# CONSOLIDATED INTERIM REPORT

**2nd QUARTER, PERIOD ENDED JUNE 30, 2010**

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Management report




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## INTRODUCTION

This Management Report on the operating results and cash flows of the Company for the period ended June 30, 2010 compared to the period ended June 30, 2009 and on its financial position as at June 30, 2010 compared with its position as at December 31, 2009 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 6, 2010, 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 of December 31, 2009 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, 2010 have not been reviewed by the auditors of the Company.

## SUMMARY


**Uni-Select recorded sales of $358,750 for the second quarter of 2010. Excluding the negative effect of the foreign exchange rate, an organic growth of more than 2% has been recorded. These sales are a result of efforts made to improve customer loyalty and to search for new market niches.**

**Excluding the negative effect of the foreign exchange rate, adjusted net earnings for the second quarter of $15 506 ($0.79 per share) would have been $16,558 ($0.84 per share) compared to $16,029 ($0.81 per share) in 2009, an increase of 3.7%.**

# 1. FINANCIAL HIGHLIGHTS OF THE SECOND QUARTER (related to continuing operations)

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

| | 2nd quarter ended | | | Six-month period ended | | |
|---|---|---|---|---|---|---|
| | **June 30, 2010** | June 30, 2009 | % | **June 30, 2010** | June 30, 2009 | % |
| Sales | **358,750** | 384,161 | (6.6%) | **665,714** | 735,005 | (9.4%) |
| Adjusted operating income from continuing operations | **25,598** | 31,768 | (19.4%) | **41,413** | 52,477 | (21.1%) |
| *Adjusted operating profit margin from continuing operations* | ***7.1%*** | *8.3%* | | ***6.2%*** | *7.1%* | |
| Operating income from continuing operations | **24,404** | 31,768 | (23.2%) | **39,018** | 52,477 | (25.6%) |
| Adjusted earnings from continuing operations | **15,506** | 16,029 | (3.3%) | **23,895** | 25,023 | (4.5%) |
| Earnings from continuing operations | **14,737** | 16,029 | (8.1%) | **22,338** | 25,023 | (10.7%) |
| Net earnings | **14,737** | 15,408 | (4.4%) | **22,338** | 23,421 | (4.6%) |
| **COMMON SHARE DATA** | | | | | | |
| Adjusted earnings from continuing operations | **0.79** | 0.81 | | **1.21** | 1.27 | |
| Earnings from continuing operations | **0.75** | 0.81 | | **1.13** | 1.27 | |
| Net earnings | **0.75** | 0.78 | | **1.13** | 1.19 | |
| Dividend | **0.117** | 0.117 | | **0.233** | 0.225 | |
| Number of shares issued at the end of the period | **19,722,337** | 19,714,128 | | **19,722,337** | 19,714,128 | |
| Weigthed average number of outstanding shares | **19,722,337** | 19,711,550 | | **19,719,364** | 19,704,677 | |

| **FINANCIAL POSITION** | **June 30, 2010** | Dec. 31. 2009 |
|---|---|---|
| Working capital | **402,891** | 395,362 |
| Total assets | **830,911** | 775,657 |
| Total net indebtedness | **198,309** | 170,079 |
| Shareholders' equity | **392,984** | 372,918 |
| Long-term debt / equity | ***48.1%*** | *50.0%* |
| Total net debt / invested capital | **33.5%** | 31.3% |
| Funded debt on EBITDA from continuing operations | **2.63** | 1.92 |
| Return on average shareholders' equity from continuing operations | **10.5%** | 11.6% |
| Return on average shareholders' equity | **9.7%** | 10.3% |
| Book value | **19.93** | 18.91 |

**The activities for the second quarter of 2010 and the six-month period ended as at June 30, 2010 are in line with the strategic plan of the Company as illustrated by the various initiatives undertaken in 2009 and 2010:**

- ***Following the refocusing on its automotive operations***, the Company thought it would be wise to reorganize the operating structure in order to implement its five-year strategic plan even more effectively. The new organizational structure does away with the boundaries between Canada and the United States, creating two divisions based on the very nature of its customers. Both the "Jobbers and Major Accounts" and the "Corporate Stores" new divisions will aim to develop their respective growth platforms, which should be a source of organic growth for the Company. The Company holds the view that these two divisions are closely linked, since one is responsible for supplying the other. Any attempt to separate the results would lead to arbitrary allocations that would cause the reader's eventual judgment to deviate from reality. This announcement, made in January, brings about a change in the presentation and analysis of results, which are now reported on a consolidated basis.

| ***Impacts – Second Quarter*** | ***Impacts – Year to date*** |
|---|---|
| • ***The repurchase of the minority shareholders*** of Uni-Select USA in the fourth quarter of 2009 had a positive impact: | |
| - $1,230 or $0.06 per share | - $2,201 or $0.11 per share |
| • ***The sale of stores*** in Canada; | |
| - 1 store sold | - 2 stores sold |
| • ***The closing of unprofitable or low potential stores*** in the United States follows its course: | |
| - 5 stores closed | - 5 stores closed |
| • ***The disposal of assets of the Heavy Duty Group during the third quarter of 2009*** contributed to an improvement in net earnings per share of: | |
| - $0.03 per share | - $0.08 per share |
| • ***The development of an enterprise resource planning system*** continues. | |
| - $8,820 in capital expenditures and $1,194 in operating expenses were incurred | - $16,385 in capital expenditures and $2,395 in operating expenses were incurred |
| • ***The new financing structure*** has allowed a decrease, as forecasted, in the consolidated tax rate for the second quarter and year to date. | |
| - ***25.2% consolidated tax rate vs 34.3%*** | - ***24.0% consolidated tax rate vs 33.4%*** |

# 2. PROFILE AND DESCRIPTION

**A KEY INDUSTRY PLAYER**

Uni-Select, founded in 1968, is a major distributor of replacement parts, equipment, tools and accessories for motor vehicles in North America. Uni-Select is the Canadian leader and ranks seventh among North American distributors. With its 65 distribution centres, 271 stores and 4,823 employees, Uni-Select constitutes one of the largest networks of independent automotive parts wholesalers, with nearly 2,500 jobbers and 3,500 points of sale.

The Company plays an essential role in connecting automotive parts manufacturers with the jobbers and installers that form its customer base. With access to more than one million automotive parts and accessories, Uni-Select provides efficient management of the supply chain, maintaining a constant inventory of more than 350,000 different part numbers to meet its clients' needs.

Uni-Select stands apart from the competition with a business model characterized by a focus on, and the delivery of, flexible solutions for independent jobbers and installers. Independent jobbers and Uni-Select clients are supplied with national brand-name products according to their needs by means of mixed direct access from suppliers or Uni-Select warehouses strategically located throughout North America. Uni-Select is aware that each client is operating a business, and it maintains partner-type relationships with them aimed at ensuring their success. The Company thus offers them "*on a menu basis*" that lets them pay only for the programs and resources they require. In this way it helps them meet their development and growth goals, whether this involves marketing programs, banners or inventory and order-management programs. Uni-Select also offers its clients succession programs to facilitate a timely transition of their business.

# 3. EXCHANGE RATE DATA

The following table sets forth information about exchange rates based upon the Bank of Canada rates expressed as Canadian dollars per US$1.00.

| | Second quarter ended as at | | Six-month period ended as at | |
|---|---|---|---|---|
| | **June 30, 2010** | June 30 2009 | **June 30, 2010** | June 30, 2009 |
| **Average for the period** | **1.03** | 1.17 | **1.03** | 1.21 |
| | | | **June 30, 2010** | December 31, 2009 |
| **Period end** | | | **1.06** | 1.05 |

As the Company uses the Canadian dollar as its reporting currency, in its consolidated financial statements and in this document, unless otherwise indicated, results from its US operations are translated into Canadian dollars using the average rate for the period. Variances and explanations related to variations in the foreign exchange rate and the volatility of the Canadian dollar which are discussed in this document are therefore related to the translation in Canadian dollars of the Company's US operations' results and do not have an economic impact on its performance since most of the Company's consolidated revenues and expenses are received or denominated in the functional currency of the markets in which it does business. Accordingly, the sensitivity of the Company's results to variations in foreign exchange rates is economically limited.

## 4. ANALYSIS OF RESULTS

### ANALYSIS OF CONSOLIDATED RESULTS (from continuing operations)

(in thousands of dollars, except for percentage)

| | Second quarter | | | Year to date | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | % | **2010** | 2009 | % |
| Sales | | | | | | |
| United States | **216,137** | 241,541 | (10.5%) | **409,326** | 474,477 | (13.7%) |
| Canada | **142,613** | 142,620 | - | **256,388** | 260,528 | (1.6%) |
| | **358,750** | 384,161 | (6.6%) | **665,714** | 735,005 | (9.4%) |
| EBITDA | **24,404** | 31,768 | (23.2%) | **39,018** | 52,477 | (25.6%) |
| EBITDA margin | ***6.8%*** | *8.3%* | | ***5.9%*** | *7.1%* | |
| Non-recurring items [A] | **1,194** | | | **2,395** | - | |
| Adjusted EBITDA | **25,598** | 31,768 | (19.4%) | **41,413** | 52,477 | (21.1%) |
| Adjusted EBITDA margin | **7.1%** | 8.3% | | **6.2%** | 7.1% | |

[A] For more details, see the table below and the section on Compliance with Canadian Generally Accepted Accounting Principles.

This table presents the various non-recurring items as well as the reconciliation of EBITDA and earnings from continuing operations.

### Non-recurring items

| (in thousands of dollars) | **Second quarter** | | Year to date | |
|---|---|---|---|---|
| | **2010** | **2009** | **2010** | **2009** |
| **EBITDA as reported** | **24,404** | 31,768 | **39,018** | 52,477 |
| Expenses related to enterprise resource planning (ERP) [1] | **1,194** | - | **2,395** | - |
| **Adjusted EBITDA** | **25,598** | 31,768 | **41,413** | 52,477 |
| **Earnings as reported** | **14,737** | 16,029 | **22,338** | 25,023 |
| Non-recurring items, after tax | **769** | - | **1,557** | - |
| **Adjusted earnings** | **15,506** | 16,029 | **23,895** | 25,023 |

*(1) Expenses related to ERP data conversion and training*

## SALES

**Second quarter**

Excluding the impact of the following items, organic growth was 2.2%, being 2.6% in the US and 1.5% in Canada:

- The effects of the variation of the Canadian dollar vis-à-vis the US dollar which had a negative impact of 7.6% (or $29,170) on sales;
- The closing of unprofitable stores and/or in areas with lesser growth potential in the United States during the 2009 period; and
- The impact on sales from the disposal of 15 stores in Canada during recent quarters;

**Year to date**

Excluding the impact of the following items, organic growth was 1.5%, being 1.8% in the US and 0.9% in Canada:

- The effects of the variation of the Canadian dollar vis-à-vis the US dollar which had a negative impact of 9.3% (or $68,084)on sales;
- The closing of unprofitable stores and/or in areas with lesser growth potential in the United States during the 2009 period; and
- The impact on sales from the disposal of 15 stores in Canada during recent quarters;

## ADJUSTED EBIDTA FROM CONTINUING OPERATIONS

**Second quarter**

The adjusted EBITDA margin was 7.1% compared to 8.3% for the second quarter of 2010. This decrease is mainly attributable to the following factors:

A lower gross margin explained by:
.

- A change in estimate related to losses on inventories following the results reported last year;
- Loss of sales from stores sold or closed in 2009 for which margins to installers were more significant;
- Significant purchases made before price increases in the second quarter of 2009 generated an increase in the margin during the second and third quarters;

In part, offset by a positive product sales mix favoring parts for foreign nameplate vehicules.

**Year to date**

To the factors mentioned for the second quarter are added pressure on prices and a change in the product offering resulting from increased competition that were noted in the first quarter. The adjusted EBITDA margin went from 7.1% to 6.2% for the six-month period ended as at June 30, 2010.

Excluding the negative impact of the foreign exchange rate of $4,518, EBITDA would have been $45,931.

It should be noted that there was no erosion on the margins

Operating expenses were lower due to the following factors:

- The elimination of operating expenses of the stores which were closed and sold in 2009 and which had higher gross margins, resulted in operating losses;

In part, offset by:

- An increase in the current information systems expenses in Canada related to the outsourcing of additional support required during the implementation of the enterprise resource planning system; and
- An increase in delivery costs resulting from increased fuel prices.

Excluding the negative impact of the foreign exchange rate of $2,091, EBITDA would have been $27,689.

**ANALYSIS OF OTHER ITEMS AND AMOUNTS RELATED TO CONSOLIDATED RESULTS (from continuing operations)**

(in thousands of dollars, except for percentages)

| | Second quarter | | | Year to date | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | **%** | **2010** | 2009 | **%** |
| Interest | **1,546** | 2,150 | (28.1%) | **3,164** | 4,443 | (28.8%) |
| Amortization | **3,214** | 3,331 | (3.5%) | **6,617** | 7,121 | (7.1%) |
| Income taxes | **4,953** | 9,028 | | **7,030** | 13,689 | |
| Tax rate | **25.2%** | 34.3% | | **24.0%** | 33.5% | |

## INTEREST

**Second quarter**

The decrease in interest expense is principally due to the increase of the Canadian dollar compared to its US counterpart, as well as from a decrease in interest rates.

**Year to date**

The decrease in interest expense for the six-month period reflects the same factors as those cited for the second quarter.

## AMORTIZATION

**Second quarter**

The decrease in amortization expenses is due to the increase of the Canadian dollar compared to its US counterpart, partly offset by the acquisitions of fixed assets and management systems and renewing the delivery fleet in the United States.

**Year to date**

The decrease in amortization expense for the six-month period reflects the same factors as those cited for the second quarter.

## INCOME TAXES

**Second quarter**

During the last quarter of 2009, the Company established a new financing structure for its US subsidiary. This new structure, combined with the decrease in the federal tax rate in Canada, had the effect of reducing the Company's consolidated tax rate.

**Year to date**

The reducing of the tax rate for the six-month period compared to 2009 is due to the same factors as those of the quarter. The rate of the quarter was higher than the rate of the six-month period because of a different geographical weighting.

Notably, the tax rate presented in the second quarter of 2010 is not in keeping with that forecasted for the current year; the benefits of the new structure materializing in a linear fashion throughout the year, contrary to earnings which are affected by some seasonality.

## EARNINGS AND EARNINGS PER SHARE (from continuing operations)

The following table represents a reconciliation of earnings and adjusted earnings per share.

(in thousands of dollars, except for percentages)

| | Second quarter | | | Year to date | | |
|---|---|---|---|---|---|---|
| | **2010** | 2009 | % | **2010** | 2009 | % |
| Earnings | **14,737** | 16,029 | (8.1%) | **22,338** | 25,023 | (10.8%) |
| Non-recurring items [1] | **769** | - | | **1,557** | - | |
| Adjusted earnings | **15,506** | 16,029 | (3.3%) | **23,895** | 25,023 | (4.5%) |
| Earnings per share | **0.75** | 0.81 | (7.4%) | **1.13** | 1.27 | (11.0%) |
| Non-recurring items per share | **0.04** | - | | **0.08** | - | |
| Adjusted earnings per share | **0.79** | 0.81 | (2.5%) | **1.21** | 1.27 | (4.7%) |

(1) For more details, see the section on Analysis of Results and Canadian Generally Accepted Accounting Principles

## NET EARNINGS

**Second quarter**

Taking into account the loss on discontinued operations, Uni-Select recorded net earnings of $14,737 in 2010 compared to $15,408 in 2009. Basic earnings per share as well as diluted earnings per share amounted to $0.75 in 2010 against $0.78 in 2009.

Excluding the negative effect of the foreign exchange rate of $1,052 ($0.05 per share), net earnings would have been $15,789 ($0.80 per share), an increase of 2.6%.

**Year to date**

Taking into account the loss on discontinued operations, Uni-Select recorded net earnings of $22,338 in 2010 compared to $23,421 in 2009. Basic earnings per share as well as diluted earnings per share amounted to $1.13 in 2010 against $1.19 in 2009.

Excluding the negative effect of the foreign exchange rate of $2,208 ($0.11 per share), net earnings would have been $24,546 ($1.24 per share), an increase of 4.2%.

# 5. CASH FLOWS

The following table shows the main cash flows resulting from the various initiatives taken during the last quarters.

| (in thousands of dollars) | Second quarter | | Year to date | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| **Cash at beginning of the quarter** | **50** | **197** | **15,850** | **9,682** |
| Cash flows from operations before working capital items | 20,940 | 24,429 | 23,219 | 34,866 |
| Accounts receivable | (16,221) | (13,302) | (37,133) | (28,589) |
| Inventory | (10,563) | 12,847 | (20,416) | 10,730 |
| Prepaid expenses | (637) | (407) | (904) | 129 |
| Accounts payable | 35,335 | 489 | 26,949 | (16,361) |
| Income taxes receivable/payable | 424 | 1,971 | 5,835 | 7,804 |
| Working capital items | 8,338 | 1,598 | (25,669) | (26,287) |
| Cash flows from continuing operations | 29,278 | 26,027 | (2,450) | 8,579 |
| Development of intangible assets | (9,048) | (2,864) | (15,481) | (4,059) |
| Repayment of bank indebtedness | (17,209) | (7,559) | - | - |
| Purchase of various fixed assets | (2,961) | (3,872) | (5,865) | (6,051) |
| Payment of dividends | (2,298) | (2,295) | (4,596) | (4,413) |
| Advances to members | (367) | (6,188) | (1,096) | (6,559) |
| Business acquisitions | - | - | (1,074) | (668) |
| Balance of purchase price | - | (802) | - | (685) |
| Repayment of long term debt | (23) | (143) | (49) | (1,499) |
| ***TOTAL disbursements*** | **(31,906)** | **(23,723)** | **(28,161)** | **(23,934)** |
| Bank indebtedness | | | 9,376 | 4,558 |
| Disposal of assets | 825 | 849 | 2,242 | 849 |
| Receipts on advances to members | 678 | 1,026 | 1,772 | 2,274 |
| Balance of purchase price | 204 | | 1,154 | - |
| Disposal of fixed assets | 403 | 431 | 767 | 431 |
| ***TOTAL cash inflows*** | **2,110** | **2,306** | **15,311** | **8,112** |
| Cash flows from discontinued operations | (4) | (2,683) | (1,106) | (1,298) |
| Effect of exchange rate changes on cash | 483 | (1,990) | 396 | (1,233) |
| Others | 199 | (8) | 370 | 218 |
| **Cash at end of quarter** | **210** | **126** | **210** | **126** |

**Working Capital Items**

Working capital items used cash flows of $8,338 in 2010, compared to $1,598 in 2009 in the second quarter. This change is explained by increased use of the vendor financing program, offset by an increase in inventory to support parts for foreign nameplate vehicule and private brand initiatives. It is equally notable that 2009 marked the launch of the surplus inventory reduction program, which had a favourable impact on the level of working capital items in the 2nd quarter of 2009. The 2nd quarter of 2009 also included significant payments on special purchases made during the 1st quarter of 2009.

Year-to-date, excluding the impacts of increased use of the vendor financing program in 2010 and the surplus inventory reduction initiated in 2009, variances are above all explained by the increase of activities of the Company.

**Development of Intangible Assets**

Related almost exclusively to the development of the enterprise resource planning software.

**Purchase of Various Fixed Assets**

These purchases include, primarily the exercise of an option to purchase the building housing a distribution centre, as well as the renewal of computer hardware and of the fleet of vehicles.

**Payment of Dividends**

Dividend payments to common shareholders, amounting to $0.117 per share for the quarter ($0.233 per share for the six-month period), is equivalent to the dividend for the second quarter of 2009 ($0.225 for the six-month period) and represents a 3.6% increase over the the six-month period.

**Business Acquisitions**

Represents the purchase of the AIM purchasing group realized during the first quarter. (*For more details on this, see Note 6 to the Consolidated Financial Statements.)*

**Disposal of Assets**

The Company sold 2 corporate stores during the six-month period. (*For more details on this, see Note 7 to the Consolidated Financial Statements.)*

**Bank Indebtedness**

The Company increased its bank indebtedness at the beginning of the year in order to finance its working capital requirements, procurement of inventory for the high season being completed during the course of the first quarter. The debt was partly reimbursed during the second quarter by its continuing operations.

# 6. FINANCIAL POSITION

The main variances in the different balance sheet items stem from seasonality as well as from the fluctuation of the Canadian dollar compared to its US counterpart.

The following table shows an analysis of the main items in the consolidated balance sheets.

(in thousands of dollars)

| | **June 30, 2010** | Dec. 31, 2009 | Variance | Impact from business acquisitions/ disposals | Exchange rate impact | Net variance | Explanations for net variances |
|---|---|---|---|---|---|---|---|
| Working capital excluding cash and bank indebtedness | **412,259** | 379,556 | 33,335 | 1,281 | 3,881 | 28,173 | The increase is explained by the reconstitution of working capital items following the increase in sales at the end of the second quarter compared to December 2009 and to the increase in inventory to support specific initiatives regarding parts for foreign nameplate vehicules, partly offset by an increased use of the vendor financing program and the receipt of volume rebates from certain suppliers. |
| Fixed assets | **38,819** | 39,660 | (841) | (67) | 246 | 1,020 | Due to amortization exceeding acquisitions. |
| Intangible assets | **45,248** | 27,836 | 17,412 | 1,074 | 438 | 15,900 | Due mainly to the development of the enterprise resource planning system. |
| Goodwill | **94,421** | 93,961 | 460 | (250) | 710 | - | |
| Long-term debt | **181,264** | 178,866 | 2,398 | - | 2,398 | - | |

# 7. SOURCES OF FINANCING

**The Company is in a financial position to support its initiatives.**

The Company has a credit facility consisting of a $235,000 revolving line of credit maturing in October 2011 and a $90,000 operating line of credit maturing in October 2010, renewable for a period of one year. As at June 30, the Company had an unused credit facility of $147,000 for its development ($175,000 as at December 31, 2009).

With its ability to generate cash flows and the credit facility at its disposal, the Company has the funds it needs to cover its various cash requirements, including: implementation of an enterprise resource planning system, potential acquisitions, dividend payments, purchase of various fixed assets, primarily for the development of information systems equipment and the modernization of its delivery fleet in the United States, as well as the payment of its various operational and contractual obligations

**Vendor Financing Program**

In the second quarter of 2009, the Company implemented a vendor financing program. Under this program, financial institutions make discounted accelerated payments to suppliers, and the Company makes full payment to the financial institution, based on the new extended terms agreed to with suppliers. As at June 30, 2010, under these agreements Uni-Select has financed $45,693 through this program for which the payment terms have been extended. These amounts are presented in the accounts payable in the consolidated balance sheet. This program is available upon request. As at June 30, 2010, the Company had an authorized limit of $75,000 for this program.

**Financial Instruments**

The Company uses financial derivatives to reduce the interest-rate risks to which its debt is exposed. The Company does not use financial instruments for trading or speculation purposes. In 2008, the Company entered into various interest-rate swap agreements as part of its program to manage floating interest rates on its debt and its corresponding overall borrowing cost. These contracts, amounting to $120,000, mature in a series of three equal instalments of $40,000 in 2011, 2012 and 2013, and bear an average interest rate of 3.68%.

# 8. CAPITAL STRUCTURE

## INDEBTEDNESS

The Company strives to maintain the following objectives:

(in thousands of dollars, except for percentages)

| | Objectives | **June 30, 2010** | Dec. 31, 2009 | % |
|---|---|---|---|---|
| Long-term debt and merchant member deposits in a guarantee fund (including short-term portion) | | **189,168** | **186,556** | 1.4% |
| Total net debt | | **198,309** | **170,079** | 18.5% |
| Shareholders' equity | | **392,984** | **372,918** | 5.4% |
| *Total net debt on total net debt plus equity* | *Less than 45 %* | ***33.5%*** | ***31.3%*** | |
| *Long-term debt to equity ratio* | *Less than 125 %* | ***48.1%*** | ***50.0%*** | |
| *Funded debt to EBITDA ratio* | *Maximum 3.5* | ***2.67*** | ***1.92*** | |

The variation in debt ratios is attributable to the following factors:

- Increase in bank indebtedness to support the reconstitution of working capital items;
- Adjusted EBITDA lower than the corresponding quarter of the previous year.
- Exchange rate fluctuations;

## SHAREHOLDERS' EQUITY

Under its capital management policy, the Company seeks to achieve the following returns:
- A 15% return on average equity;
- A dividend corresponding approximately to 20% of the previous year's net earnings.

### Return on Average Equity

The return on average shareholders' equity, excluding the loss related to discontinued operations, is 10.5% for the quarter, compared with 11.6 % in 2009.

### Additional Information on Authorized Shares

As at August 6, 2010, the Company has 19,722,337 shares outstanding and unexercised options on 67,949 shares. *(Additional information of the stock option plan intended for officers and senior executives as at December 31, 2009, is presented in Note 22 to the Consolidated Financial Statements contained in the Annual Report.)*

**Dividends**

The Company paid $2,298 in dividends during the second quarter, or $0.117 per share ($4,596 or 0.233 per share for the six-month period), compared to $2,295 or $0.117 per share for the corresponding quarter of 2009 ($4,413 or 0.225 per share for the six-month period). As at May 4, 2010, the Company also declared a dividend of $0.117, that was paid on July 20, 2010, to shareholders of record as at June 30, 2010.

# 9. COMPLIANCE WITH CANADIAN GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Unless otherwise indicated, the financial information presented hereinafter is prepared in compliance with Canadian Generally Accepted Accounting Principles (GAAP). The information included in this report contains items that are not performance measures consistent with GAAP including:

| | |
|---|---|
| **Organic growth** | This measurement consists of quantifying the increase in consolidated sales between two given periods, excluding the impact of acquisitions and sales of corporate stores, strategic alliances and exchange-rate fluctuations. Uni-Select uses this measurement 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 assumptions according to management, may differ from actual organic growth rates. In addition, this measurement may not correspond to similarly titled measurements used by other companies. |
| **EBITDA** | This measurement represents operating income before depreciation, amortization, interest, income taxes and non-controlling interest. This measurement 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 sales or net earnings, as an indicator of operating performance or cash flows, or as a measurement of liquidity, but as additional information. Because EBITDA is not a measurement defined by 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." |
| **EBITDA margin** | The EBITDA margin is a percentage corresponding to the ratio of EBITDA to sales. |
| **Non-recurring items** | These are rarely incurred costs that management regards as not being characteristic or representative of the Company's regular operations. They include the non-capitalizable costs related to the implementation of the enterprise resource planning system. This document presents analysis of variations in EBITDA, earnings from continuing operations and earnings per share from continuing operations, excluding non-recurring items. Although these measurements are not standardized in GAAP, management regards them as good indicators for comparing operational performance. |
| **Adjusted EBITDA** | This measurement corresponds to EBITDA plus non-recurring items. According to management, adjusted EBITDA is more representative of the Company's operational performance and more appropriate in providing additional information to investors because it gives an indication of the Company's ability to repay its debts. Since EBITDA is not established in compliance with GAAP, it may not be comparable to other |

| | |
|---|---|
| | companies' EBITDA. For 2010, the only non-recurring item is the non-capitalizable costs related to the implementation of the enterprise resource planning system. |
| **Total net indebtedness** | This measure consists of bank indebtedness, long-term debt and merchant members' deposits in a guarantee fund (including short-term portions), net of cash. |
| **Ratio of total net debt to total net debt plus equity** | This ratio corresponds to the percentage of total net debt divided by the sum of total net debt and shareholders' equity. These two measurements are not defined by GAAP and may, therefore, not be comparable to similarly titled measurements used by other companies. |
| **Funded debt to EBITDA** | This ratio corresponds to bank indebtedness, long-term debt and merchant members' deposits in a guarantee fund (including short-term portions) to EBITDA. |

The Company believes many users of its management report analyze the results based on these measurements of returns. These measurements that are not GAAP-compliant are taken primarily from the Consolidated Financial Statements, but they have no standardized significance set out in Canadian GAAP; accordingly, other companies using similar terms may calculate them differently.

# 10. CONSOLIDATED QUARTERLY OPERATING RESULTS (from continuing operations)

Quarterly results are affected by seasonal factors. The Company records earnings in each quarter, but the second and third quarters have historically been more productive in terms of sales than the first and fourth quarters. For the 2008 year, the fourth quarter, compared to the other quarters of 2008, deviates from the rule as it includes the sales of Parts Depot acquired in September 2008 combined with the strength of the US dollar at that time.

Finally, because more than 60% of the Company's activities are in the United States, the comparison of the results from one quarter to the next must take into account the significant variation of currencies.

The following table summarizes the main financial information drawn from 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 | |
|---|---|---|---|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 | **2009** | 2008 | **2009** | 2008 |
| Sales | | | | | | | | |
| United States | **216,137** | 241,541 | **193,189** | 232,936 | **189,574** | 227,940 | **220,131** | 172,092 |
| Canada | **142,613** | 142,620 | **113,775** | 117,908 | **126,060** | 125,081 | **139,105** | 136,070 |
| | **358,750** | 384,161 | **306,964** | 350,844 | **315,634** | 353,021 | **359,236** | 308,162 |
| EBITDA from continuing operations | **24,404** | 31,768 | **14,614** | 20,709 | **9,170** | 27,808 | **27,159** | 23,195 |
| Adjusted EBITDA from continuing operations | **25,598** | 31,768 | **15,815** | 20,709 | **14,494** | 29,121 | **28,830** | 23,372 |
| *Adjusted EBITDA margin from continuing operations* | ***7.1%*** | *8.3%* | ***5.2%*** | *5.9%* | ***4.6%*** | *8.2%* | ***8.0%*** | *7.6%* |
| Adjusted earnings from continuing operations | **15,506** | 16,029 | **8,385** | 8,994 | **8,571** | 15,156 | **14,096** | 12,031 |
| Earnings from continuing operations | **14,737** | 16,029 | **7,601** | 8,994 | **5,309** | 14,390 | **13,018** | 11,909 |
| Net earnings | **14,737** | 15,408 | **7,601** | 8,013 | **7,248** | 14,816 | **7,901** | 12,354 |
| Adjusted basic and diluted earnings per share from continuing operations | **0.79** | 0.81 | **0.43** | 0.46 | **0.44** | 0.77 | **0.71** | 0.61 |
| Basic and diluted earnings per share from continuing operations | **0.75** | 0.81 | **0.39** | 0.46 | **0.27** | 0.73 | **0.66** | 0.60 |
| Basic and diluted earnings per share | **0.75** | 0.78 | **0.39** | 0.41 | **0.37** | 0.75 | **0.40** | 0.63 |
| Dividends paid per share | **0.117** | 0.117 | **0.117** | 0.108 | **0.116** | 0.108 | **0.117** | 0.108 |
| Average exchange rate for earnings | **1.03** | 1.17 | **1.04** | 1.25 | **1.06** | 1.22 | **1.10** | 1.04 |

# 11. FUTURE ACCOUNTING STANDARDS

**International Financial Reporting Standards**

In February 2008, the Canadian Accounting Standards Board of the CICA announced that the use of IFRS established by the International Accounting Standards Board will be required for fiscal years beginning January 1, 2011, for publicly accountable profit-oriented businesses. IFRS will replace the Canadian standards

In 2008, to ensure a successful conversion, the Company established a comprehensive transition plan.

| PHASE | DEADLINE | IMPLEMENTATION |
|---|---|---|
| Phase 1: Awareness<br>o Preparation of the comprehensive transition plan<br>o Mobilization of the organization<br>o Confirmation of executive involvement<br>o Assignment of team members to complete the project<br>o Establishment of methods for analyzing of standards | Late 2008 | Completed |
| Phase 2: Assessment<br>o Finalization of the comprehensive transition plan<br>o Identification of differences between Canadian standards and IFRS<br>o General review of choices (IFRS 1 exemptions)<br>o Start of training for the team, senior executives and Board of Directors members | Second quarter 2009 | Completed |
| Phase 3: Conception<br>o Identification of impacts on systems<br>o Finalization of choices (IFRS 1 and explicit choices)<br>o Resolution of differences between IFRS and Canadian standards<br>o Establishment of accounting policies<br>o Preparation of the IFRS financial statement model | Third quarter 2010 | The IFRS team takes part in implementing the ERP system to ensure that configuration is in compliance with IFRS<br><br>Analysis of IFRS 1 exemptions and explicit choices is completed<br><br>Resolution of differences between IFRS and Canadian standards; IFRS model financial statements being prepared |
| Phase 4: Implementation<br>o Reconciliation of opening balances (second quarter 2010)<br>o Preparation of IFRS 2010 interim financial statements alongside financial statements based | Late 2010 | Opening balance sheet being prepared |

| | | |
|---|---|---|
| on Canadian standards (comparables for 2011)<br>o Continuation of training for the entire organization<br>o Determination of impacts on infrastructure, business activities and control activities, and completion of necessary adjustments<br>o Publication of IFRS financial statements (first quarter 2011) | | |

The first two phases of the transition plan have been completed. The Company is currently completing analysis of the impact of differences between Canadian standards and IFRS on accounting policies, financial statements and disclosure. The opening balance sheet is also being prepared. Accounting policies are likely to be amended, and this should affect the Company's consolidated financial statements. A process of progress reports to the Audit Committee on the status of the IFRS project has been instituted.

**Business Combinations**

In January 2009, CICA published Section 1582, *Business Combinations*, replacing Section 1581 of the same name. This section applies prospectively to business combinations conducted during fiscal periods starting January 1, 2011. The section sets out standards for recording a business combination. The Company will analyze the impacts of applying this section when analyzing IFRS.

**Consolidated Financial Statements**

In January 2009, the CICA published Section 1601, *Consolidated Financial Statements*, replacing Section 1600 of the same name. This section applies to interim and annual financial statements for fiscal years starting January 1, 2011. The section sets out standards for establishing consolidated financial statements. The Company will analyze the impacts of applying this section when analyzing IFRS.

**Non-controlling Interests**

In January 2009, the CICA published Section 1602, *Non-Controlling Interests*, replacing Section 1600, *Consolidated Financial Statements*. This section applies to interim and annual financial statements starting January 1, 2011. The section sets out standards for recording non-controlling interests in a subsidiary in the consolidated financial statements following a business combination. The Company will analyze the impacts of applying this chapter when analyzing IFRS.

# 12. RISK MANAGEMENT

The Company attempts to continually reduce its exposure to risk and uncertainties that it may encounter in its operational or financial situation. Accordingly, management continually reviews overall controls and preventive measures to ensure they are better matched to significant risks to which the Company's operating activities are exposed. A report on the risk management program is reviewed once a year by the Audit Committee of the Company.

This focus also guides management's decisions regarding its day-to-day operations, among which, cost-reduction measures and the addition or removal of products from the existing product offering. It also has a direct impact on decisions made regarding investments, acquisitions or disposals of assets as well as to financing related to the growth of the Company.

## Quarterly Update

The list of the main risks is available in the management report section of the 2009 Annual Report. This section deals with the following risks for which no major change occurred during the course of the second quarter of 2010: industry-related risks, economic climate, vehicle fleet, technology, inflation, fuel prices, interest rates and business model of the Company.

The following risks have been updated:

### *Geographical Breakdown and Exchange Rate*

The exchange rate between the Canadian and US dollars considerably fluctuated during the second quarter of 2010, the average rate moving from 1.21 in 2009 to 1.03 in 2010. Although this impact is strictly accounting in nature and does not affect cash flows, this variation had a significant impact on US operating results reported in Canadian dollars. Taking into account the information on hand at this time and the exchange rates currently prevailing in the market, an unfavorable impact is foreseeable for the next quarter.

### *Business and Financial Systems*

As set out in the December 31, 2009 management report, the Company will proceed with the launch in 2010 of a new enterprise resource planning software. To mitigate implementation risks, the Company began on July 1, 2010 with the financial module following the successful completion of three testing phases. The operational module will gradually be deployed as of the fourth quarter of 2010 until 2012.

The Company is currently reviewing both current and future controls relating to the implementation of new methods and procedures as well as various temporary interfaces required for the launch of these systems. The Company is assisted in this initiative by a number of experts in the implementation of like systems. In addition to facilitate the management of every facet of the organization, the system will consolidate several business and financial applications as well as their interfaces and will add a number of automated controls that will replace actual compensatory controls.

# 13. EFFECTIVENESS OF DISCLOSURE CONTROLS AND PROCEDURES AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

## Disclosure Controls and Procedures

Uni-Select has evaluated its disclosure controls and procedures in accordance with the NI 52-109 guidelines. As at June 30, 2010, the President and Chief Executive Officer and the Vice-President and Chief Financial Officer concluded that the Company's disclosure controls and procedures are properly designed and effective.

## Internal Controls over Financial Reporting

Uni-Select evaluated the effectiveness of internals control over financial reporting as at June 30, 2010, in accordance with the NI 52-109 guidelines. This evaluation enabled the President and Chief Executive Officer and the Vice-President and Chief Financial Officer to conclude that internal controls over financial reporting were designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements in accordance with Canadian GAAP. Over the years, a number of compensatory controls have been added to the various automated controls over the systems in place to offset the risks that could be caused by interfaces between systems that are being changed.

In addition, this work enabled management to determine that, during the quarter ended June 30, 2010, no change to internal controls over financial reporting has occurred that has materially affected, or is reasonably likely to have materially affected, such controls.

# 14. OUTLOOK

During the next two quarters of 2010, the Company will focus on the three following main objectives:

- Continue its development efforts in line with its new administrative structure devoted to both the maximization of sales to independent jobbers and the improvement of the operational efficiency to its corporate store customers.

- Following the implementation of the financial module, pursue the orderly deployment of the new enterprise resource planning system all the while ensuring the smooth transition for internal human resources and customer service by a sound change management approach.

- Pursue growth through acquisitions in the United States where development opportunities exist due to relative market fragmentation.

Management is confident that, through the deployment of the various elements of its growth strategy and strict expense and asset controls, it will improve profitability in the short and long run. The Company has positioned itself to fully benefit from existing business opportunities in its market segment.

| | |
|---|---|
| Richard G. Roy, CA | Denis Mathieu, CA |
| President and Chief Executive Officer | Vice-President and Chief Financial Officer |

Approved by the Board of Directors on August 6, 2010.

# Uni-Select Inc.

# Consolidated Interim Financial Statements for quarters ended June 30, 2010 and 2009

UNI-SELECT®

Financial Statements



## Notice related to the review of interim financial statements

The consolidated interim financial statements for the periods ended June 30, 2010 and 2009 have not been reviewed by the auditors of the Company.

# Uni-Select Inc.
# Consolidated Earnings

Three-month and six-month periods ended June 30, 2010 and 2009

(In thousands of dollars, except earnings per share, unaudited)

| | 2nd quarter | | 6 months | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| **Sales** | **358,750** | 384,161 | **665,714** | 735,005 |
| Earnings before the following items: | **24,404** | 31,768 | **39,018** | 52,477 |
| Interest (Note 3) | **1,546** | 2,150 | **3,164** | 4,443 |
| Amortization (Note 3) | **3,214** | 3,331 | **6,617** | 7,121 |
| | **4,760** | 5,481 | **9,781** | 11,564 |
| Earnings before income taxes and non-controlling interest | **19,644** | 26,287 | **29,237** | 40,913 |
| Income taxes (Note 4) | | | | |
| Current | **2,274** | 5,363 | **13,298** | 13,504 |
| Future | **2,679** | 3,665 | **(6,268)** | 185 |
| | **4,953** | 9,028 | **7,030** | 13,689 |
| Earnings before non-controlling interest | **14,691** | 17,259 | **22,207** | 27,224 |
| Non-controlling interest | **(46)** | 1,230 | **(131)** | 2,201 |
| Earnings from continuing operations | **14,737** | 16,029 | **22,338** | 25,023 |
| Loss from discontinued operations (Note 8) | **–** | (621) | **–** | (1,602) |
| **Net earnings** | **14,737** | 15,408 | **22,338** | 23,421 |
| Basic and diluted earnings per share (Note 5) | | | | |
| From continuing operations | **0.75** | 0.81 | **1.13** | 1.27 |
| From discontinued operations | **–** | (0.03) | **–** | (0.08) |
| Net income | **0.75** | 0.78 | **1.13** | 1.19 |
| Weighted average number of outstanding shares | **19,722,337** | 19,711,550 | **19,719,364** | 19,704,677 |
| Number of issued and outstanding shares | **19,722,337** | 19,714,128 | **19,722,337** | 19,714,128 |

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

# Uni-Select Inc.
# Consolidated Comprehensive Income
# Consolidated Retained Earnings

Three-month and six-month periods ended June 30, 2010 and 2009

(In thousands of dollars, unaudited)

| | 2nd quarter | | 6 months | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| ***CONSOLIDATED COMPREHENSIVE INCOME*** | | | | |
| Net earnings | **14,737** | 15,408 | **22,338** | 23,421 |
| Other comprehensive income | | | | |
| Unrealized gains (losses) on derivative financial instruments designated as cash flow hedges (net of income taxes of $186 and $682 respectively for the three-month and six-month periods (($670) and ($384) in 2009)) | **(1,145)** | 1,329 | **(2,303)** | 715 |
| Reclassification of realized losses to net earnings on derivative financial instruments designated as cash flow hedges (net of income taxes of $272 and $539 respectively for the three-month and six-month periods ($293 and $512 in 2009)) | **736** | 642 | **1,532** | 1,113 |
| Unrealized exchange gain (loss) on translation of long-term debt designated as a hedge of net investments in self-sustaining foreign subsidiairies | **(7,686)** | 1,622 | **(2,391)** | 1,031 |
| Unrealized exchange gains (losses) on translating financial statements of self-sustaining foreign subsdiaries | **16,743** | (18,426) | **5,356** | (12,161) |
| Other comprehensive income | **8,648** | (14,833) | **2,194** | (9,302) |
| Comprehensive income | **23,385** | 575 | **24,532** | 14,119 |
| ***CONSOLIDATED RETAINED EARNINGS*** | | | | |
| Balance, beginning of year | | | **353,625** | 324,241 |
| Net earnings | | | **22,338** | 23,421 |
| | | | **375,963** | 347,662 |
| Dividends | | | **4,595** | 4,592 |
| Balance, end of year | | | **371,368** | 343,070 |

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

## Uni-Select Inc.
## Consolidated Cash Flows

Three-month and six-month periods ended June 30, 2010 and 2009

(In thousands of dollars, except dividends paid per share, unaudited)

| | 2nd quarter | | 6 months | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| ***OPERATING ACTIVITIES*** | | | | |
| Net earnings | **14,737** | 16,029 | **22,338** | 25,023 |
| Non-cash items | | | | |
| Amortization | **3,214** | 3,331 | **6,617** | 7,121 |
| Amortization of deferred gain on a sale-leaseback arrangement | **(58)** | (55) | **(112)** | (122) |
| Future income taxes | **2,679** | 3,665 | **(6,268)** | 185 |
| Compensation cost relating to stock option plans | **19** | 32 | **39** | 64 |
| Pension expense in excess of contributions | **395** | 197 | **736** | 394 |
| Non-controlling interest | **(46)** | 1,230 | **(131)** | 2,201 |
| | **20,940** | 24,429 | **23,219** | 34,866 |
| Changes in working capital items | **8,338** | 1,598 | **(25,669)** | (26,287) |
| Cash flows from continuing operating activities | **29,278** | 26,027 | **(2,450)** | 8,579 |
| Cash flows from discontinued operating activities | **(4)** | (4,302) | **(1,106)** | (2,874) |
| Cash flows from operating activities | **29,274** | 21,725 | **(3,556)** | 5,705 |
| ***INVESTING ACTIVITIES*** | | | | |
| Business acquisitions (Note 6) | **–** | – | **(1,074)** | (668) |
| Disposal of assets (Note 7) | **825** | 849 | **2,242** | 849 |
| Balance of selling price | **204** | – | **1,154** | – |
| Buy-back of non-controlling interest | **–** | (159) | **–** | (196) |
| Investments | **18** | 30 | **35** | 30 |
| Advances to merchant members | **(367)** | (6,188) | **(1,096)** | (6,559) |
| Receipts on advances to merchant members | **678** | 1,026 | **1,772** | 2,274 |
| Fixed assets | **(2,961)** | (3,872) | **(5,865)** | (6,051) |
| Disposal of fixed assets | **403** | 431 | **767** | 431 |
| Intangible assets | **(9,048)** | (2,864) | **(15,481)** | (4,059) |
| Cash flows from continuing investing activities | **(10,248)** | (10,747) | **(17,546)** | (13,949) |
| Cash flows from discontinued investing activities | – | (7) | – | (50) |
| Cash flows from investing activities | **(10,248)** | (10,754) | **(17,546)** | (13,999) |
| ***FINANCING ACTIVITIES*** | | | | |
| Bank indebtedness | **(17,209)** | (7,559) | **9,376** | 4,558 |
| Balance of purchase price | **–** | (802) | **–** | (685) |
| Repayment of long-term debt | **(23)** | (143) | **(49)** | (1,499) |
| Merchant members' deposits in guarantee fund | **181** | 121 | **245** | 182 |
| Issuance of shares | **–** | – | **90** | 202 |
| Dividends paid | **(2,298)** | (2,295) | **(4,596)** | (4,413) |
| Cash flows from continuing financing activities | **(19,349)** | (10,678) | **5,066** | (1,655) |
| Cash flows from discontinued financing activities | **–** | 1,626 | **–** | 1,626 |
| Cash flows from financing activities | **(19,349)** | (9,052) | **5,066** | (29) |
| Effect of exchange rate changes on cash | **483** | (1,990) | **396** | (1,233) |
| **Increase (decrease) in cash** | **160** | (71) | **(15,640)** | (9,556) |
| Cash, beginning of period | **50** | 197 | **15,850** | 9,682 |
| Cash, end of period | **210** | 126 | **210** | 126 |
| Dividends paid per share | **0.117** | 0.117 | **0.233** | 0.225 |

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

# Uni-Select Inc.
# Consolidated Balance Sheets

June 30, 2010 and 2009

(In thousands of dollars, unaudited)

| | **June 30 2010** | June 30 2009 | December 31 2009 |
|---|---|---|---|
| | **$** | $ | $ (audited) |
| ***ASSETS*** | | | |
| Current assets | | | |
| Cash | **210** | 126 | 15,850 |
| Accounts receivable | **186,777** | 190,359 | 150,440 |
| Income taxes receivable | **–** | 1,127 | 3,859 |
| Inventory (Note 9) | **425,137** | 432,666 | 402,550 |
| Prepaid expenses | **7,132** | 5,787 | 6,914 |
| Future income taxes | **10,614** | 9,006 | 10,065 |
| Assets from discontinued operations (Note 8) | **2,784** | 32,920 | 3,777 |
| | **632,654** | 671,991 | 593,455 |
| Investments and advances to merchant members | **16,289** | 16,690 | 16,831 |
| Fixed assets | **38,819** | 41,540 | 39,660 |
| Financing costs | **501** | 619 | 555 |
| Intangible assets | **45,248** | 21,172 | 27,836 |
| Goodwill | **94,421** | 97,996 | 93,961 |
| Future income taxes | **2,979** | 3,955 | 3,359 |
| | **830,911** | 853,963 | 775,657 |
| ***LIABILITIES*** | | | |
| Current liabilities | | | |
| Bank indebtedness | **9,578** | 4,638 | 44 |
| Accounts payable | **210,580** | 186,231 | 181,773 |
| Income taxes payable | **1,899** | – | – |
| Dividends payable | **2,297** | 2,297 | 2,298 |
| Instalments on long-term debt and on merchant members' deposits in guarantee fund | **100** | 148 | 402 |
| Future income taxes | **5,022** | 5,208 | 11,192 |
| Liabilities from discontinued operations (Note 8) | **287** | 7,170 | 2,384 |
| | **229,763** | 205,692 | 198,093 |
| Deferred gain on a sale-leaseback arrangement | **1,952** | 2,384 | 2,036 |
| Long-term debt | **181,264** | 197,866 | 178,866 |
| Merchant members' deposits in guarantee fund | **7,804** | 8,082 | 7,288 |
| Derivative financial instruments | **6,096** | 5,897 | 5,182 |
| Future income taxes | **7,727** | 5,209 | 7,821 |
| Non-controlling interest | **3,321** | 46,339 | 3,453 |
| | **437,927** | 471,469 | 402,739 |
| ***SHAREHOLDERS' EQUITY*** | | | |
| Capital stock | **50,242** | 50,040 | 50,152 |
| Contributed surplus | **394** | 291 | 355 |
| Retained earnings | **371,368** | 343,070 | 353,625 |
| Accumulated other comprehensive income (Note 10) | **(29,020)** | (10,907) | (31,214) |
| | **392,984** | 382,494 | 372,918 |
| | **830,911** | 853,963 | 775,657 |

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

# Uni-Select Inc.
# Notes to Consolidated Financial Statements

June 30, 2010 and 2009

(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, 2009. 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, 2009. 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.

These interim financial statements follow the same accounting policies as 2009. Certain comparative figures have been reclassified to conform with the presentation adopted in 2010. The Company now discloses one operating segment being the automotive parts distribution.

***2 - FUTURE ACCOUNTING CHANGES***

**Business combinations**

In January 2009, the CICA issued Section 1582, Business Combinations, which supersedes the like-named Section 1581. This Section applies prospectively to business combinations for which the date of acquisition is in fiscal years beginning on or after January 1, 2011. The Section establishes standards for the recognition of a business combination. The Company will analyze the effects of the adoption of this Section together with the analysis of the International Financial Reporting Standards.

**Consolidated financial statements**

In January 2009, the CICA issued Section 1601, Consolidated Financial Statements, which supersedes the like-named Section 1600. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the preparation of consolidated financial statements. The Company will analyze the effects of the adoption of this Section together with the analysis of the International Financial Reporting Standards.

**Non-controlling interests**

In January 2009, the CICA issued Section 1602, Non-controlling Interests, which supersedes Section 1600, Consolidated financial statements. This Section applies to interim and annual financial statements for fiscal years beginning on or after January 1, 2011. The Section establishes standards for the accounting of non-controlling interests in a subsidiary in the consolidated financial statements subsequent to a business combination. The Company will analyze the effects of the adoption of this Section together with the analysis of the International Financial Reporting Standards.

***3 - INFORMATION INCLUDED IN CONSOLIDATED EARNINGS***

| | **2nd quarter** | | **6 months** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| **Interest from** | | | | |
| Other financial liabilities | | | | |
| Interest on bank indebtedness | **157** | 148 | **255** | 472 |
| Interest on long-term debt | **1,482** | 2,062 | **3,058** | 4,106 |
| Interest on merchant members' deposits in guarantee fund | **28** | 43 | **57** | 110 |
| | **1,667** | 2,253 | **3,370** | 4,688 |
| Held-for-trading financial assets | | | | |
| Interest income on cash | **(69)** | (1) | **(94)** | (5) |
| Loans and receivables | | | | |
| Interest income from merchant members | **(52)** | (102) | **(112)** | (240) |
| | **(121)** | (103) | **(206)** | (245) |
| | **1,546** | 2,150 | **3,164** | 4,443 |
| **Amortization** | | | | |
| Amortization of fixed assets | **2,463** | 3,123 | **5,198** | 6,686 |
| Amortization of intangible assets and other assets | **751** | 208 | **1,419** | 435 |
| | **3,214** | 3,331 | **6,617** | 7,121 |

***4 - INCOME TAXES***

The Company's effective income tax rate differs from the combined statutory rate in Canada. This difference arises from the following items:

| | **2nd quarter** | | **6 months** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **%** | % | **%** | % |
| Federal statutory rate | **18.00** | 19.00 | **18.00** | 19.00 |
| Provinces' statutory tax rates | **11.25** | 11.86 | **11.25** | 11.86 |
| Various tax rates applied in tax jurisdictions of foreign operations | **7.41** | 3.62 | **8.16** | 4.00 |
| Combined statutory rate of the Company | **36.66** | 34.48 | **37.41** | 34.86 |
| Tax benefit from a financing structure | **(8.69)** | (0.94) | **(11.75)** | (1.35) |
| Non-deductible tax expenses | **0.35** | 0.35 | **0.35** | 0.35 |
| Earnings taxable at lower rates in future years | **(0.54)** | (0.27) | **(0.43)** | (0.25) |
| Losses at higher tax rates | **(1.40)** | – | **(0.94)** | – |
| Recognition of previously unrecorded tax benefits | **–** | – | **–** | (0.46) |
| Other | **(1.17)** | 0.72 | **(0.60)** | 0.31 |
| | **25.21** | 34.34 | **24.04** | 33.46 |

***5 - EARNINGS PER SHARE***

Weighted average number of shares for the calculation of basic earnings per share is 19,722,337 for the three-month period ended June 30, 2010 (19,711,550 in 2009) and 19,719,364 for the six-month period ended June 30 2010 (19,704,677 in 2009). Impact of stock options exercised is 7,762 shares for the three-month period ended June 30, 2010 (12,653 in 2009) and 9,606 for the six-month period ended June 30, 2010 (15,140 in 2009) which total a weighted average number of shares of 19,730,099 for the three-month period ended June 30, 2010 (19,724,203 in 2009) and 19,728,970 for the six-month period ended June 30, 2010 (19,719,817 in 2009) for calculation of diluted earnings per share.

***6 - BUSINESS ACQUISITIONS***

During the first quarter, The Company acquired the shares of a company for a cash consideration of $1,074 and a contingent consideration payable to the sellers based on the achievement of specific performance objectives. Purchase price allocation will be reviewed to consider the contingent consideration when it can be determined by the Company that the objectives will be achieved.

***7 - DISPOSAL OF ASSETS***

The Company sold some of the assets and liabilities of a store for a cash consideration of $2,692 of which $450 is receivable.

***8 - DISCONTINUED OPERATIONS***

In 2009, the Company has proceeded to the disposal of certain assets and liabilities of its Palmar Inc. subsidiary.

Pursuant to Section 3475 of CICA Handbook, titled "Disposal of Long-Lived Assets and Discontinued Operations", the group's operating results and loss from discontinued operations have been reclassified and presented in the consolidated statement of earnings under "Loss from discontinued operations" for the periods ending June 30, 2010 and 2009 while the assets and liabilities of Palmar Inc. as of June 30, 2010 and December 31, 2009 have been reclassified and presented in the consolidated balance sheet under "Assets or liabilities from discontinued operations".

The following table provides the discontinued operations results for the periods ended June 30, 2010 and 2009:

| | **2nd quarter** | | **6 months** | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Sales | **–** | 13,673 | **–** | 25,569 |
| Loss before the following items: | **–** | (825) | **–** | (2,199) |
| Interests | **–** | 37 | **–** | 82 |
| Amortization | **–** | 67 | **–** | 134 |
| | **–** | 104 | **–** | 216 |
| Loss before income taxes | **–** | (929) | **–** | (2,415) |
| Income taxes | **–** | (308) | **–** | (813) |
| Loss from discontinued operations | **–** | (621) | **–** | (1,602) |

The following table provides the assets and liabilities from discontinued operations as of June 30, 2010 and December 31, 2009:

| | **June 30** | December 31 |
|---|---|---|
| | **2010** | 2009 |
| Assets | **$** | $ |
| Cash | **227** | 671 |
| Accounts receivable | **97** | 646 |
| Income taxes receivable | **68** | 68 |
| Future income taxes | **2,392** | 2,392 |
| Assets from discontinued operations | **2,784** | 3,777 |
| | | |
| Liabilities | | |
| Accounts payable | **287** | 2,384 |
| Liabilities from discontinued operations | **287** | 2,384 |

***9 - STOCK***

The cost of inventory recognized as an expense is $258,763 for the three-month period ended June 30, 2010 ($278,995 in 2009) and $477,766 for the six-month period ended June 30, 2010 ($518,373 In 2009).

***10 - ACCUMULATED OTHER COMPREHENSIVE INCOME***

| | **June 30 2010** | December 31 2009 |
|---|---|---|
| | **$** | $ |
| Balance, beginning of year | **(31,214)** | (1,605) |
| Other comprehensive income for the years | **2,194** | (29,609) |
| Balance, end of year | **(29,020)** | (31,214) |

The components of other accumulated comprehensive income as at June 30, 2010 and December 31 2009, are as follows:

| | | |
|---|---|---|
| Accumulated currency translation adjustments | **(24,570)** | (27,535) |
| Cumulative changes in fair value of derivatives used as a hedge (net of future income taxes of $1,646 ($1,503 in 2009)) | **(4,450)** | (3,679) |
| | **(29,020)** | (31,214) |

***11 - EMPLOYEE FUTURE BENEFITS***

As at June 30, 2010, the Company’s pension plans are defined benefit and contribution plans.

For the three-month period ended June 30, 2010, the total expense for the defined contribution pension plans was $265 ($469 in 2009) and $671 ($639 in 2009) for the defined benefit pension plans.

For the six-month period ended June 30, 2010, the total expense for the defined contribution pension plans was $563 ($734 in 2009) and $1,324 ($1,302 in 2009) for the defined benefit pension plans.

***12 - GUARANTEES***

Under 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 cost of the inventories for a maximum amount of $65,082 ($61,495 in 2009). In the event of legal 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 greater than the Company's commitments.

***13 - GEOGRAPHICAL INFORMATION***

| | 2nd quarter | | 6 months | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | **$** | $ | **$** | $ |
| Sales in Canada | **142,613** | 142,620 | **256,388** | 260,528 |
| Sales in the United States | **216,137** | 241,541 | **409,326** | 474,477 |
| | **358,750** | 384,161 | **665,714** | 735,005 |

| | | | **June 30, 2010** |
|---|---|---|---|
| | **Canada** | **United States** | **Total** |
| | **$** | **$** | **$** |
| Fixed assets | **17,357** | **21,462** | **38,819** |
| Intangible assets | **20,179** | **25,069** | **45,248** |
| Goodwill | **40,584** | **53,837** | **94,421** |

| | | | December 31, 2009 |
|---|---|---|---|
| | Canada | United States | Total |
| | $ | $ | $ |
| Fixed assets | 15,399 | 24,261 | 39,660 |
| Intangible assets | 15,056 | 12,780 | 27,836 |
| Goodwill | 40,835 | 53,126 | 93,961 |