

**Buy/Sell - Mergers - Lending
Edition**

Equipment Appraisal 101

The BASICS

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Forward

Nobody wakes up and Says "Hey I want to buy an Equipment Appraisal Today". In today's world, equipment appraisals are a necessity to protect the interests of involved parties with an unbiased report from a knowledgeable professional. We wrote this report to:

1. **Give you an insider's view of Equipment Appraisals.**
2. **SAVE Business Owners TIME & Money!**
3. **Help You Understand how and how much to pay an Appraiser.**
4. **Help You understand what the other side may be doing.**
5. **Show You best practices to save Frustration.**
6. **Show You how to effectively question the other side's appraisal.**
7. **Show You how to prepare for an Equipment Appraisal.**
8. **Give You tools to help the Equipment Appraisal go smoothly.**

Frankly, we wrote this guide as if we were helping a dear friend or relative. In this guide, we will share things that we may be unable to share once we are engaged on an appraisal engagement - for the simple fact that it could be considered bias or advocacy and ruin our impartial third party status. We know you will agree that although short, the principles and ideas in this guide can be worth thousands of dollars in your pocket.

Let the Class BEGIN!

NOTE: For more information feel free to contact us at
ExpertEquipmentAppraisal.com

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Intro: The Quick Overview

Short and in Simple Terms - we try to get to the point!

We will take a deep dive into each side of the equipment appraisal. We will look at how the appraisal should be handled from the perspective of the business owner. Although sometimes we feel like it, we are NOT psychologists or psychiatrists. We will do everything we can to keep emotion out of this guide and just give you the facts.

Warning: We are going to tell you what you need to hear - NOT what you want to hear.

Notes: Watch for key notes about a specific topic to avoid traps, litigation issues, and overlooked issues.

We will then share with you best practices on how to proceed with an equipment appraisal, how to hire an appraiser, what questions to ask, and how to prepare for the site visit. We will also include some simple tools to make the appraisal go smoothly at the end of this report.

This guide consolidates years of professional practice, millions of pieces of equipment appraised, and hundreds of different company's "unique situations" in a short eBook format to provide a dynamic learning experience.

At [Expert Equipment Appraisal](#), we understand that business owners, lenders, attorneys, and accountants face incredible challenges, and are pressured by time constraints and compliance issues. It doesn't matter if this is your first Equipment Appraisal or your 10th and you are a master at the process – this guide will take you through the step-by-step process of setting up and executing an Equipment Appraisal that will be in perfect compliance, save you time, and cost you less.

Key Points At A Glance

1. Use the Proper Value Level (See page 7) – It's critical to match your exact situation to the exact Value Levels.
2. Only Certified Equipment Appraisers have the court compliance you need
3. Depreciation Value (Book Value) does not equal Market Value
4. Choose a Desktop or On-Site Appraisal - they each have benefits and drawbacks you MUST consider.
5. Lenders will generally discount a Fair Market Value to some "Conservative Collateral Position" number, sidetrack this by having the appraiser give you a realistic range of values.
6. Remember the equipment is not new and equipment does not hold value like pre-2007 levels (in most industries) - be realistic in your expectations
7. In a court battle arbitration will save all parties lots of money - the only people who make money on extra appraisals are the appraisers and the attorneys who fight over them
8. A properly prepared asset list / equipment list using our forms will save you massive time and costs with most appraisers
9. Give yourself enough lead time for the appraisal - If you are reading this, you are probably going to need one - you may as well have it completed well before you get into heavy negotiation
10. Don't forget the small tools, : furniture, fixtures, electronics, & support items
11. Appraisals can be expensive - DO IT RIGHT THE FIRST TIME.

“The Most Expensive Appraisal is the SECOND one...”

Business Owners - Welcome to Class

We are not going to go deep into the details of why you need an equipment appraisal - your lender, accountants, or lawyer has probably already done that at his / her normal hourly rate.

You're more worried about "How much is this going to cost me and will the numbers be right?"

Brief Reasons Overview

Business owners need an appraisal for insurable value, selling, financing, expansion, and strategic growth.

CPA's need a certified appraisal because the IRS requires a certified appraisal by a Certified Appraiser! A certified appraisal is also needed when helping their clients convert from a C to S Corporation, Estate and Gift Planning, Trusts, Sarbanes-Oxley, and FASB 141/142.

Bankers and lenders need an appraisal in support of loans / lease decisions and to substantiate the collateral position on a loan. Especially considering the Small Business Administration's new SOP's that require a "qualified" equipment appraisal.

Attorneys need an appraisal to substantiate accurate and realistic values that withstand IRS and court scrutiny.

The most common reasons you might need a certified appraisal:

<ul style="list-style-type: none">• Buy / Sell Agreements• Converting From C To S-Corp• Loans / Financing• Leases• Insurable Value• Tax Purposes• Foreclosures• Estate Planning• Bankruptcy / Insolvency• Divorce Settlements	<ul style="list-style-type: none">• Mergers & Acquisitions• Litigation Support• Trust Planning• Sarbanes Oxley• Partnership Dissolution• Gift Estate Planning• 1031 Exchanges• Retirement Planning• FASB 141 & 142/GASB 34
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Step 2 - What Value Level do I place on the equipment?

Obviously you want the equipment to be valued at the best number for your situation - right? Well then it's important to understand the different types of value definitions that are recognized so you can choose the correct value.

The following values are defined in the publication *Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery & Technical Assets*, Third Edition, by the American Society of Appraisers.

1. **Fair Market Value** is an opinion expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having a reasonable knowledge of relevant facts, as of a specific date.
2. **Fair Market Value - Removed** is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, considering removal of the property to another location, as of a specific date.
3. **Fair Market Value in Continued Use** is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or to sell and both having reasonable knowledge of relevant facts, as of a specific date and assuming the business earnings support the value reported, without verification.
4. **Fair Market Value - Installed** is an opinion, expressed in terms of money, at which the property would change hands between a willing buyer and a willing seller, neither being under any compulsion to buy or sell and both having reasonable knowledge of relevant facts, considering market conditions for the asset being valued, independent of earnings generated by the business in which the property is or will be installed, as of a specific date.
5. **Orderly Liquidation Value** is an opinion of the gross amount, expressed in terms of money, that typically could be realized from a liquidation sale, given a reasonable period of time to find a purchaser (or purchasers), with the seller being compelled to sell on an as-is, where-is basis, as of a specific date.
6. **Forced Liquidation Value** is an opinion of the gross amount, expressed in terms of money, that typically could be realized from a properly advertised and conducted public auction, with the seller being compelled to sell with a sense of immediacy on an as-is, where-is basis as of a specific date.
7. **Liquidation Value in Place** is an opinion of the gross amount, expressed in terms of money, that typically could be realized from a properly advertised transaction, with the seller being compelled to sell, as of a specific date, for a failed, non-operating facility, assuming that the entire facility is sold intact.

8. **Salvage Value** is an opinion of the amount, expressed in terms of money, that may be expected for the whole property or a component of the whole property that is retired from service for possible use, as of a specific date.
9. **Scrap Value** is an opinion of the amount, expressed in terms of money, that could be realized for the property if it were sold for its material content, not for a productive use, as of a specific date.
10. **Insurance Cost New** is the replacement or reproduction cost new as defined in the insurance policy less the cost new of the items specifically excluded in the policy, as of a specific date.
11. **Insurable Value Depreciated** is the insurance replacement or reproduction cost new less accrued depreciation considered for insurance purposes, as defined in the insurance policy or other agreements, as of a specific date.

Step 3 - Appropriate Value Levels for the Business Owner:

As you can see there are a few values that would apply. Here is some insight on this.

Getting a Loan? - Use Fair Market Value in Continued Use (or Installed) as this is the highest value generally accepted. Many times lenders will take whatever number you provide and beat it up - we have seen some even set a discounted collateral position number like 80% all the way down to 40%. We suggest in this scenario to find out that discount factor ahead of time if you can, and go ahead and have the appraiser give you Fair Market Value in Continued Use, Orderly Liquidation, and Forced Liquidation on the same report.

Here is a case study on the importance of the right value

A company (unnamed to protect their dignity) hired an “appraiser” (auctioneer) to value their equipment. The company had nearly \$2 million worth of equipment at new cost and the equipment was between 5 and 10 years old. The auctioneer valued the equipment without asking or even realizing the purpose of the valuation, and gave the company a report showing his values (realistically Auction Value or Forced Liquidation Value). Here is where the problem happens: The bank received the appraisal directly to use as loan collateral validation for a refinancing situation, and upon seeing the value decided to play it safe and cut the reported value in half – not knowing that the auctioneer had already given the equivalent of forced liquidation value. Red flags went up about loan covenants and the loan committee decided to not approve the loan. Appraisal dollars wasted, initial loan fees wasted and the relationship with the bank ruined.

Loan declined!

Buy/Sell Scenario - This is a tough one - Generally we see the average negotiated end value come in somewhere around Orderly Liquidation. The problem is in many Buy / Sell scenarios, the values shift based on where the taxes are going to be paid. This is a very important thing to consider because

it can influence how many dollars finally land in your pocket when you sell. Also as a Seller you may want 2 reports: 1 that shows the full spectrum of values and 1 that shows only the highest value type possible. As a Buyer you may want the opposite.

Please consult a Business Broker or CPA / Accountant.

Closing the Doors - This is when you start with orderly liquidation and finally end up with forced liquidation or even scrap. In today's market many times the machinery is more cost to remove than it's worth. Scrap becomes the only realistic option. One thing you may consider here as well is a "One Check liquidation" - this is when a company comes in and buys you out for a fraction of the value. We would still suggest an appraisal here so you at least know what you are giving up and can apply that to losses.

Fair Market Value - Removed – This is used when there is a significant cost to remove the items (we have seen this used effectively many times when the other side is screaming for Fair Market Value but cost of labor to remove is significant and needs to be considered).

Tax / Litigation / Estate / Etc. – These events are always very value definition specific. Please call us directly and we can use our experience to help guide your decision.

Step 4 - Hiring the Appropriate Appraiser

Note: Nobody knows your equipment like you do. A good equipment appraiser is hired because they can effectively find what it's worth and help you in setting the *right value* - not because they can be your *mechanic or technician*. Many people new to appraisals confuse this distinction.

Pay very close attention here - this one portion can effectively kill your defense in court, your ability to get the loan, or cost you a mint in taxes.

You may be tempted to hire a buddy, a local auctioneer, a local dealer, or the like. **Don't Risk It!** 95% of these types of appraisals are not Certified, Not Court Tested, and are considered Biased. You show up into to court with a "buddy" appraisal and a true certified appraiser will make him look like a biased fool - which equals YOU LOSE!

The best scenario here is to hire an out of area (at least 1 county over) certified equipment appraiser. Master Appraiser's at [Expert Equipment Appraisal](#) are knowledgeable about your type of equipment, have court room experience, and will write a true certified and irrefutable report. As a matter of fact, we suggest choosing an appraiser that writes rock-solid reports over one that knows your specific equipment. The reality of finding and applying prices on equipment is a whole different discipline than working on a tractor or machine (you don't need to know how the engine runs to drive the car). NOTE: Many times you will not be the client - but rather the bank, attorney, etc should be - your appraiser can guide you here.

Key things to consider on types of Appraisers:

Certified vs. Non-Certified – An important thing to know about your appraiser is their certification level – this usually goes hand-in-hand with whether or not your report will be compliant. In the past you could call on Bubba the local auctioneer or dealership to write an “appraisal” for you that would give you a general value. Many times an auctioneer "appraiser" may even ask you what you want him to write - He's not liable - YOU ARE. I know for a fact 99% of the time the local dealer is going to lowball the number for fear you may actually decide to trade it in.

Note: Only by hiring a [Certified Machinery & Equipment Appraiser](#) can you be assured you are getting the most compliant and highest quality report.

Appraiser vs. Accountant / CPA – Some companies will just ask their accountant to write a machinery appraisal. Note: While some accountants are certified machinery appraisers MOST are not. (Note: Depreciation Value does not equal Market Value) and many CPA's / Accountants are only going to give you a “book value” on your equipment. So ask yourself “just because my depreciation schedule has run out, is my machinery worth \$0.00?” Accountants generally look through the lens of IRS compliance. It is not the way the equipment market will see it.

Appraiser vs. Internal Employee – This is a very easy one. When an employee writes an appraisal they have the best interests of the company they are working for in mind. Internal appraisers at banks, insurance companies, or even your company are **BIASED** or at least everyone else thinks they are.

Auctioneers and Dealers – In most circumstances, the “appraisers” in these fields have a hidden agenda, do not use market data, and typically are not truly Certified or Compliant –

Tip: Most Auctioneers, Dealers, and Accountants are NOT CERTIFIED!

Tip: Dealers and auctioneers usually have hidden financial agendas and a dealer's trade-in value is not valid in the appraisal world (there are too many variables that a dealer can manipulate unless the dealer is willing to give you their cost, their markup, their finance markup, etc. - full disclosure).

USPAP Compliance (Uniform Standards of Professional Appraisal Practice) – This is the industry standard for compliance, ethics, approaches to values, and any other knowledge an appraiser must have to create a report that will withstand scrutiny, be irrefutable, and be compliant with the IRS , SBA, Courts, and most other organizations. Make sure your appraiser is familiar with USPAP and their report is USPAP compliant.

Step 5 - Interviewing the Appraiser - Questions to Ask

Note for the Attorney - These are great questions for a court room.

Here are the questions (and what we say in answer as example) you should be asking to verify if an Appraiser is Certified or not.

1. Are you Certified? By who? Do they test? Is Continuing Education a part of your Certificate? What Designations do you hold?

Primary Certifying entities in America are ASA, NEBB, CAGA, AMEA, there are a few others but make sure they are a valid certification not just an auctioneer group - USPAP compliance usually is the dividing line protocol - We have a MCMEA Master Certified Machinery and Equipment Appraiser Certification from the NEBB Institute.

2. What is your Appraisal Education back-ground? What experience do you have with this type of equipment?

Look for valid appraisal background not just equipment buyer/dealer/auctioneer

3. Can you meet my deadlines? How long will the process take?

Depending on the size of the equipment list, our on-site visit takes a few hours to a few days and our report is usually done within 5-7 days after that.

4. Are you USPAP Compliant?

Uniform Standards of Professional Appraisal Practice - Appraisal Guidelines as Promulgated by Congress - Standards 7 and 8 apply to our discipline

5. Which approaches to value do you take and are they documented?

There are only 3 that possibly apply here - Market Data Approach, Cost Approach, and Income Approach – and they each look at the market differently and can have drastically different values.

6. At which value level definition will you be appraising?

Fair Market Value, Orderly Liquidation Value, Forced Liquidation Value, etc.

7. Where will your market data be taken from?

Regional is best – i.e., Multi-state to get a better cross section of the true market without having to pull values from too far out - a person can reasonably buy a piece of equipment from a nearby state and have it delivered with reasonable delivery fees. Local only does not give a true picture in today's market.

Certified & Professional Appraiser will easily be able to answer these questions and more.

Step 6 - Negotiating the Fee / How much to pay:

Fees come in all shapes and sizes with appraisers. Most Certified Appraisers can give you a free quote when you supply them with a solid asset list or depreciation schedule. We cannot speak for everyone, but here are some of the fee structures we have encountered and used. Remember in a litigation situation you will almost always need a site visit for solid court defense.

1. Hourly - Definitely the most expensive - Have your ducks in a row before you hire this way and try to negotiate a flat fee instead. Hourly costs range just like an attorney - we have seen \$50 to \$150 (ours) to \$350 and up. When we are in a setting with little information we generally try to gauge our fee based on half-day segments of \$600 and that seems pretty average. So, for instance, if I visit your shop (1/2 day), research your equipment (full day), write the report (1/2 day) - you would have a \$2,400 appraisal. Based on the national average we have seen appraisals run about \$2,900 - \$3,500 with lows in the \$500 range and highs in the hundreds of thousands.

2. By the Item - most times appraisers will quote or at least consider how many items they specifically have to research and report. Other government agencies can be used for a guide here. The IRS hints at (but never says outright) equipment valued at \$2,500 and up should have its own line item in the appraisal. The SBA mentions both \$2,500 and \$5,000 as the lowest amount. We have seen this be very dependent on how much equipment the company has and the type of equipment. Items below this amount fall into support, i.e., furniture, or electronics and are generally appraised in bulk with industry depreciation metrics. We have seen the per-item cost range from \$35 to \$250. A good national average may be \$75 - \$100 in the midwest and \$95 to \$125 on the coasts. Also we take into account multiples of the same item and “Macro” appraisals of large manufacturing lines.

3. Flat Rate - The appraiser takes everything into consideration and quotes a flat rate fee. This is a good way to hire if you have given a good asset list to the appraiser.

4. Consideration for Travel – Remember to consider travel fees, we travel OFTEN and still come have been lower than a local. Also many times there is not a “qualified” local. Travel fees should be considered but never dismissed outright.

Note: Remember that preparation for court, depositions, and actual court time are generally billed separately as a retainer. Yes you can simply subpoena your appraiser and not pay him - but remember you want this guy as an expert witness on your side and the small fees will reap HUGE rewards.

Note: An Appraisal must be paid for BEFORE or AT the time of delivery to be considered unbiased. This eliminates the other side from saying you held any sway over the appraisers values by withholding money.

Things that impact the fee are:

Your Preparation – Spending a few hours using tips from this book can make a massive cost savings difference on your appraisal.

Locations(s) – Where in the world is the equipment and will the appraiser need to do a site visit(s), buy plane tickets, etc.

Type of Equipment – It is harder to appraise custom machinery or industry unique machinery than it is to appraise a truck.

Type of Appraisal – On-site vs. Desktop appraisals effect the cost greatly.

Use of Appraisal – An appraisal that is going to be used in the courtroom generally has a higher price than one to be used for internal accounting purposes.

Appraiser “Pedigree” – Interestingly enough, appraisers with lots of credentials look good on paper. Sometimes that only means they are more expensive and not more qualified. This is a tough one to gauge for the average business owner. Choose wisely and use the questions and your conversation with them as a guide!

Let us give you some basic tips to keep your costs down.

Fee Tip 1. Have that perfect asset list ready (see the section “Preparing the Asset List), make sure the appraiser knows about it, and is willing to discount because of it. Also, request the appraisal company with which you feel most comfortable.

Fee Tip 2. Hire an appraiser that has national reach. We often Travel ourselves or use strategic alliances with certified appraisers across the nation that will do our site visits and therefore lower your costs by eliminating travel fees.

Fee Tip 3. Know if you can use a desktop appraisal or need a summary appraisal. As we mentioned earlier, this can save thousands in cost, and, generally, the only real difference is if the appraiser physically sees the equipment. Remember that litigation or a bad asset list tends to push the need for an on-site visit.

Fee Tip 4. Don’t be fooled by fancy titles. Make sure to ask the questions mentioned in the previous section. And yes we do have those same fancy titles, but frankly, we don’t take ourselves too seriously – we were raised “blue collar” and have worked around machinery all of our lives.

Fee Tip 5. It is very important to remember that for a report to be in compliance you will have to pay for it BEFORE or at the time of delivery. The appraiser usually will ask for half up front and half at time of delivery – This is normal.

Fee Tip 6. Be sure when you sign the engagement agreement you note what extra charges may be if more equipment is found while on-site. We have seen instances where they gouge you for double their normal rate.

Fee Tip 7. Line Item Count: Not all items on your Asset list need to be appraised individually - This is a personal decision in many respects. Certain government agencies dictate everything \$2,500 and above

needs to be a separate line item on the appraisal, the SBA (Small Business Administration) recently dictated \$5,000 as the minimum threshold. When in doubt about the appraisal threshold, please default to \$2,500.00 or a lower amount. As for small items, furniture, and electronics, you can enter all of these separately or as a batch dollar amount and we will apply industry depreciation metrics to these groupings at a very minimal cost.

Fee Tip 8. Shameless Advertisement – We have decided that a Flat Rate based on items, hours, and travel has worked the best for us and our customers – NO SURPRISES THAT WAY.

Step 7 - Getting Ready for the Appraisal

Preparing the Asset List

The first part of any machinery appraisal is making sure your asset / machinery list is up to date and as complete as possible. Many times we see this list several years outdated and with vague references to the equipment. This often leads appraisers to charge more as they find equipment while on site, or worse, to inflate the price of the appraisal because they know the asset list is poor and they are hedging their bets. Both of these scenarios will cost you more \$\$\$ than needed.

Let's start by looking at what the perfect asset list should look like. There are some key elements to a perfect asset list that if followed could easily **save your business thousands of dollars** on a machinery appraisal (at least when dealing with us...). Here are the components of a perfect asset list:

(see the Equipment Data Sheet Form - or request a free one at Appraisals@expertequipmentappraisal.com)

- General item/property name – e.g., bulldozer, computer, address of property, general description of improvement, etc.
- Location of item or property
- Make of item – Caterpillar, Dell, Etc.
- Model of item – e.g., D-11, Inspiron M17, etc.
- Age of Item – Year manufactured
- Serial number / Vin Number
- Hours / Miles
- Year of purchase (Optional)
- Cost to purchase (Optional but suggested)
- Current depreciation amount (Optional but suggested)
- Item tag number (If Available)
- General description / specifications of the machine – i.e., condition, size, weight, specifications, options, equipment's current use, etc.

Note: A digital photograph with the item tag number should be on file for every piece of equipment, and some items on the list won't be counted by equipment appraisers; such as commercial property, leasehold improvements, etc.

This should be compiled on an Excel spreadsheet for easy transfer between your accountant, your banker, your insurance agent, and of course your friendly neighborhood certified machinery appraiser.

By having a solid up-to-date list like the one described, you will be able to speed up a machinery appraiser in the on-site visit / data collection phase and also help set some sanity check values for yourself and the appraiser.

This is also a good time to talk about the difference between an appraisal that is prepared when the appraiser comes on-site vs. when they do the appraisal off-site. There are a myriad of names for these types of appraisals but the basic difference is "on-site vs. off-site".

On-Site (Summary Appraisal) – This is when the machinery appraiser actually comes to the location and collects the data, establish age and condition, etc. This is usually a more expensive appraisal due to travel costs and time spent collecting data (about 40% higher in our pricing) and is oftentimes required by Banks and suggested by Attorneys. This is often the default for Court / or when a poor asset list (or none at all) is in place. Poor records equal greater risk and less trust at the time of appraisal.

Off-Site (Desktop Appraisal) – This is when the machinery appraiser uses data / pictures / descriptions provided by the Business / Client to do the appraisal. The appraiser must still research the prices but the time / travel of data collection is removed equaling lower costs.

Note: Sometimes a Hybrid of Onsite and Desktop Appraisals are used. This usually comes into play when a Cross-section of locations or equipment is enough to satisfy the requesting party. For Example: a Fast Food chain with 86 locations that actually only has 6 Build-out Styles across the group...

Step 8 - Preparing the Machinery / Information:

Note: This is your option - Obviously dirty rough looking machinery will bring a potentially lower value. We just wanted you to have all of the info in case you ever wanted to get an appraisal that needs higher values, and a good equipment appraiser will see past it.

Note: Here are some ways to improve value in case you need to sell the equipment:

Now that you see how important an asset list is in the process, let's move to the machinery/information. It makes sense that the better your equipment looks the more it seems to be worth. Why is this? Simple...better looking equipment equals a higher perceived level of maintenance. Let's look at some basic tips to make sure your equipment receives the highest appraisal value it deserves.

“Paint-Job Overhaul” – Yes, a simple paint job can drastically impact your appraisal result. This is true for two reasons: 1) The appraiser knows that a better looking piece of equipment has a higher auction value and can, therefore, justify giving better forced liquidation values; and 2) Appraisers are not mechanics or technicians – the appraiser has to rely many times on what they see as well as what they hear. If you say “I just rebuilt this machine” and it looks like a rusted piece of junk, you will have a harder time convincing the appraiser.

Clean the work area – A cluttered mess of tooling and paperwork causes the appraiser to have a harder time justifying ancillary and support. Often, photographs are the only way to trigger an appraiser's memory about what they saw, or to help their researchers establish which items exist. While you're at it, replace a few light bulbs, I can't tell you how many times my photos have turned out poorly due to a “**cave like**” lighting scheme.

Have maintenance records available – A simple fix for this problem is to have a plastic see-through document holder attached to the machine with the maintenance schedule written in and signed off by the maintenance personnel, or have a good maintenance schedule documented and a copy

ready for the appraiser. This instantly tells the appraiser he/she is dealing with a company that maintains their equipment.

“Bump the Tires” – Remember the old rule of thumb that says “you can tell how well a person is doing by their shoes.” Guess what? – an appraiser can tell how well your company is doing by your equipment’s tires. This is a secret industry gauge to your maintenance, therefore a sanity check on what your maintenance schedules may be necessary. If you’re risking a breakdown and expenses due to tires...what must your machinery maintenance schedules look like? If you don’t have time or money to do the maintenance – how will you possibly have time for a machinery breakdown?

Step 9 - The Site Visit

You have now engaged the appraiser and they are on their way to do a site visit. What do you do now?

Don't Panic! It will be ok; at this point you have done everything to make sure the visit goes as smoothly as possible.

Have a Plan:

Know who is going to be escorting the appraiser through the location. Make sure the person has all of the information about the equipment the appraiser may need such as history, maintenance, & costs.

Have a copy of your asset list for yourself, don't rely on the appraiser to bring you a copy, have it yourself and ready to go.

Have a route picked out, try to have a flow for the walk-through that either matches your asset list or is the most time efficient. Don't forget to schedule a break – this is hard mental work for both you and your appraiser.

If the machinery isn't running (best due to safety) its perfectly fine if you choose to describe how you are using the machinery. As a matter of fact this helps the appraiser determine if it is being used in its highest and best capacity.

Speak Loud and Clear! – You don't want the appraiser getting the wrong information (remember we may be half deaf too).

Describe every piece you have: We actually ask the on-site escort to do this – this eliminates mistakes by ensuring that the appraiser is fully aware of the options and history and sometimes even industry jargon.

Make sure the appraiser has contact information for you in case there are questions later.

Do the appraisal before or after business hours – this helps a few things:

Safety First – the machinery appraiser will be climbing in and around the machines to look for data.

No Distractions: Make sure there are no distractions. Whoever is escorting the appraiser around the shop needs no distractions: Phone calls, Emergencies, Etc. This allows a better flow of information and these problems can ultimately cost you and frustrate your appraiser.

Employee Curiosity – Every employee wants to know what’s happening. And trust us we have heard horror stories about the water cooler talk “Are we going out of business? Should I update my resume? Are we selling? Is the owner leaving? Is the owner DEAD?” We have heard them all and have been asked them all during an appraisal. Note: A good “excuse” is to tell the employees that there is an insurance audit being performed (and realistically the report could be used for that reason later).

Sound Level – if we can hear what you are saying we can record the data better and therefore have a better basis for our research.

Photographs – A good Photo helps eliminate mistakes when we are researching. Be aware almost every employee wants to avoid being in the picture – expect them to vacate work positions while the photo is taken.

You are now finished with the part of the Machinery Appraisal you can control and you have done your best to prepare everything. It is time to leave it in the hands of the appraiser. But keep in mind you are welcome to call and update the appraiser with additional information or changes you realize may need to be addressed.

What Appraisers Do Next - Time Expectations

Again, this part varies by Appraisal Company, but let's take a dive into our company's process as an example:

Compiling the Data – Once we have all of the data either through a site visit or from our form being submitted for a Desktop Appraisal, we compile all of the data into a usable format.

Research – Next we start the research. Every item on our list will have all three types of research considered, those types are: Market Data Approach, Cost Approach, and Income Approach. We will use the approach that best fits the item and transfer that data into our report. Without giving away too many industry secrets, we compile our data from external sources such as the internet, forums, equipment dealers, manufacturers of equipment and from our internal database of millions of pieces of equipment. And blend all of that with years of experience to arrive at a number.

Time Involved - This is difficult to report due to the nature of different equipment. But on average we will have 1 hour of time per appraised item. I have seen many appraisal companies take up to 3 weeks to deliver a report. With the size of our team, though, we are generally able to deliver our reports within 5-7 business days – **many times within 2 – 5 business days**. As soon as our appraisals are completed and paid for we send them both digitally and hard copy via express mail.

Neutral Arbitration - Save Money & Frustration

Arbitration: A form of alternative dispute resolution (ADR), is a legal technique for the resolution of disputes outside the courts, where the parties to a dispute refer it to one or more persons (the "arbitrators", "arbiters" or "arbitral tribunal"), by whose decision (the "award") they agree to be bound. It is a settlement technique in which a third party reviews the case and imposes a decision that is legally binding for both sides.

Solid Reasons and Ideas for hiring a Certified Appraiser as an Arbitrator:

1. Have the equipment appraiser give the high value (Fair Market in Continued Use), the mid value (Fair Market or Orderly Liquidation), and the low value (Forced Liquidation), and negotiate based on those numbers.
2. By using one unbiased independent appraiser you will save at least one appraisal fee and massive legal fees on both sides.
3. There will be no favorites - All parties should be present and both parties should realize being helpful to the appraiser will be best for their cause.
4. This keeps the appraiser from having any chance of being disqualified due to potential bias or advocacy.
5. Split the Fee

Note: The hardest part of this scenario is coming to an agreement on who this appraiser should be. Use the guide and remember the general guidelines about using an appraiser from outside the area. You may have to pay travel fees but you can almost guarantee that appraiser will be independently unbiased.

Another option that we offer is having the appraisal counter signed by another appraiser. Basically we have 2 of our Master Appraisers review the information and both sign the report.

What should be inside the report

The Report – our report is USPAP compliant and for an average appraisal will have the following included sections:

- Summary Of Facts
- Scope of Work
- Degree To Which The Property Is Inspected Or Identified
- Extent Of Research Into The Physical Or Economic Factors That Could Affect The Property
- Extent Of Data Research
- Type And Extent Of Analysis Applied In Arriving At
- Opinions Or Conclusions
- Depth Of On-site Inspection
- Overall Condition Of Equipment
- Intended Use
- Economic Conditions
- Definitions Of Conditions
- Methods Of Evaluations
- Sources Contacted
- Market Conditions
- Final Value Summary And Reconciliation
- Appraiser's Certifications And Qualifications
- Photographs

Note: Our report is formatted in a bound presentation binder, with a digital PDF of the entire appraisal inside - We supply two copies.

Tip: Keep the digital copy off site in a fire safe for validation later in case of an emergency, insurance claim, or another appraisal.

An Appraisal is expensive!

Do it right the first time!

We hope you have enjoyed our Guide – please don't hesitate to call us with any Equipment Appraisal Needs or Questions at 800.785.6061

Data Collection Forms - Perfect Asset List Template

Your choice of Data Collection Forms to Save the Appraiser Time and Your Money - You should be able to negotiate up 10 - 20% off the price by having these completely filled out. Our Favorite is number 2 as it puts everything together in a great printable format - **We have a “live” version for you to use of each of these - request a free copy at appraisals@expertequipmentappraisal.com**

Item Number / Asset Number	#
Type	
Manufacturer	
Model No.	
Serial No.	
Condition: <ul style="list-style-type: none"> ▪ Is this machine working well? ▪ Does it need anything presently? ▪ Has any major repair been done lately? ▪ Is there a regular service schedule on this machine? ▪ Have there been any upgrades made? ▪ Have there been any special accessories added? ▪ Do you keep maintenance records? ▪ If so can I get a copy? 	
Comments / Options	
When Purchased	
Purchased New or Used	
Amount Paid	

Preparing the Asset / Data Collection List





The first part of any machinery appraisal is making sure your asset / machinery list is up to date and as complete as possible. Many times we see this list several years outdated and with vague references to the equipment, this often leads appraisers to charge more as they find equipment while on site or worse to inflate the price going in because they know the asset list is poor and they are hedging their bets. Both of these scenarios will cost you more \$'s than needed.

Let's start by looking at what the perfect asset list should look like. There are some key elements to a perfect asset list that if followed could easily **save your business thousands of dollars** on a machinery appraisal (at least when dealing with us...). Here are the components of a perfect asset list:

- General Item / Property Name – Example: Bulldozer, Computer, Address of Property, General Description of Improvement, Etc.
- Location of Item or Property (If Applicable or if Item is not onsite - add into Description Box)
- Make of Item – Caterpillar, Dell, Etc.
- Model of Item – Example: D-11, Inspiron M17, Etc.
- Year of Item – Year the Equipment was Manufactured
- Description: Includes - Serial Number, Vin, General Description, Specifications, and Options Included
- Year of Purchase
- Cost to Purchase
- Current Depreciation Amount (Not needed by us)
- Item Tag / Internal Asset Number (If Applicable put into the Type / # Column)
- General Specifications of the Machine – I.E. Size, Weight, Specifications, Options (Add into the Description Column)

Remember: More information is Better

For Picture Insertion: Click inside the Picture Box to Insert a Photo - Generally we may also require a full size photo of the item that can be zoomed in on. Please contact us on the best way to send that large amount of data over to our offices.

Type / #	Make	Model	Year	Condition/ Useful Life in Years	Fair Market Value	Orderly Liquidation Value	Forced Liquidation Value	Photo	Cost of Purchase / Research Notes
█	█	█	█	Good / 10 Years	\$ █	\$ █	\$ █		█
Description / Specifications / Options: █									
█	█	█	█	Good / 10 Years	\$ █	\$ █	\$ █		█
Description / Specifications / Options: █									
█	█	█	█	Good / 10 Years	\$ █	\$ █	\$ █		█
Description / Specifications / Options: █									
█	█	█	█	Good / 10 Years	\$ █	\$ █	\$ █		█
Description / Specifications / Options: █									

Call (800) 785-6061 to request a “Live” version of this document.

Definitions

In this section we will give you all of the terminology / Jargon used in the Equipment Appraisal World. This list is far from complete because every type of equipment has its own specific jargon as well. With that in mind we will do our best to help you or your attorney have the proper terminology. - Here Goes....

Appraisal

An appraisal is a type of investigation into the law of probabilities with respect to valuation. Through the appraiser's experience, training, and integrity we are able to project the activities of buyers and sellers in the marketplace into an estimation of value. In reaching a conclusion, comparison of assets usually involves adjustments due to the individuality and uniqueness of each asset. Transactions are often influenced by sentiment, bias, specific needs, politics, familiarity, lack of understanding, and other conditions not considered by the impartial appraiser. The appraiser cannot lend credence to these possible factors lest he misrepresent the very reason for his profession.

An appraisal cannot be guaranteed, nor can it always be proven. The opinion of value can, however, be substantiated and final opinion is the result of a thorough professional analysis of a vast quantity of data. An appraisal must not be considered absolute but should be used as a basis of negotiations between concerned parties, whatever their interests.

The valuation process, as followed in the preparation of this report, is an orderly procedure for arriving at an estimate of value. By following this procedure the appraiser begins with a preliminary study of the problem involved and defines the basis from which the appraisal is to be made. A program is then initiated for the accumulation, analysis, and observation of data. The data called for in the preliminary study is then gathered, classified, and analyzed.

In assignments to estimate Fair Market Value in Continued Use, the ultimate goal of the valuation process is a supported conclusion that reflects the appraiser's study of all influences on the value of the assets being appraised. Therefore, the appraiser studies the assets from various applicable viewpoints.

Various approaches are interrelated, and each involves the gathering and analysis of sales, activity, and value data in relation to the assets being appraised. From the analysis, the appraiser derives separate indications of value for the assets being appraised. One or more approaches may be used, depending on their applicability to the particular appraisal assignment.

To complete the valuation process, the appraiser integrates the information drawn from the market research and analysis of data and from the application of appraisal techniques to form a conclusion. This conclusion may be an estimate of value or a range in which the

value may fall. An effective integration depends on an appraiser's skill, experience, and judgment.

With the preceding in mind, the reader's attention is invited to the appraisal report and various exhibits which point out the facts and reasoning leading to the final estimate of value.

Appraisers Certificate - It Must Include the Following

I certify to the best of my knowledge and belief:

1. The statements of fact contained in this report are true and correct.
2. The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are my personal, impartial and unbiased professional analyses, opinions, and conclusions.
3. I have no present or prospective interest in the property that is the subject of this report, and I have no personal interest with respect to the parties involved.
4. I have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
5. My engagement in this assignment was not contingent upon developing or reporting predetermined results.
6. My compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, or the occurrence of a subsequent event directly related to the intended use of this appraisal.
7. My analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
8. I have made a personal inspection of the property that is the subject of this report.
9. No one provided significant personal property appraisal assistance to the person signing this certification.
10. Because of my training as an appraiser and my experience in numerous business transactions, I am qualified to perform this assignment.
11. The appraiser certifies that he has not appraised or otherwise had involvement with the property hereby being appraised in the last three years.

Non-Discrimination

In arriving at the estimated reasonable value, the writer has not been improperly influenced in any manner by the race, religion, or national origin of any person.

Certification and Re-Certification Section

Appraiser's Signature

Equipment Conditions:

Very Good (VG)

This term describes an item of equipment in excellent condition capable of being used to its fully specified utilization for its designated purpose without being modified and not requiring any repairs or abnormal maintenance at the time of inspection or within the foreseeable future.

Good Condition (GC)

This term describes those items of equipment which have been modified or repaired and are being used at or near their fully specified utilization but the effects of age and/or utilization indicate that some minor repairs may have to be made or that the item may have to be used to some slightly lesser degree than its fully specified utilization in the foreseeable future.

Fair Condition (FC)

This term describes those items of equipment which are being used at some point below their fully specified utilization because of the effects of age and/or application and which require general repairs and some replacement of minor elements in the foreseeable future to raise their level of utilization to or near their original specifications.

Poor Condition (PC)

This term is used to describe those items of equipment, which can only be used at some point well below their fully specified utilization, and it is not possible to realize full capability in their current condition without extensive repairs and/or replacement of major elements in the very near future.

Scrap Condition (X)

This term is used to describe those items of equipment which are no longer serviceable and which cannot be utilized to any practical degree regardless of the extent of the repairs or modifications to which they may be subjected. This condition applies to items of equipment which have been used for 100% of their useful life or which are 100% technologically or functionally obsolescent.

Methods of Valuation

Appraisal methods employed in arriving at the final conclusion as to value on all of the equipment in this section include the Cost Approach Analysis and the Market Data Approach Analysis. At times, the Income Approach Analysis is used. However, on equipment of this type, it would be deemed inadvisable, as it is the result of a purely hypothetical value.

Cost Approach Analysis

The Cost Approach Analysis is defined as a "method in which the value of a property is derived by estimating the replacement cost of the improvements and deducting there from the estimated depreciation." In determining depreciation, the appraiser has used his judgment and prudence in determining the depreciation factor. Experience with this type of equipment has proven the use of a formula, which is as follows:

$$\text{Fair Market Value} = \frac{\text{Remaining Life}}{\text{Normal Life}} \times \text{Cost New}$$

This formula, again, has proven to be effective on numerous occasions.

The Market Data Approach

This approach is "an appraisal technique in which the market value estimate is predicated upon prices being paid in actual market transactions and current listings, the former fixing the lower limit of value in a static or advancing market and fixing the higher limit of value in a declining market; and the latter fixing the higher limit in any market. It is a process of correlation and analysis of similar recently sold properties. The reliability of this technique is dependent upon:

1. The degree of comparability of each property with the property under appraisal;
2. The time of the sale;
3. The verification of the sale data;
4. The absence of unusual conditions affecting the sale.

The Income Approach

The Income Approach to value is used only when solid data involving income and expenses for a particular item can be established. It is considered hypothetical in most situations involving machinery and equipment, and though while considered, has not been applied in the final value estimate.

Shop Support and Ancillary Items

In addition to the capital equipment, there also exist a number of shop and ancillary items, which are of supporting nature. They generally are included at the request of the client as they do have value. These items are valued using industry depreciation standards, prudence, and experience (Cost Less Depreciation Approach). Items such as the subject are typically valued in bulk and include but are not limited to: Inspection Tools, Shelving, Racks, Carts, Tooling, Small Hand Tools, Small Grinders, Small Drills, Cleaning Equipment, Lockers, Miscellaneous Shop Items.

Furniture, Fixtures, and Equipment

In addition to capital equipment, there also exist a number of items of furniture, fixtures and equipment nature. They are included at the request of the client as they do have value. These items are valued using industry depreciation standards, prudence, and experience (Cost Less Depreciation Approach). Items such as the subject are typically valued in bulk and include but are not limited to: Desks, File Cabinets, Credenzas, Chairs, Conference Tables/Chairs, Dividers, Lamps, Tables, Bookcases, Miscellaneous Office Furnishings.

Electronic Support Items

In addition to capital equipment, there also exist a number of items of electronic nature. They are included at the request of the client as they do have value. These items are valued using industry depreciation standards, prudence, and experience (Cost Less Depreciation Approach). Items such as the subject are typically valued in bulk and include but are not limited to: Computers, Software, Printers, Copiers, Fax Machines, Telephone System, Calculators, and Miscellaneous Electronic Items.

Additional Definitions and Terms from USPAP

Various terms are used throughout the appraisal report. The following are definitions of the terms:

1. **ADVOCACY** – Representing the cause or interest of another, even if that cause or interest does not necessarily coincide with one’s own beliefs, opinions, conclusions, or recommendations.
2. **APPRAISAL** – (noun) The act or process of developing an opinion of value; an opinion of value. (Adjective) of or pertaining to appraising and related functions such as appraisal practice or appraisal services.
3. **APPRAISAL CONSULTING** –The act or process of developing an analysis, recommendation, or opinion to solve a problem, where an opinion of value is a component of the analysis leading to the assignment results.
4. **APPRAISAL FOUNDATION** – The Appraisal Foundation incorporated as an Illinois not for Profit Corporation on November 30, 1987.

5. **APPRAISAL PRACTICE** – Valuation services performed by an individual acting as an appraiser, including but not limited to appraisal, appraisal review, or appraisal consulting.
6. **APPRAISER** – One who is expected to perform valuation services competently and in a manner that is independent, impartial, and objective.
7. **APPRAISER PEERS** – Other appraisers who have expertise and competency in the same or a similar type of assignment.
8. **APPRECIATION** - Increase in value due to increase in cost to reproduce, value over the cost, or value at some specified earlier point in time brought about by greater demand, improved economic conditions, increasing price levels, reversal of depreciating environmental trends, improved transportation facilities, direction of community or area growth, or other factors.
9. **ASSIGNMENT** – A valuation service provided as a consequence of an agreement between an appraiser and a client.
10. **ASSIGNMENT RESULTS** – An appraiser’s opinions and conclusions developed specific to an assignment.
11. **ASSUMPTION** – that which is taken to be true.
12. **BIAS** - A preference or inclination that precluded an appraiser’s impartiality, independence, or objectivity in an assignment.
13. **BUSINESS ENTERPRISE** – An entity pursuing an economic activity.
14. **CLIENT** – The party or parties who engage an appraiser (by employment or contract) in a specific assignment.
15. **CONFIDENTIAL INFORMATION** – Information that is either: Identified by the client as confidential when providing it to an appraiser and that is not available from any other source; or
 - Classified as confidential or private by applicable law or regulation.
16. **COST** – The amount required to create, produce, or obtain a property
17. **DEPRECIATION** - A loss of utility and hence value from any cause. An effect caused by physical deterioration and/or obsolescence.
18. **ECONOMIC OBSOLESCENCE** - Impairment of desirability of useful life arising from factors external to the property, such as economic forces or environmental changes which affect supply-demand relationships in the market. Loss in the use and value of a property arising from the factors of economic obsolescence is to be distinguished from loss in value from physical deterioration and functional obsolescence, both of which are inherent in the property. Also referred to as Location or Environmental Obsolescence.
19. **EXTRAORDINARY ASSUMPTION** – an assumption, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinion or conclusions.

20. **FEASIBILITY ANALYSIS** – A study of the cost-benefit relationship of an economic endeavor.
21. **FUNCTIONAL OBSOLESCENCE** - Impairment of functional capacity or efficiency. Functional obsolescence reflects the loss in value brought about by such factors as overcapacity, inadequacy, and changes in the art that affect the property item itself or its relation with other elements comprising a larger property. The inability of a structure to perform adequately the function for which it is currently employed.
22. **HIGHEST AND BEST USE** - That reasonable and probable use that will support the highest present value, as defined, as of the effective date of the appraisal.
23. **HYPOTHETICAL CONDITION** – That which is contrary to what exists but is supposed for the purpose of analysis.
24. **INTANGIBLE PROPERTY (INTANGIBLE ASSETS)** – Nonphysical assets, including but not limited to franchises, trademarks, patents, copyrights, goodwill, equities, securities, and contracts as distinguished from physical assets such as facilities and equipment.
25. **INTENDED USE** – The use or uses of an appraiser’s reported appraisal, appraisal review, or appraisal consulting assignment opinions and conclusions, as identified by the appraiser based on communication with the client at the time of the assignment.
26. **INTENDED USER** – The client and any other party as identified, by name or type, as users of the appraisal, appraisal review, or appraisal consulting report by the appraiser on the basis of communication with the client at the time of the assignment.
27. **JURISDICTIONAL EXCEPTION** – An assignment condition that voids the force of a part or parts of USPAP, when compliance with part or parts of USPAP is contrary to law or public policy applicable to the assignment.
28. **MARKET PRICE** - The amount actually paid, or to be paid, for a property in a particular transaction differs from market value in that it is an accomplished or historic fact, whereas market value is and remains an estimate until proven. Market price involves no assumption of prudent conduct by the parties, absence of undue stimulus, or any other condition basic to the market value concept.
29. **MARKET VALUE** – A type of value, stated as an opinion, that presumes the transfer of property (i.e., a right of ownership or a bundle of such rights), as of a certain date, under specific conditions set forth in the definition of the term identified by the appraiser as applicable in an appraisal.
30. **PERSONAL PROPERTY** – Identifiable tangible objects that are considered by the general public as being “personal” – for example, furnishings, artwork, antiques, gems and jewelry, collectibles, machinery and equipment; all tangible property that is not classified as real estate.
31. **PRESENT VALUE** - The current monetary value. It is the today’s cash lump sum, which represents the current value of the right to collect future payments. It is the discounted value of aggregate future payments.

32. **PRICE** – The amount asked, offered, or paid for property.
33. **REPORT** – Any communication, written or oral, of an appraisal, appraisal review, or appraisal consulting service that is transmitted to the client upon completion of an assignment.
34. **SCOPE OF WORK** – The amount and type of information researched and the analysis applied in an assignment. Scope of work includes, but is not limited to, the following:
- The degree to which the property is inspected or identified;
 - The extent of research into physical or economic factors that could affect the property;
 - The extent of data research; and
 - The type and extent of analysis applied to arrive at opinions or conclusions.
35. **SIGNATURE** – Personalized evidence indicating authentication of the work performed by the appraiser and the acceptance of the responsibility for content, analyses, and conclusions in the report.
36. **SUPPLEMENTAL STANDARDS** – Requirements issued by government agencies, government sponsored enterprises, or other entities that establish public policy which add to the purpose, intent and content of the requirements in USPAP, that have a material effect on the development and reporting of assignment results.
37. **VALUE** – The monetary relationship between properties and those who buy, sell, or use those properties.
38. **VALUATION PROCESS** – Services pertaining to aspects of property value.
39. **WORKFILE** – Documentation necessary to support an appraiser’s analysis, opinions, and conclusions.

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