | 7 855 | **7 294** |
| Future income taxes | **3 951** | 4 856 | **3 838** |
| Non-controlling interest | **37 170** | 28 188 | **34 498** |
| | **366 929** | 264 590 | **311 000** |
| **SHAREHOLDERS' EQUITY** | | | |
| Capital stock | **49 850** | 49 872 | **49 872** |
| Retained earnings | **302 043** | 268 619 | **287 712** |
| Accumulated other comprehensive income (Note 9) | **(28 310)** | (23 121) | **(33 011)** |
| | **273 733** | 245 498 | **254 701** |
| | **323 583** | 295 370 | **304 573** |
| | **690 512** | 559 960 | **615 573** |

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**JUNE 30, 2008 AND 2007**
(in thousands of dollars, except for per share amounts, unaudited)

## 1. BASIS OF PRESENTATION

The accompanying unaudited interim consolidated financial statements are prepared in accordance with Canadian generally accepted accounting principles for interim financial statements and do not include all disclosures required for complete financial statements. They are also consistent with the accounting policies outlined in the audited financial statements of the Company for the year ended December 31, 2007. The interim financial statements and related notes should be read in conjunction with the audited financial statements of the Company for the year ended December 31, 2007. When necessary, the financial statements include amounts based on informed estimates and the best judgment of management. The operating results for the interim periods reported are not necessarily indicative of results to be expected for the year.

## 2. CHANGES IN ACCOUNTING POLICIES

**Financial instruments**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of the CICA Handbook included in Section 3862 *Financial Instruments - Disclosures* and Section 3863 *Financial Instruments - Presentation*. Section 3862 describes the required disclosures related to the significance of financial instruments on the financial position and performance of the Company and the nature and extent of risks arising from financial instruments to which the Company is exposed and how the Company manages those risks. Section 3863 establishes standards for presentation of financial instruments and non-financial derivatives.

The adoption of these Sections resulted in the Company presenting additional disclosure regarding risk management arising from financial instruments and a sensitivity analysis regarding interest rate risk. Comparative information about the nature and extent of risks arising from financial instruments is not required in the year those Sections are adopted.

**Capital disclosures**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of the CICA Handbook included in Section 1535 *Capital Disclosures*. This Section establishes standards for disclosing information about the capital of the Company and how it is managed to enable users of financial statements to evaluate the objectives, policies and procedures of the Company for managing capital.

**Inventories**

On January 1, 2008, in accordance with the applicable transitional provisions, the Company adopted the new recommendations of the CICA Handbook included in Section 3031 *Inventories*. This Section provides new guidance on the determination of cost and its subsequent recognition as an expense, including any write-downs to the net realizable value as well as on the cost formulas that are used to assign costs to inventories. The Section also requires additional disclosure.

## 3. ACCOUNTING POLICIES

**Cost of inventory**

Cost of inventory recognized as an expense includes cost of goods sold for distribution centres and corporate stores and warehouse expenses, delivery expenses and occupancy costs for distribution centres.

**Comparative figures**

Certain comparative figures have been reclassified to conform with the presentation adopted in the current year.

## 4. INFORMATION INCLUDED IN THE CONSOLIDATED EARNINGS

| | 2nd QUARTER | | 6 MONTHS | |
|---|---|---|---|---|
| **Interest** | **2008** | **2007** | **2008** | **2007** |
| | **$** | **$** | **$** | **$** |
| Interest on bank indebtedness | **699** | 912 | **1 525** | 1 386 |
| Interest on long-term debt | **964** | 961 | **2 078** | 1 972 |
| Interest on merchant members' deposits in guarantee fund | **98** | 102 | **182** | 206 |
| | **1 761** | 1 975 | **3 785** | 3 564 |
| Interest income on cash and cash equivalents | **(11)** | (244) | **(21)** | (377) |
| Interest income from merchant members | **(159)** | (113) | **(274)** | (232) |
| | **1 591** | 1 618 | **3 490** | 2 955 |
| **Amortization** | | | | |
| Amortization of fixed assets | **2 586** | 2 238 | **5 178** | 4 366 |
| Amortization of other assets | **93** | 126 | **197** | 274 |
| | **2 679** | 2 364 | **5 375** | 4 640 |

## 5. EARNINGS PER SHARE

Weighted average number of shares for the calculation of basic earnings per share is 19,731,769 for the three-month period ended June 30, 2008 (19,725,562 in 2007) and 19,734,163 for the six-month period ended June 30, 2008 (19,718,736 in 2007). Impact of stock options exercised is 19,568 shares for the three-month period ended June 30, 2008 (33,484 in 2007) and 21,429 for the six-month period ended June 30, 2008 (36,647 in 2007) which total a weighted average number of shares of 19,751,337 for the three-month period ended June 30, 2008 (19,759,046 in 2007) and 19,755,593 for the six-month period ended June 30, 2008 (19,755,383 in 2007) for calculation of diluted earnings per share.

**6. BUSINESS ACQUISITIONS**

In 2008, the Company acquired the shares of two companies in the Automotive Canada segment as well as the assets and a portion of the liabilities of one company operating in the Automotive Canada segment and three companies in the Automotive USA segment.

In addition, the Company increased its interest by 3.85% in its joint venture, Uni-Select Pacific Inc. Following this transaction, the Company's interest in the joint venture increased from 65.38% to 69.23%. This transaction was carried out at the carrying amount.

The operating results are consolidated in the statement of earnings since the acquisition date.

The preliminary purchase price is allocated as follows:

| | Total |
|---|---|
| | $ |
| Current assets | 35 108 |
| Fixed assets | 1 344 |
| Other long-term assets | 22 |
| Goodwill | 7 940 |
| Current liabilities | (11 836) |
| Long-term liabilities | (48) |
| | 32 530 |
| Cash of companies acquired | 249 |
| Total consideration paid less cash acquired | 29 625 |
| Balance of purchase price payable | 2 656 |

**7. INVENTORY**

Cost of inventory recognized as an expense for the three-month period ended June 30, 2008 is $255,692 ($244,772 in 2007) and $474,129 for the six-month period ended June 30, 2008 ($459,880 in 2007).

For the three-month and six-month periods ended June 30, 2008 and 2007, net earnings were not affected by write-downs of inventories.

**8. CREDIT FACILITY**

The Company has a credit facility in the amount of $325,000. This credit facility is composed of a $235,000 revolving credit expiring in October 2011 and, thereafter, renewable annually for additional one-year periods as well as a $90,000 operating credit which is also used for the issuance of letters of guarantee and is renewable annually. As at June 30, 2008, the issued letters of guarantee totalled $5,320 ($5,010 as at December 31, 2007).

The interest rates vary according to the type of loan and the financial ratios achieved by the Company and are set each quarter. As at June 30, 2008, interest rates vary between 3.39% and 5.50% (5.35% and 7.75% as at December 31, 2007).

**9. ACCUMULATED OTHER COMPREHENSIVE INCOME**

| | JUNE 30, 2008 | DEC. 31, 2007 |
|---|---|---|
| | $ | $ |
| **Balance, beginning of period** | **(33 011)** | - |
| Balance, as previously reported | - | (12 766) |
| Cumulative impact of accounting changes relating to financial instruments (net of income taxes of $81) | - | 173 |
| **Balance, as restated** | **(33 011)** | (12 593) |
| Other comprehensive income for the period | **4 701** | (20 418) |
| **Balance, end of period** | **(28 310)** | (33 011) |

**10. EMPLOYEE FUTURE BENEFITS**

As at June 30, 2008, the Company’s pension plans are defined benefit and contribution plans.

For the three-month period ended June 30, 2008, the total expense for the defined contribution pension plans was $260 ($520 in 2007) and $601 ($602 in 2007) for the defined benefit pension plans.

For the six-month period ended June 30, 2008, the total expense for the defined contribution pension plans was $517 ($911 in 2007) and $1,201 ($1,205 in 2007) for the defined benefit pension plans.

**11. GUARANTEES**

As per inventory repurchase agreements, the Company has made a commitment to financial institutions to repurchase inventories from some of its customers at a rate of 60% to 75% of the value of inventories for a maximum amount of $63,580 ($61,870 as at December 31, 2007). In the event of proceedings, the inventories would be liquidated in the normal course of the Company's operations. These agreements are for an undetermined period of time. In management's opinion, the likelihood of major payments being made and losses being absorbed is low, since the value of the assets held in guarantee is significantly higher than the Company's commitments.

## 12. CAPITAL MANAGEMENT

Guided by its low-asset-base-high-utilization philosophy, the Company's objectives when managing capital are:

- Maintain a maximum total net debt / invested capital ratio of 40% to 45%;
- Grant shareholders a growth of the value of their shares by maintaining a return on shareholders' equity of 15% on a long-term basis and paying an annual dividend representing about 20% of the net earnings of the previous year;
- Maintain a maximum funded debt / EBITDA ratio of 3.0 to 3.5.

In the management of capital, the Company includes shareholders' equity, long-term debt, merchant members deposits in guarantee funds and bank indebtedness net of cash and cash equivalents and temporary investment.

The Company manages the capital structure and makes adjustments to it in light of the changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company has several tools, notably a share repurchase-for-cancellation program pursuant to normal course issuer bids and a flexible credit facility allowing it to react quickly to business opportunities. Also, the Company constantly analyzes working capital levels, notably inventory, to ensure that the optimal level is maintained and regularly adjusts quantity to satisfy demand as well as the level of diversification required by customers.

The Company monitors capital on a number of bases, including: total net debt / invested capital ratio, long-term debt / equity ratio, funded debt / EBITDA ratio and return on shareholders' equity ratio.

For the first six months of 2008, the results of the Company regarding its objectives when managing capital are the following:

| | JUNE 30, 2008 | DEC. 31, 2007 |
|---|---|---|
| Total net debt / invested capital ratio [(2) (3)] | 31,8% | 30,7% |
| Long-term debt / equity ratio [(2) (3)] | 35,7% | 32,7% |
| Funded debt / EBITDA ratio [(1) (2) (3)] | 1,90 | 1,76 |
| Return on shareholders' equity ratio [(1) (3)] | 13,6% | 13,9% |

(1) These ratios are calculated over the last 12 months.
(2) Increase in debt ratios comes directly from the increase of long-term debt due to the acquisitions in the last quarters.
(3) Notably, acquisitions in the last quarters did not contribute to the results of the last 12-month period ended June 30, 2008 proportionally to the increase in long-term debt.

Regarding the credit facility, the Company is required to comply with certain financial ratios which it has done as at June 30, 2008 and December 31, 2007.

## 13. FINANCIAL INSTRUMENTS

**Classification of financial instruments, carrying amount and fair value**

Classification of financial instruments as well as their carrying amount and fair value at June 30, 2008 are summarized in the following table:

| | | | | | Carrying amount | Fair value |
|---|---|---|---|---|---|---|
| | Derivative financial instruments $ | Held-for-trading $ | Loans and receivables [(1)] $ | Other financial liabilities $ | Total $ | $ |
| **Financial Assets** | | | | | | |
| Cash and cash equivalents | - | 498 | - | - | **498** | **498** |
| Accounts receivable | - | - | 170 067 | - | **170 067** | **170 067** |
| Investments and volume discounts receivable | - | - | 7 230 | - | **7 230** | **7 230** |
| Derivative financial instrument | 193 | - | - | - | **193** | **193** |
| | 193 | 498 | 177 297 | - | **177 988** | **177 988** |
| **Financial Liabilities** | | | | | | |
| Bank indebtedness | - | - | - | 35 611 | **35 611** | **35 611** |
| Accounts payable | - | - | - | 170 064 | **170 064** | **170 064** |
| Dividends payable | - | - | - | 2 122 | **2 122** | **2 122** |
| Long-term debt | - | - | - | 107 875 | **107 875** | **107 875** |
| Merchant members' deposits in guarantee fund | - | - | - | 7 773 | **7 773** | **7 773** |
| | - | - | - | 323 445 | **323 445** | **323 445** |

(1) Interest income on loans and receivables for the three-month period ended June 30, 2008 represents $324 ($286 in 2007) and $638 for the six-month period ended June 30, 2008 ($615 in 2007).

**13. FINANCIAL INSTRUMENTS (Continued)**

The fair value of accounts receivable, volume discounts receivable, bank indebtedness, accounts payable and dividends payable approximates their carrying amount given the short-term nature of the instruments.

The fair value of investments, long-term debt and merchant members' deposits in guarantee fund is equivalent to their carrying amount since they substantially bear interest at a rate that fluctuates with changes in the prevailing rate.

**Derivative financial instruments**

During the first quarter of 2008, the Company entered into agreements to swap variable interest rates for a nominal amount of $60,000 for fixed rates ($0 at fixed rates against variable rates at December 31, 2007). The swap agreements, at a rate of 3.94%, expire in three equal portions of $20,000 on January 2011, 2012 and 2013. The fair value of the interest rate swaps is calculated using quotes for similar instruments on the balance sheet date obtained by the Company's financial institution and represents an amount receivable by the Company of $193 ($0 at December 31, 2007).

**Management of risks arising from financial instruments**

In the normal course of business, the Company has market exposure primarily consisting of credit risk, liquidity risk, foreign exchange risk and interest rate risk. The Company manages these risk exposures on a ongoing basis. In order to limit the effects of changes in interest rates on its revenues, expenses and cash flows, the Company avails itself of derivative financial instruments.

Credit risk

Credit risk stems primarily from the potential inability of clients to discharge their obligations. The maximum credit risk to which the Company is exposed as at June 30, 2008 represents the carrying amount of accounts receivable and investments and volume discounts receivable.

No account represents more than 10% of total accounts receivable. In order to manage its risk, specific credit limits are determined for certain accounts and reviewed regularly by the Company. Also, the Company holds in guarantee personal property as well as assets of certain customers and those customers are required to contribute to a fund to guarantee a portion of their amounts due to the Company, being the merchant members deposits in guarantee funds. Finally, customers' financial health is examined regularly and monthly analysis are presented to management to ensure that past due amounts are collectible and, if necessary, that measures are taken to limit credit risk. Historically, the Company has never made any significant write-off of its accounts receivable as proven by the average bad debt on sales rate of 0.1% for the last three years.

As at June 30, 2008, past-due accounts receivable represent $5,359 and an allowance for doubtful accounts of $3,840 is provided.

Allowance for doubtful accounts and accounts receivable are reviewed at least quarterly and a bad-debt expense is recognized only for accounts receivable for which collection is uncertain.

| | $ |
|---|---|
| Balance at December 31, 2007 | 2 924 |
| Bad-debt expense | 1 460 |
| Write-off | (544) |
| Balance at June 30, 2008 | 3 840 |

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in meeting its obligations on time or at a reasonable cost. The Company manages its liquidity risk on a consolidated basis by using financing sources to maintain its maneuverability, taking into account its operating needs, tax situation and capital requirements. The Company prepares budget cash forecasts to ensure that is has sufficient funds to meet its obligations.

The Company has a renewable credit facility in the amount of $325,000 (Note 8). As at June 30, 2008, the Company benefits from an unused credit facility of approximately $175,000.

Because of cash flows generated by operations and financial resources available, management believes that the liquidity risk is minimal.

Foreign exchange risk

The Company is exposed to foreign exchange risk due to cash held in currency other than that of the reporting entity and due to merchandise and equipment purchased in U.S. dollars. Management considers that fluctuations in the U.S. dollar versus the Canadian dollar will have a minimal impact on net earnings.

Interest rate risk

The Company is exposed to interest rate fluctuations, primarily due to its variable rate debts. The Company manages its interest rate exposure by maintaining an adequate balance of fixed versus variable rate debt by concluding swap agreements to exchange variable rates for fixed rates. As at June 30, 2008, the fixed rate portion of financial debt represents 43% of the total, while the variable rate portion represents 57%.

A 25 basis points rise or fall in interest rates, assuming that all other variables remain the same, would have resulted in a $37 decrease or increase, respectively, in the Company's net earnings for the three-month period ended June 30, 2008 and $85 for the six-month period, whereas other comprehensive income would have resulted in a $329 increase or decrease, respectively for both the three-month and six-month periods.

**14. SEGMENTED INFORMATION**

| | 2nd QUARTER | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Automotive Canada | | Automotive USA | | Heavy Duty | | Consolidated | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ | **$** | $ | **$** | $ |
| **Sales** | **149 504** | 139 385 | **168 181** | 158 813 | **14 946** | 15 059 | **332 631** | 313 257 |
| Earnings before interests, amortization, income taxes and non-controlling interest | **12 980** | 13 269 | **12 037** | 10 526 | **( 565)** | ( 657) | **24 452** | 23 138 |
| Assets | **264 143** | 229 451 | **391 102** | 295 460 | **35 267** | 35 049 | **690 512** | 559 960 |
| Acquisition of fixed assets | **2 087** | 1 505 | **2 536** | 1 284 | **61** | 53 | **4 684** | 2 842 |
| Acquisition of goodwill | **552** | 1 078 | **199** | 1 157 | **-** | - | **751** | 2 235 |

| | 6 MONTHS | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Automotive Canada | | Automotive USA | | Heavy Duty | | Consolidated | |
| | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 | **2008** | 2007 |
| | **$** | $ | **$** | $ | **$** | $ | **$** | $ |
| **Sales** | **268 269** | 250 217 | **318 100** | 307 351 | **27 960** | 28 854 | **614 329** | 586 422 |
| Earnings before interest, amortization, income taxes and non-controlling interest | **19 448** | 19 887 | **21 214** | 18 458 | **(1 678)** | (1 805) | **38 984** | 36 540 |
| Assets | **264 143** | 229 451 | **391 102** | 295 460 | **35 267** | 35 049 | **690 512** | 559 960 |
| Acquisition of fixed assets | **3 403** | 1 928 | **4 025** | 2 762 | **82** | 59 | **7 510** | 4 749 |
| Acquisition of goodwill | **7 648** | 1 506 | **292** | 1 596 | **-** | - | **7 940** | 3 102 |

The Automotive USA segment includes fixed assets for an amount of $18,541 ($12,574 as at June 30, 2007) and goodwill for an amount of $36,081 ($17,784 as at June 30, 2007).

**15. FUTURE ACCOUNTING STANDARDS**

**International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board confirmed that the use of International Financial Reporting Standards ("IFRS") established by the International Accounting Standards Board will be required for fiscal years beginning January 1st, 2011 for publicly accountable profit-oriented enterprises. IFRS will replace Canada's current GAAP for those enterprises.

The Company is currently establishing a convergence plan and evaluating the impact of the adoption of IFRS on its consolidated financial statements.

**Goodwill and intangible assets**

In February 2008, the CICA issued Handbook Section 3064 *Goodwill and intangible assets* in replacement of Section 3062 *Goodwill and other intangible assets*. Various changes have been made to other sections of the CICA Handbook for consistency purposes. This new standard is applicable to fiscal years beginning on or after October 1st, 2008. The new Section establishes standards for the recognition, measurement, presentation and disclosure of goodwill and intangible assets subsequent to their initial recognition. The Company will implement this standard in its first quarter of fiscal year 2009 and is currently evaluating the impact of its adoption on its consolidated financial statements.