**Explanatory Memorandum**

1. Property Covered: deleted paragraph 1. Inside and Outside Building Coverage, as we will not provide this coverage option, but will always provide Separate Limit Coverage (previously paragraph 2. - now shown as paragraph 1.)
2. Property Covered, paragraph 2.b.3) b) is amended to include the following: “We” will pay “you” for such covered loss, and will be subrogated to the extent of such payment to your rights of recovery from the lessee or renter. This does not impact coverage, but rather provides payment for loss to an insured, when the contingent coverage grant applies, and the Company may then recover via subrogation.
3. Property Covered, paragraph 2.c. is added. Coverage for equipment leased or rented from others will be provided under the same terms as owned equipment.
4. Property Not Covered, paragraph 7. the exception to the Vehicles exclusion is amended to include trailers valued at $100,000 or less. These will be identified via the schedule of equipment submitted for coverage, with coverage provided as covered property.
5. Coverage Extensions: the various coverages are amended to state limits are “as provided on the Schedule of Coverages” in lieu of an embedded limit in each coverage grant. This provides one section of the policy for an insured to identify the limits provided for the various coverages within the form.
6. Coverage Extensions, paragraph 4. Equipment You Lease or Rent to Others Conversion Coverage is added. This clause addes conversion coverage as a peril covered under this form. It will be optional for all insureds.
7. Supplemental Coverages: the various coverages are amended to state limits are “as provided on the Schedule of Coverages” in lieu of an embedded limit in each coverage grant. This provides one section of the policy for an insured to identify the limits provided for the various coverages within the form.
8. Supplemental Coverages, paragraph 4. Trial Period, a time limitation of 30 days has been added to define what is considered an appropriate period of time for equipment trial.
9. Supplemental Coverages, the following coverages are added:

* Fire Department Service Charge, to provide reimbursement for fire department service charges required by local ordinanance or assumed under contract;
* Continuing Rental or Lease Payments, to cover continuing rental or lease payments for covered equipment, leased or rented by an insured, that the insured is contractually obligated to pay in the event of covered loss or damage to such equipment;
* Expediting Costs, to cover reasonable and necessary costs incurred to make temporary repairs to, and to expedite permanent repairs or replacement of, lost or damaged equipment;
* Claim Preparation Expense, to cover necessary additional expense incurred for the purposes of determining the extent or amount of loss;
* Reward Payment, to pay a reward for information that leads to recovery of undamaged stolen property, or the arrest and conviction of person(s) responsible for theft of covered property.
* Employee Tools extends coverage to employee tools (based upon AAIS IM 7015 wording)
* Your Tools extends coverage to apply as respects tools owned by the insured (based upon AAIS IM 7719 wording)
* Fuel extends coverage to apply as respects fuel for equipment (wording derived from AAIS IM 7024)
* Earthquake extends coverage for the peril of earthquake (based upon AAIS IM 7557)
* Flood extends coverage for the peril of flood (based upon AAIS IM 7557)

1. Perils Excluded, paragraph c. Criminal, Fraudulent, Dishonest, Or Illegal Acts is amended to address the Coverage Extension, paragraph 4. Equipment You Lease or Rent to Others Conversion Coverage.
2. What Must Be Done In Case Of Loss section is amended to include paragraph 1.c. and paragraph 10. to address the Coverage Extension, paragraph 4. Equipment You Lease or Rent to Others Conversion Coverage.
3. Valuation, paragraph 1.b.2) is added as respects equipment leased or rented to others. It provides the option to replace lost or damaged equipment with a different type of equipment to be used in the leasing operation, but maintains the limit of not more than the cost of repair or replacement with similar materials.
4. Valuation, paragraph 5.is added to address the coverage provided for Equipment You Lease Or Rent From   
   Others.
5. Valuation, paragraph 6. Is added to address the coverages provided for Employee Tools, Fuel and Your Tools.
6. How Much We Pay, paragraph 2. Deductible is amended to provide an option for a per occurrence deductible, or an option for a per unit deductible. This is at the insureds option.
7. How Much We Pay, paragraph 8. Is added to address the perils of Flood and Earthquake that have been added to the coverage part.
8. Reporting Conditions, paragraph 1. a. is amended to allow reporting provisions based upon either receipts or a schedule of values – average values.
9. Reporting Conditions, paragraph b. Premium Computation and Adjustment, a paragraph is added to address Average Values premium adjustment.
10. Reporting Conditions, paragraph 2. Is added to address the Equipment You Lease Or Rent From Others coverage that has been added to the coverage form.
11. Other Conditions, paragraph 7.d. is added to address recoveries as respects the “conversion” coverage that has been added to the coverage form.
12. Definitions, paragraph 1. Conversion definition is added.
13. Definitions, paragraph 2. is amended to remove the exclusion for “tools”, as coverage will be provided for tools within the coverage form (as outlined above).

Changes addressed above that have a rate impact:

* Fire Department Service Charge see Rating Rule
* Continuing Rental or Lease Payments see Rating Rule Expediting Costs
* Claim Preparation Expense see Rating Rule
* Employee Tools use AAIS rating
* Your Tools use AAIS rating
* Fuel use AAIS rating
* Earthquake use AAIS rating
* Flood use AAIS rating
* Conversion Coverage – see Rating Rule

Additional coverage added with no rate impact:

* Reward Payment – see comments in Rating Rule