



July 1, 2011

To Our Valued Customers and Vendors:

I am extremely pleased to officially announce Centre Lane Partners, LLC, a private investment firm in New York City, as our “Stalking Horse” bidder. This stalking horse confirmation moves us one step closer to completing our reorganization. We will soon be under new ownership and out of the bankruptcy process, with the anticipated time frame for completion of this process being approximately six weeks.

I would like to share with you some additional information about Centre Lane and the immediate impact they will have on our company. They currently have approximately \$500 million in capital under management. They like our company and its platform and have significant experience in distribution. Centre Lane will be very hands on and will provide management with plenty of capital resources. This transaction will immediately give The Merit Group significant positive net worth resulting in ample availability for growth.

This is an exciting time for our company. Centre Lane has a strong vision for growth, and will take an aggressive approach in continuing to position us as the leading company in the sundry distribution industry. Over the past month we have made great strides in our inventory levels and can confidently say our fill rate is back to the levels you have come to expect from Lancaster. We are quickly getting back to mid-season promotional levels, and you will see many exciting opportunities in the coming months.

I would like to again say “Thank You” on behalf of the 320 Merit Group associates for your patience and understanding through this challenging time. Our goal and vision remains steadfast, and that is to be the best paint sundry distributor to you, our customers and vendors.

Sincerely,

Mitch Jolley
CEO