

SEP 04 1996

FRH/TCL/KSV

August 26, 1996

Carl
Yrigg

*Your reactions and comments
are welcome! But, let's be
someone double-check the
membership fee.*

Mr. Tom L'Hote
Vice President -Auto Claims
State Farm Insurance Co.
One State Farm Plaza
Bloomington, IL 61710-0001

Dear Mr. L'Hote,

Tom

Tom

Thanks to your support, CAPA has weathered the storms of its first 8.5 years and is in the midst of its best year ever. Manufacturers continue to join the program and submit parts for certification. We now have over 1500 certified parts - more than ever before. Manufacturer projections indicate that we will have 1700 parts by the end of 1996.

*Have me
recertified*

All CAPA Manufacturers will be packaging their products in specially designated "CAPA Certified" boxes by January, 1997. CAPA's 9 Total Quality Manufacturers (CTQMs) have been using this distinctive packaging since 1995 and it has made these CAPA parts easily identifiable in distributor warehouses and collision repair shops. The unilateral use of this packaging coincides with our efforts in increased CAPA visibility.

CAPA's continuing inter-industry efforts have resulted in significant changes in the attitudes held by leaders in the collision repair industry. Many now believe that a healthy CAPA is important to the future of their industry.

Wallo

In an effort to educate the industry and consumers about CAPA, and to clearly differentiate between certified parts and non-certified parts, CAPA has produced three educational videos. (You have received information about these videos under separate cover.) Member insurance companies are being encouraged to reproduce and distribute the videos to their claims staff, collision repair shops and policy holders. The videos are aimed at these three groups and were produced in response to suggestions from the CAPA Marketing Committee made up of insurance company marketing and public relations executives.

Now that we have completed the final steps in the technical development of the program, we have begun an internal restructuring designed to assure efficient and cost effective program management in light of the various program changes. Two elements of the restructuring include shifting the Complaint Handling and Recall Programs from the Validator into CAPA headquarters.

CAPA seal sale revenues continue to rise, though not at a pace which would allow CAPA to become self-sufficient in the near future. We expect \$1.3 million in seal revenues in 1996. This

revenue, which is dictated solely by demand, represents about 40% of the operating budget necessary to run this dynamic and growing program. The 1997 budget will be affected by increased certification activity, enhanced promotion to the collision repair industry and efforts to prevent further local anti-aftermarket part legislative initiatives. We will be soliciting approximately \$2.7 million from the insurance industry to cover our 1997 budget. Your contribution will enable CAPA to stay active throughout the year, continuing the valuable work started in 1987, as well as taking on new challenges.

With the goal of lowering ^{Good or Bad?} future insurance company contributions, CAPA is raising the seal charge from \$0.50 to \$0.75 as of January, 1997. The effect of raising the seal price will depend on market demand for CAPA parts. If there is adequate demand, insurance company contributions necessary for maintaining CAPA should go down in 1998.

Strong anti-aftermarket part sentiment continues to rear its head in state legislatures (Rhode Island, Florida and New Jersey) and among local collision repair associations. CAPA has provided background information and written testimony to help battle these anti-competition/anti-consumer initiatives, which appear to be funded by car companies. If successful, they will cost insurers and consumers more money and result in increased friction costs throughout the collision repair industry. The best protection from this type of legislation is to fully support CAPA, not only by offering financial support, but by assuring that your policy holders actually get CAPA certified parts when you call for them.

These accomplishments are the good news. CAPA's future, however, is based solely on the market demand for CAPA certified parts. While manufacturers are making a commitment to CAPA certification, strong market demand for CAPA parts has yet to be realized. Although many part distributors say they are trying to make CAPA parts available to their customers, there are reported incidents of distributors ordering less expensive, non-certified applications. This indicates that there is still a strong market among collision repair shops for non-certified parts.

Compliance to our revised standards, which better ensure consistently high quality parts, is expensive. Each manufacturer looks at compliance to CAPA standards as a business decision. Like you, as business people, they need to weigh the expense and return of their decisions. Manufacturers have raised questions about the wisdom of full compliance to CAPA's new standards. They are concerned that the U.S. market has shown little demand for a fairly priced, consistently high quality alternative to car company parts. Therefore, as a supporter of CAPA, the most important thing your company can do is develop the means to send a strong marketplace message to the manufacturers that there is a market for fairly priced CAPA certified parts.

Our plans for 1997 are to continue the work begun in 1996, including:

- continuing to certify as many high quality parts as manufacturers submit;
- enhancing CAPA's name recognition in the collision repair industry;

- improving inter-industry understanding about the consequences to CAPA of each company's marketplace behavior;
- ensuring full compliance to CAPA's revised Quality Standards Manual;
- increasing the number of CAPA approved manufacturers;
- initiating a long term strategic planning process; and,
- establishing CAPA in the European market.

Remember that every year you contribute to CAPA, the use of non-car company parts saves the insurance industry an estimated \$400 million in direct savings and an additional \$400 million in indirect savings, due to price reductions of car company parts. Legislative initiatives, like those mentioned above, adversely affect increased market share of CAPA parts and threaten CAPA's future. Since CAPA is your best defense against questionable quality, non-certified aftermarket parts, your continued support is invaluable.

We have enclosed your 1997 membership fee and invoice. This fee, based on your company's 1995 total earned premium according to AM Best, will be \$468,870.00. Although we have not changed the solicitation formula for 1997, your fee may have fluctuated based on a change in your 1995 earned premium, which AM Best reports as \$8,479,000,359.00. Please note that your payment is not due until January 31, 1997. However, as CAPA has no reserves (in order to keep assessments low), we would appreciate your payment in advance of the due date if possible.

Your choice to continue supporting CAPA in 1997 will benefit State Farm Insurance Company, its policy holders and all American consumers. We appreciate your support in the past, and look forward to our continued alliance.

Sincerely,



Jack Gillis
Executive Director

Enclosure (1997 Invoice)

INVOICE
 Certified Automotive Parts Association
 Annual Contribution - 1997
 INSURANCE COMPANY

August 26, 1996

Company Information:

CAPA Contact: Tom L'Hote Title: Vice President - Auto Claims
 Company: State Farm Insurance Co.
 Address: One State Farm Plaza
Bloomington, IL 61710-0001
 Phone: 309-766-2768 Fax: 309-766-1619

1995 Total Earned Premium: \$8,479,000,359.00 1997 Membership Fee: \$468,870.00

Your membership fee is based on the 1995 total earned premium for auto physical damage for your company (or corporate group) and the formula below. If your company is part of a corporate group, the earned premium for auto physical damage is for your entire group.

PREMIUM RANGE		BASE	INCREMENTAL FACTORS	BOTTOM OF RANGE
BOTTOM	TOP			
1	10,000,000	3,090	0.00000	0
10,000,000	50,000,000	3,090	0.00038	10,000,000
50,000,000	100,000,000	18,290	0.00030	50,000,000
100,000,000	500,000,000	33,290	0.00024	100,000,000
500,000,000	1,000,000,000	129,290	0.00014	500,000,000
1,000,000,000	5,000,000,000	199,290	0.00005	1,000,000,000
5,000,000,000		399,290	0.00002	5,000,000,000

State Farm Insurance Co.'s Assessment:

$$\text{BASE} + [\text{INCREMENTAL FACTOR} \times (\text{EARNED PREMIUM} - \text{BOTTOM OF RANGE})] = \text{FEE}$$

$$399,290 + [0.00002 \times (\$8,479,000,359.00 - 5,000,000,000)] = \$468,870.00$$

NOTE: Companies who choose to pay less than their full assessment will be considered contributors.

Please make check payable to Certified Automotive Parts Association and return with a copy of this invoice to:

CAPA Membership, Larry Cohen
 Accounting Department
 2600 River Road
 Des Plaines, IL 60018