

GREAT AMERICAN GROUP ADVISORY & VALUATION SERVICES

Auto Parts/Oil and Gas Monitor May 2011 - Volume 2

In this Issue:

Overview 4

Recent Appraisal Trends 6

Pricing Trends 8

Monitoring Points 10

Reference Sheet 11

Introduction

Welcome to the second issue of the *Auto Parts/Oil and Gas Monitor* from Great American Group Advisory & Valuation Services (“GA”). This publication will provide you with market value and industry trends for a variety of products within the automotive and oil and gas sectors. The enclosed information represents a composite of GA’s industry expertise, well-respected industry publications, liquidation and appraisal experience, and contact with industry personnel. GA strives to contextualize important indicators in order to provide a more in-depth perspective of the market as a whole.

The *Auto Parts/Oil and Gas Monitor* relates information covering most major product categories within these sectors, including industry trends, market pricing, and their relation to our valuation process. GA provides our customer base with a concise document highlighting the automotive and oil and gas sectors. Please feel free to utilize our contact information shown in this and all *Auto Parts/Oil and Gas Monitor* issues. GA welcomes the opportunity to make our expertise available to you in every possible way.

Trends in Recovery Values

In general, recovery values in the first quarter of 2011 have been flat or increased up to two points for manufacturers of OEM and aftermarket replacement parts, spurred by increased demand from both consumers and auto manufacturers, as compared to the first quarter of 2010.

As aftermarket accessories tend to be discretionary in nature, recovery values have remained fairly flat, quarter over quarter. Due to more miles driven and increased industrial production, demand for lubricants in the first quarter has increased as compared to the first quarter of 2010; as a result, recovery values have increased five to ten percentage points.

Trend Tracker	
AUTOMOTIVE	OIL/FUEL
NOLVs: Consistent	NOLVs: Increasing
Sales Trends: Mixed	Sales Trends: Increasing
Gross Margin: Consistent	Gross Margin: Consistent
Inventory: Increasing	Inventory: Increasing
Pricing: Mixed	Pricing: Increasing

Although skyrocketing oil and fuel costs have not yet significantly affected recovery values, continued high prices are sure to impact consumer purchasing trends, as well as manufacturers’ material costs, in coming months.

GA internally tracks recovery ranges for parts, lubricants, and gasoline, but we are mindful to adhere to your request for a simple reference document. Should you need any further information or wish to discuss recovery ranges for a particular segment, please feel free to contact your GA Business Development Officer.



ABOUT GREAT AMERICAN GROUP

Great American Group is a leading provider of asset disposition solutions and valuation and appraisal services to a wide range of retail, wholesale, and industrial clients, as well as lenders, capital providers, private equity investors, and professional services firms. In addition to the *Auto Parts/Oil and Gas Monitor*, GA also provides clients with industry expertise in the form of monitors for the chemical, metals, food, and building products sectors, among many others.

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EXPERIENCE

GA has worked with and appraised numerous companies within the automotive and oil and gas industries. While our clients remain confidential, they include companies throughout the automotive supply chain including manufacturers, importers, distributors, and retailers of aftermarket, performance, replacement, and OEM parts and accessories. Our oil and gas industry clients include operators of refineries, distributors of lubricants and oil, and specialty lubricants manufacturers.

GA's extensive list of appraisal experience includes:

- Nationwide aftermarket parts and accessories distributors with five to 25 major distribution centers and multiple cross-dock locations with over \$100 million in inventory.
- Performance parts manufacturers and distributors of engine, fuel, electrical, and exhaust components for muscle cars and recent-model high-performance cars.
- OEM parts suppliers to the "big three" U.S. automakers including manufacturers of transmission, interior, wheel, and accessory products.
- Distributors of passenger car and light truck tires, both replacement and high-performance tire distributors, ranging in size from a single location to over \$150 million in inventory and \$600 million in sales.
- Operators of multiple refineries and producers of specialty lubricants with over \$150 million in inventory and \$2 billion in annual sales.
- Local distributors of fuel and lubricants servicing quick-change oil locations, garages, construction, agriculture, and trucking companies ranging in size from a single location to companies operating five to seven major subsidiaries across the United States.
- Companies engaged in the distribution, as well as transportation and storage, of commodity lubricants and fuel.

GA has also liquidated a number of manufacturers and distributors of OEM and aftermarket parts, including Midas Corporation, Trak Auto, Smittybilt Outland Automotive Group, Inc., and American Products Company, Inc. In addition to our vast liquidation and appraisal experience, GA maintains contacts within the automotive industry that we utilize for insight and perspective on recovery values.

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OVERVIEW

NEW CAR SALES

The U.S. automotive industry continued its recent success through the first quarter of 2011, with year-over-year sales increasing in each month of the quarter. New car sales in March 2011 totaled approximately 1.24 million units, which represents a 25% increase over the previous month, as well as a 17% increase over unit sales in March 2010. The March sales rate translates to a seasonally adjusted annual rate (“SAAR”) of just over 13 million units, a slight decrease from February.

In April, sales totaled 1.17 million units, an 18% increase over April 2010. The SAAR climbed to 13.2 million units.

On a manufacturer level, each of the top six auto producers - General Motors, Ford, Chrysler, Toyota, Honda, and Nissan - boasted a double-digit year-over-year sales increase in March, with the exception of Toyota, which experienced a 5.7% decrease from 2010. Ford was the month’s big winner, outselling General Motors for the first time since early 2010, largely due to fleet orders.

The performance was repeated in April, with each of the big six outperforming 2010 sales. The surprise in April was the performance of domestic manufacturers, as General Motors, Ford, and Chrysler outperformed Toyota, Honda, and Nissan in year-over-year sales improvements.

Despite the success experienced by auto manufacturers in recent months, many experts feel that the industry will continue to face difficult conditions throughout 2011. The impact that the earthquake in Japan will have on supply is just beginning to be felt, gas prices continue to rise due to complications in the Middle East, and post-recession consumers continue to be wary of the economic recovery.

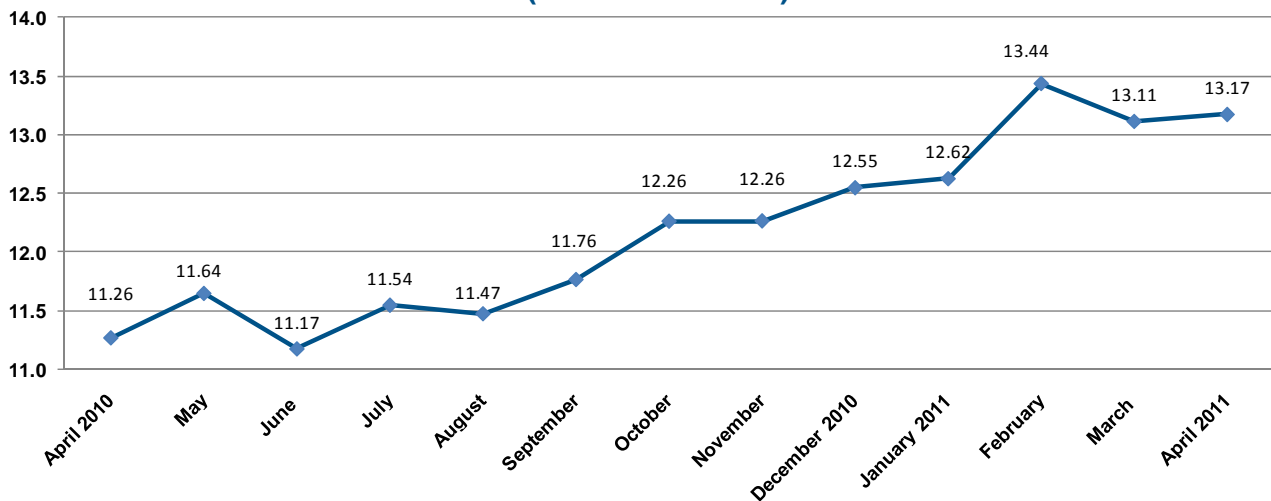
TIRES

The Rubber Manufacturer’s Association (“RMA”) forecasts 2% growth in tire shipments in 2011, reaching 290 million units. The association predicts that economic uncertainty will restrain growth and reduce demand for tire shipments.

Although RMA offered a conservative growth estimate, major tire manufacturer Bridgestone was far more optimistic. The company’s retail and commercial store group, which opened roughly 50 new retail locations in 2010, intends to repeat the performance in 2011.

According to Matt Hoskins, president of the retail and commercial store unit, “We’re focused on providing all of our customers with the best quality automotive products and services in the industry. By expanding service locations across the country, we strive to better serve customers by making vehicle maintenance more convenient for their busy lives. We look forward to continuing our expansion in 2011.”

**Total U.S. Light Vehicle Retail Sales
Monthly SAAR
April 2010 through April 2011
(Units in Millions)**



OVERVIEW

AFTERMARKET PARTS

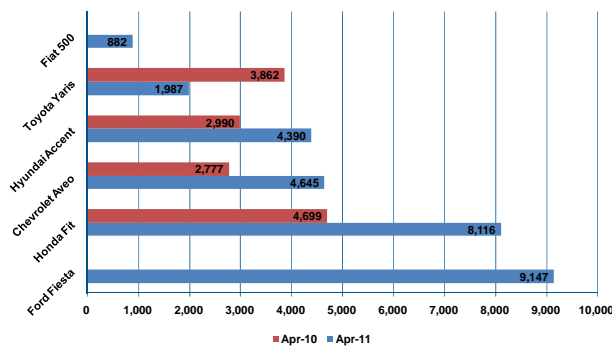
According to The NPD Group (“NPD”), American consumers are choosing to keep their vehicles for longer periods of time, which has resulted in increased demand for aftermarket parts and maintenance services. In NPD’s *2011 Aftermarket Outlook Survey*, 52% of consumers reported that they plan to keep their current vehicle for five years or longer. A majority of car owners expected to invest in automotive repair or maintenance in 2011.

Another key indicator of the state of the aftermarket industry is miles driven, as the more miles Americans are driving, the more maintenance their cars will require. According to the latest *Traffic Volume Trends* report by the U.S. Department of Transportation (“DOT”) and the Federal Highway Administration, miles driven increased 0.9%, or 2.0 billion vehicle miles, in February 2011, as compared to February 2010. The DOT predicts that Americans will drive 438.6 billion miles in 2011, up from 435.8 billion in 2010.

2011 INDUSTRY TRENDS

Consumers’ automotive preferences in recent months have been driven by skyrocketing fuel costs. With retail gas prices exceeding \$4.00 per gallon in many parts of the country, consumers are shopping for small, fuel-efficient vehicles. According to a report by Edmunds, subcompact and compact cars represented 24% of industry sales in April, which is a 3.0 percentage point increase from April 2010.

Subcompact Auto Sales
April 2011 vs 2010

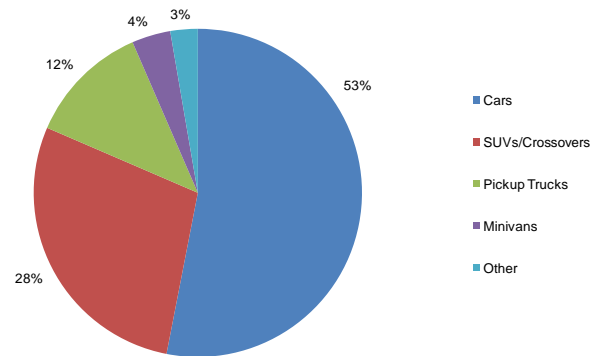


Leading compact cars were the Honda Civic, Chevrolet Cruze, Toyota Corolla, and Hyundai Elantra, with each model selling more than 20,000 units in April. Leading sub-compacts were the newly-introduced Ford Fiesta, with sales of more than 9,000 units, and the Honda Fit.

The sudden growth in demand for small vehicles has had a mixed impact on the industry. Domestic producers have been able to meet consumer demand, resulting in sales growth and fewer incentives offered to buyers. Japanese producers, however, have started to experience supply constraints, a result of the earthquake and tsunami in early March. Some experts believe that, if not for the constrained supply of small vehicles, the segment would have represented closer to 30% of industry sales in April.

Experts believe that the coming months could prove to be crucial for the industry in 2011. Should consumers continue to demand compact and subcompact vehicles, new car sales could be suppressed by supply constraints from Japanese automakers, as buyers may choose to delay purchases until a specific car is available rather than purchase an alternative vehicle.

Automotive Market Share by Segment
April 2011



Fuel prices are also impacting the used car market. Demand for popular fuel-efficient models, such as the Honda Accord and Toyota Prius, has allowed used car retailers to increase asking prices fairly dramatically.

RECENT APPRAISAL TRENDS

ORIGINAL EQUIPMENT MANUFACTURER PARTS

This sector, which manufactures parts and components utilized by carmakers, also referred to as original equipment manufacturers (“OEMs”), continues to experience an increase in overall sales due to increased production from domestic automobile manufacturers, who are finally recovering from the recession. As finished goods are typically shipped upon completion, inventories have remained stable. However, raw materials and work-in-process have increased to support higher production volumes.

In general, gross margins have been negatively impacted by rising costs for commodity raw materials, such as steel and plastic, as well as downward price pressures from auto manufacturers. However, the decreases have been partially offset by increased production, as the increase in volume has positively impacted manufacturing efficiencies.



Consistent with previous months, finished goods continue to maintain high recovery values, as many OEM manufacturers maintain minimal parts inventories and producers are making parts to order. In the first quarter of 2011, recovery values have been flat or increased up to two percentage points as compared to the first quarter of 2010, a result of the increased sales volume. Raw materials continue to achieve much lower recoveries due to the specialized nature of the products and limited distribution channels.



AFTERMARKET ACCESSORIES

Aftermarket accessories predominantly consist of discretionary goods meant to enhance the appearance or performance of vehicles. Due to the discretionary nature of these goods, sales slowed considerably during the recession. Sales began to recover in 2010, but have been relatively flat for the first quarter of 2011. Companies in this sector continue to demonstrate stable gross margins.

After remaining at very low levels in recent years, inventory levels have been increasing in the aftermarket accessories sector. The increase is driven by higher sales and demand, as well as seasonality, as sales tend to increase during the spring and summer months.

In an effort to cut costs during the recession, many manufacturers of aftermarket accessories have closed locations and reduced headcounts. Companies have not yet begun to react to increased sales by increasing headcount, but continue to focus on increasing efficiencies. Companies are also broadening their product lines, introducing new product types in an effort to increase revenues.

Overall, recovery values in the first quarter of 2011 have remained stable for this segment, as compared to the first quarter of 2010.

RECENT APPRAISAL TRENDS

AFTERMARKET REPLACEMENT PARTS

In general, consumers have been keeping their cars longer, which has resulted in increased demand for aftermarket parts. In general, sales continue to increase throughout the industry, increasing up to 10% year-over-year. Gross margins have also increased slightly as manufacturers have been able to raise prices. Inventory levels continue to increase to match demand, which could prove to be a negative trend, should sales growth slow.

In general, recovery values for aftermarket replacement parts in the first quarter of 2011 have increased one to two points as compared to the first quarter of 2010, driven by higher gross margin, sales, and turnover.



LUBRICANTS

Manufacturers and distributors of lubricants sell products to mechanics and auto service centers, trucking fleets, and industrial/manufacturing companies. Due to higher numbers of drivers on the road, as well as increased industrial production, manufacturers and distributors of lubricants continue to report increasing sales volume. As a result, industry participants have increased inventories to keep stocks in line with demand, which has reduced fixed expenses as a percentage of cost.



The price of lubricants is tied directly to downstream crude oil costs; to maintain a consistent gross margin, industry participants need to adjust prices accordingly. Although lubricant manufacturers are able to pass price increases along to customers, the recent sharp hike in oil prices has reduced gross margin in the short term. Due to the elevated cost of crude oil, manufacturers have implemented price increases in recent months. Companies such as CITGO, BP Lubricants, ExxonMobil, and ConocoPhillips have announced price increases of 5% to 9% in recent months.

Due to the commodity nature of lubricants, they tend to maintain broad distribution channels during an Orderly Liquidation, which has a positive impact on overall recovery values. Rising sales volumes have had a positive impact on gross recovery in the first quarter of 2011, with values increasing five to ten percentage points as compared to the first quarter of 2010. Despite increasing oil costs, producers have been able to pass price increases along to customers, which has resulted in relatively consistent gross margins. Increases in sales volumes due to improved market conditions have led to slight increases in liquidation values from the fourth quarter of 2010. However, these gains may be partially offset by reduced gross margins if crude oil costs continue to climb.

PRICING TRENDS

CRUDE OIL

After holding steady for three months around \$89 per barrel, West Texas Intermediate (“WTI”) crude oil spot prices jumped to \$103 per barrel in March 2011. Prices continued to climb, averaging nearly \$110 per barrel for the week ended April 22, the highest price since 2008. However, in the first week of May, prices finally dropped below \$100 per barrel. Experts are hopeful that the drop may signal a stabilization in the market. Until that point, fluctuating prices will continue to impact recovery values.

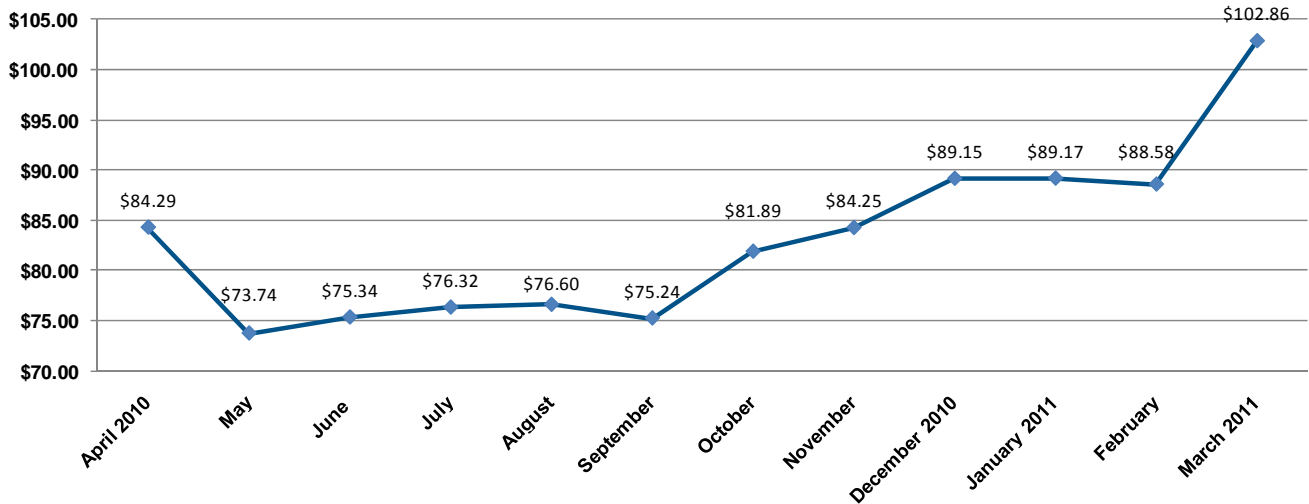
Despite the recent decrease in prices, the U.S. Energy Information Administration (“EIA”) doesn’t expect prices to fall much further. Growing global demand, paired with slow supply growth from non-OPEC countries, will likely result in falling global oil stocks.

Although OPEC member countries will increase overall production, surplus crude oil production will decrease. As political disruption in North Africa and the Middle East have already impacted the petroleum trade, global supplies are expected to remain tight.

Global crude oil and liquid fuel consumption is expected to increase by 1.5 million barrels per day (“bbl/d”) in 2011 and 1.6 million bbl/d in 2012. This follows growth of 2.3 million bbl/d in 2010, which resulted in record consumption of 86.7 million bbl/d.

The EIA recently revised its forecasts of the average annual price per barrel for WTI crude oil. In 2011, WTI crude oil is expected to average \$106 per barrel, a \$5 increase from previous estimates, and up from \$79.48 per barrel in 2010. WTI crude oil is forecast to average \$114 per barrel in 2012.

**Crude Oil
Cushing, OK WTI Spot Price
April 2010 through March 2011
\$ per Barrel**



PRICING TRENDS

GASOLINE AND DIESEL

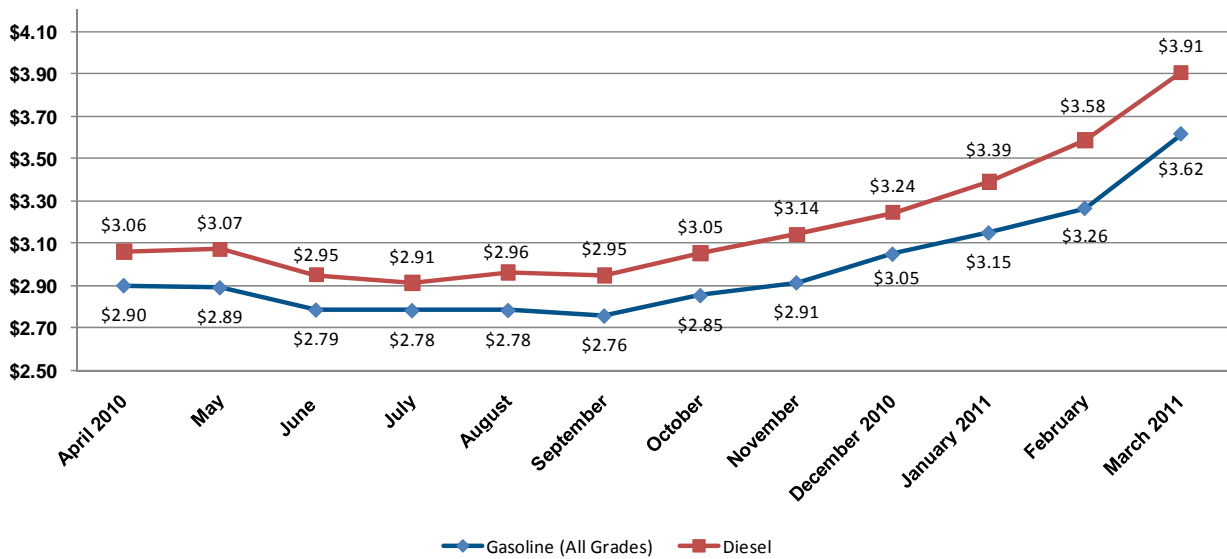
Gasoline and diesel prices continue to rise. U.S. retail gasoline prices averaged \$3.62 per gallon in March 2011, an increase of \$0.80 from \$2.82 per gallon in March 2010. Diesel prices averaged \$3.91 per gallon in March 2011, almost a full dollar over \$2.92 per gallon in March 2010.

Consistent with previous quarters, the increase in retail prices for gasoline and diesel can be attributed to increasing crude oil prices, as well as higher margins for gasoline and distillate refiners.

In its short-term energy outlook, the EIA predicts that regular grade gasoline will average \$3.70 per gallon for full-year 2011, an increase from \$2.78 per gallon in 2010. Regular grade gasoline is expected to average \$3.86 per gallon for the summer driving season, up from \$2.76 per gallon in the summer of 2010. The EIA also stated that there is a 33% chance that average national gasoline retail prices will exceed \$4.00 per gallon in July 2011.



**Gasoline and Diesel Prices
April 2010 through March 2011
\$ per Gallon**



MONITORING POINTS

Monitoring Point	Impact
Monitor levels of slow-moving and aged inventory.	As many companies have boosted inventory levels to align with rebounding demand, they may experience increased levels of lower-recovery slow-moving and aged inventory should sales fail to meet their projections. Slow-moving and aged goods are more difficult to sell through during a liquidation and frequently are sold for scrap value at a loss.
Monitor company relationships with OEMs.	The majority of finished goods supplied to OEMs are custom and manufactured according to anticipated production runs. Should these customers cancel their orders or transition to a new vendor, the companies may retain a large quantity of unsaleable inventory, which would negatively impact recovery values.
Monitor oil and fuel prices versus their cost basis.	Oil and fuel prices impact consumer habits regarding vehicle purchases and maintenance. In addition, oil and fuel are critical raw materials utilized in the production of many automotive parts. Should oil and fuel prices increase dramatically, sales within the automotive industry would decrease, as well as gross margins.



OIL AND GASOLINE REFERENCE SHEET

U.S. crude oil pricing trends

Crude Oil (dollars per barrel)	Q2 2010	Q3 2010	Q4 2010	Q1 2011
West Texas Intermediate Spot Average	\$77.79	\$76.12	\$85.10	\$93.50
Imported Average	\$74.33	\$73.32	\$80.70	\$95.45
Refiner Average Acquisition Cost	\$75.34	\$74.05	\$81.70	\$95.51

Gasoline pricing trends

Retail Prices (including taxes, dollars per gallon)	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Gasoline Regular Grade (average self-service cash price)	\$2.81	\$2.72	\$2.89	\$3.30
Gasoline All Grades (average self-service cash price)	\$2.86	\$2.77	\$2.94	\$3.35
On-Highway Diesel Fuel	\$3.03	\$2.94	\$3.15	\$3.62

