
DOBBINS DATELINE

Update for the Lending Community on Machinery and Equipment Appraisals
Industrial Liquidations • Trends • Conditions Analysis

Summer 2008

GOOD MORNING!

“May you live in interesting times”; the old Chinese proverb is right on the button right now. Another proverb is about when a big rock falls into a pool of water it causes wave after wave of ripples. We are now seeing the ripples caused by residential over building. The first of these waves is usually sub-contractors, and historically these have been followed by the different tiers of construction supply operations.

Demand for the light end of used construction equipment is much softer than it has been in many years. Typically, the name brands like Cat and John Deere have demand but the off brands are now quite price sensitive. One advantage of the best-accepted brands is their foreign market acceptance. Export of the better-known construction equipment helps hold their values up.

THOUGHTS REGARDING FORECLOSED EQUIPMENT.

- Landlords often are not co-operative.
- Landlord’s wavers are important.
- Try not to move non-portable equipment ---- it is expensive.
- Most Mini-Warehouses Companies will not allow on-site Auctions. If you store liquidation equipment and inventories in one of these mini-warehouses chances are the items must be moved again before they can be marketed and sold. (This is expensive).

HERE IS A SPECIAL SITUATION WHERE WE HAVE ON GOING EXPERIENCE.

Quite often, intangibles represent important value for a company that must be sold or liquidated. Few operations, if closed, are ever sold and then re-opened. If closed the values of the intangibles is usually lost. Some of the intangibles are sales momentum, long time reputable

customers, trained employees, experienced middle management, reliable suppliers, balanced inventories, telephone numbers, yellow page ads and the ongoing sales and the sales persons who have a relationship with these accounts.

Now here is the problem. How do you quickly sell a business that must be kept in operation to save intangibles and receive the best value? A fast sale is often important and for cash and without any guarantees. Space will not allow us to explain how we do this but we have pulled this off a number of times. We will be glad to explain how it is done. Many companies will fit the program but some do not. There seems to be a pattern as to what type of business can be sold in operation for cash and sold quickly. Let us look at the situation. Call us; we will be glad to discuss one we currently have underway.

THINK TWICE ABOUT MOVING FORECLOSED ITEMS.

With the exception of portable items such as trucks, trailers, construction equipment and a few others, it is usually best to arrange to leave items where they are for liquidation purposes. Moving is expensive. Disassembly may be necessary, because of size just to remove some items out of the building. Hauling is then necessary as well as storage, etc. Small and medium items we can usually handle at our mini-warehouses, but when you get to a large spread of non-portable equipment, this may require a large warehouse. Larger warehouse owners consider three years a short-term lease and are talking big bucks for rent. The above is just the start of the “cost” involved. Big time value loss can occur because the equipment has been moved from a production line to just a plain warehouse. It no longer looks as good or appears to be “in operation.” In many cases, the equipment must be disassembled and after it is moved, it is in so many pieces. Then loss of value comes into play. A 50% loss of value is common on top of all of the moving, hauling and storage costs. Think twice!

In many cases, we see lawyers instigating moving foreclosed equipment. They have never moved these types of items or paid for doing so. To them it seems so simple but often this is a good way to “win-the-battle-and-lose-the-war.” We have done this for 32 years. Call us and let us discuss what you may be getting into.

WE HAVE SHORT TERM STORAGE AVAILABLE.

The sister company to The Dobbins Company is Dobbins Mini-Warehouses. We built and have owned this nice mini-warehouse complex for over 25 years. We have private storage spaces from 25 sq. feet to 2,500 sq. feet. The ground level, masonry warehouses are available on a monthly rental basis. We often store lender foreclosed items and closed or bankrupt companies’ records. Often, we have auctions, negotiated or sealed bid liquidations at our site. While we have short-term storage space available, if needed, we continue to recommend on-site liquidations. Moving is expensive.

Be aware that most of the larger chain mini-warehouses will not allow on-site public sales or auctions. Last year, we had to move considerable amount of office furniture from a Public

Storage mini-warehouse in Alpharetta to our facility because Public Storage would not allow an on-site auction. Another consideration is after items are moved to a warehouse they still must be sold, also they will likely bring very little if they cannot be inspected well. Call us we know what to do.

SELL SUB-DIVISION LOTS QUICK AND FOR CASH.

While we are mostly machinery & equipment liquidators, we also sell Real Estate, most of which has often been a part of a complete business package. We also have successfully sold both residential sub-division and recreational vacant lots.

Many lenders like our Sealed Bid program for Real Estate because it is fast and for cash. We reserve for the lender the right to accept or reject any or all offers. Unlike Auctions, (which we also do) if the property does not sell, the best offer is not a matter of public knowledge, (which could hurt in the future).

Our Sealed Bid program is similar to an Auction whereby the properties are advertised by media and an **Invitation-To-Bid-Letter**. Properties are presented for inspection and each prospective buyer is given a bid package explaining the Sealed Bid procedure. A bid date is established and buyers fax their bid to our office prior to a bid deadline.

After bids are received, they are forward to the lender who may accept or reject any or all offers. Next, we convert the accepted offers into a standard Real Estate contract with an earnest money deposit and a closing date is established.

In some cases, we have had lenders to accept enough lot sales to satisfy their loan pay off and then return the other lots back to their customer.

The big advantage of this program is that it attracts attention because it is different. The program usually can go from start to contract in a few weeks.

BUSINESS CLOSINGS---SUCCESS OR DISASTER?

When a business starts up, there are many counselors, advisors, salesmen and other “experts” standing in line to show you how. This group usually vanishes when it appears the business won't make it and hard decisions are necessary.

For thirty-two years, we have consulted with lenders regarding business closings. We explain from the start that we cannot save the business but we can help the lender and the business owner make the best of a bad situation. We believe, if one must fail then, “fail forward.” With a good plan, a well conceived and executed business closing and liquation can often be completed within a couple of months with the least possible pain and grief for both the owner and the secured creditors. Without such a program, usually one can expect lots of

problems, which go on and on for at least a year. When you are involved with a business closing, please call us. You will find our input makes sense.

We do not propose to take the place of attorneys, as they know the law. However, when it comes to the actual mechanics, we know what works and we are usually able to propose a plan based on experience of what works and how to get it over with quickly and with the least damage possible.

DOWNSIZING OR WHAT ABOUT A COMPLETE OPERATION?

The object of downsizing is to stop losses of an operation. The first thought is to eliminate people and payroll but what about eliminating machinery, equipment, raw materials and surplus finished goods inventory. --- And real estate?

When first starting the downsizing there is usually good value in equipment and inventories but often the disposal process “eats up” much or all of this value. The reasons are often simple:

- 1) The liquidation phase takes too long (often because people want to stay on the payroll. We've seen it take years).
- 2) The people in charge maybe production or accounting personnel with little experience in selling and no real knowledge of values and have never been involved with a liquidation before.
- 3) Cost goes on and on and on with payroll, rent, utilities, telephone, insurance, taxes, management, and management visits.
- 4) Out-of-sight-out-of-mind.

The Dobbins Company can produce for you a plan to liquidate all or part of the equipment, inventories and real estate with everything turned into cash and often completed within weeks. In some cases, the first phase of the plan can be implemented by the owner.

EXAMPLE OF HOW WE CAN HELP.

Recently we completed a small appraisal of foreclosed automotive equipment. Our on-site visit, listing and appraisal of the equipment prompted the owner to find a new partner and make an offer to the bank involved to purchase about three quarters of the equipment so they could open a new shop. The offer was just for the items they would need. In discussing this with the bank officer, we pointed out the offer was close to our auction value appraisal and our recommendation, from a value and liquidation viewpoint, was the offer should be taken. We recommended the lender should try to get the buyer to take everything at the total auction liquidation value. It was just a few thousand dollars more, reason being the left over items would

be difficult to sell and in general a lot of trouble and would slow down the lender from being able to end the liquidation process and go forward. The bank officer said the debtor was most cooperative realizing he would be obligated to pay any shortfall. The officer suggested the debtor should take everything, sell off the small amount of un-needed items, and use the funds to pay down his remaining obligation. This seems to be working out.

DESKTOP APPRAISAL WITH CAMERA.

In some cases, a lender needs an appraisal of certain equipment but because of travel distance or low value, an on-site appraisal is not cost efficient. We often provide low cost appraisals on a Desktop basis (without travel cost, and without inspection). Simply we send to the owner a throw away camera along with a simple information sheet. We ask the owner to take pictures of the items involved and return the throw away camera to us so we can have the film developed and see exactly what is there from the pictures and we have the important information available from the simple information sheet the owner returns with the camera. Try it you'll like it and the cost is very reasonable.

Yours truly,
The Dobbins Company



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