



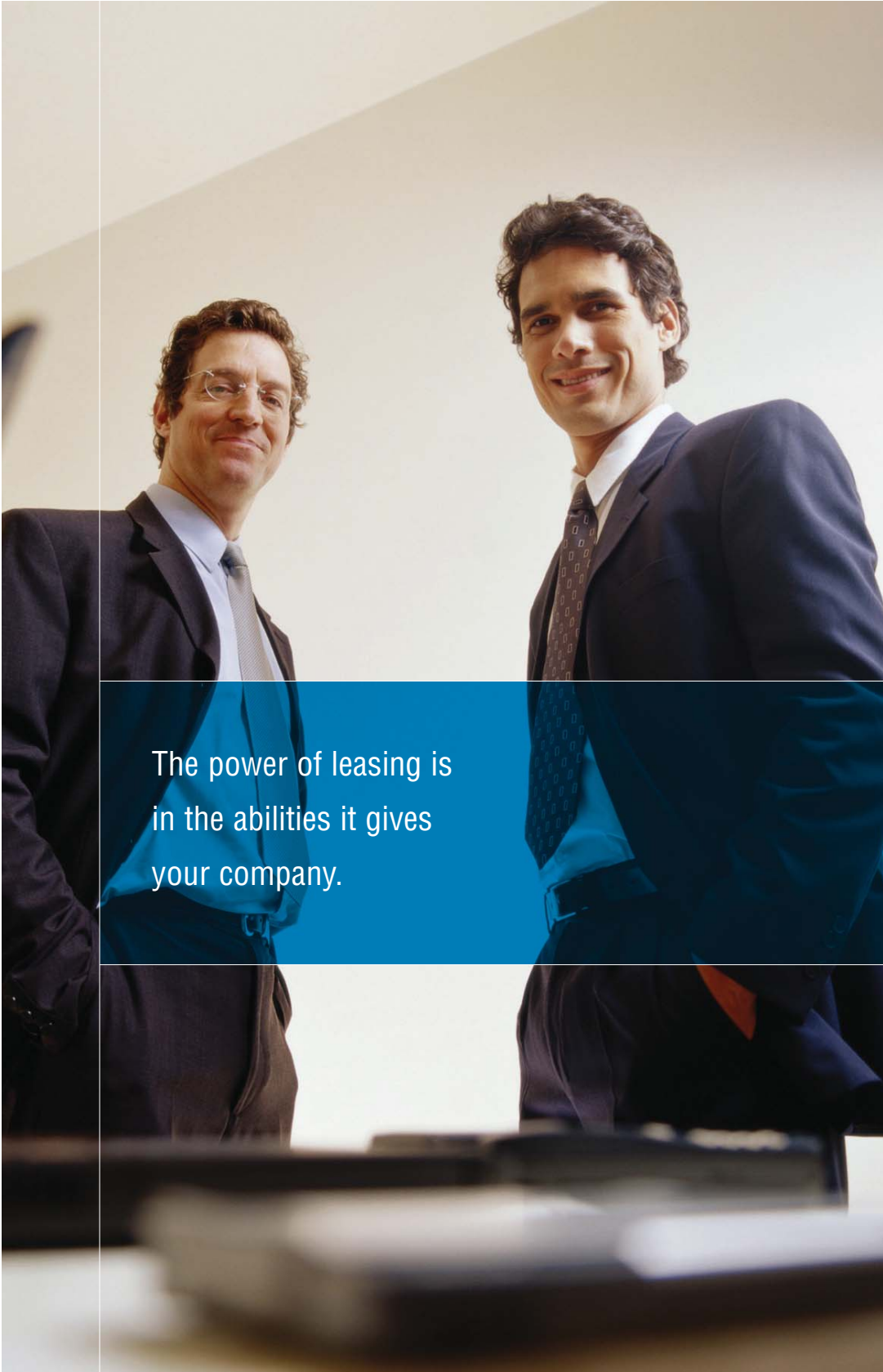
## The Insider's Guide to Leasing

---

## Table of Contents

---

- 1 The Power of Leasing
  - 2 The 11 Advantages of Leasing
  - 4 Cash Flow & Credit
  - 6 Upgrading & Adding Equipment
  - 7 Tax & Reporting Advantages
  - 8 The Three Types of Leases
  - 11 Commonly Asked Questions
  - 13 Glossary of Terms
-



The power of leasing is  
in the abilities it gives  
your company.



## The Power of Leasing

There is an old saying:

*“No one buys a drill because they want a drill. What they really want is the ability to make holes.”*

The same goes for leasing. The power of leasing is in the abilities it gives your company.

The most notable ability leasing gives a company is the acquisition and use of equipment. Many businesses opt for leasing because it has less of an impact on cash flow than purchasing-outright or other forms of financing.

But leasing also offers many cash management, equipment obsolescence, and tax advantages not found in cash purchases. Plus, leasing can help your business maintain financial ratios that loan covenants may require.

This brochure is intended to help you understand the many advantages and aspects of leasing. For recommendations regarding your particular situation, you should consult with your legal, tax, and/or accounting advisor before selecting any means of financing.

## The 11 Advantages of Leasing

### 1 Easier Cash Flow

You can structure payments to parallel your cash flow or seasonal business cycle.

### 2 Conservation of Capital

Money isn't tied up in equipment. Instead, it's available for business-building opportunities, such as investment in inventory, marketing, or personnel.

### 3 Use of Equipment

Monthly payments allow you to use your equipment immediately for a fraction of the cost of a purchase. And the equipment pays for itself as you use it.

### 4 Longer Terms and Flexibility

Traditional financing sources usually lend money for only 12 to 36 months. Leasing offers terms up to 60 months. Plus, lease payments can be structured to fit any budget.

### 5 100% Financing plus Soft Cost Coverage

You can include "soft" costs in the lease such as shipping, software, training, and installation.

### 6 Protection Against Obsolescence

Technology today frequently becomes obsolete within two to four years. Leasing allows you to add upgrades and new equipment to your existing lease to enhance productivity and to stay competitive.

## 7 Tax Benefits

You can deduct monthly lease payments as an operating expense. Moreover, leasing helps to avoid the Alternative Minimum Tax (AMT) by reducing AMT tax liability.

## 8 Preservation of Credit

Leasing leaves credit lines free, so you have more capital at your disposal when you need it.

## 9 Improved Balance Sheet Ratios

Unlike traditional methods of financing, operating lease obligations are not capitalized. This improves balance sheet ratios. It's a good way to comply with loan covenants.

## 10 Options for Purchase or Renewal

At the end of the lease you may choose to purchase your equipment, upgrade it, continue to lease it (at substantial savings), or return the equipment.

## 11 Fixed Payments

By locking in payments now you can avoid the risk of inflation in the future.

### Should I buy or lease?

To help make the purchase vs. lease decision, consider the following questions:

- 1 Does my business have a limited amount of cash?
- 2 Should I reserve my working capital for short-term operating needs?
- 3 Is the equipment likely to be obsolete in a few years?

If you answered **YES** to one or more of these questions, leasing may be your best option.

## Cash Flow and Credit

### Better Budgeting with Fixed Rates

Payments on variable-rate financing make anticipating your future monthly expenses difficult: interest rate risk.

With fixed-rate lease financing, your monthly lease payments are fixed, predictable, and easy to budget. Your financing rate and low monthly payment amount remain consistent over the term of your lease.

### Accumulate More Capital and Credit

Leasing is an alternative source of financing that lets you acquire the equipment you need with virtually none of the cash outlay you would have with a purchase. There is no down payment.

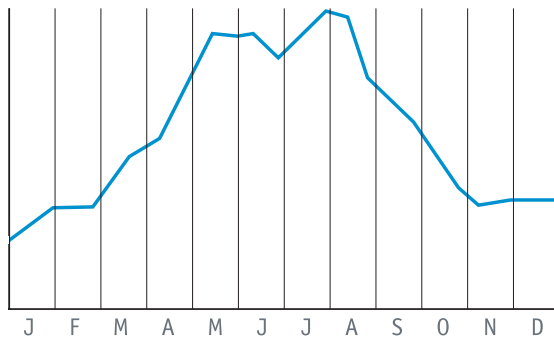
Your bank lines of credit and other capital resources remain intact for times when you need ready access to cash.

Use your cash reserves to operate your business or take advantage of opportunities. There is less risk of constraining your company's growth by leasing equipment instead of purchasing it.

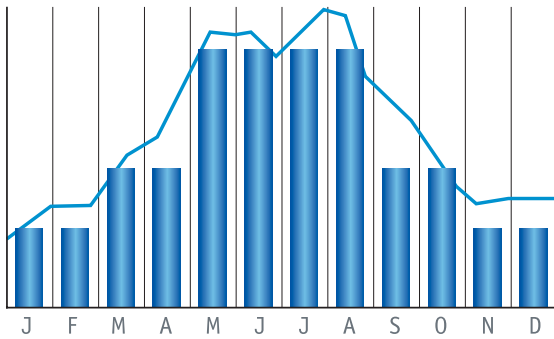
### Parallel Your Cash Flow

Your leasing payments can be structured to be consistent with your cash flow. If your business is seasonal, for example, a lease can be scheduled to provide lower payments when capital is tight and higher payments when your business is at its peak.

**If this is your cash flow...**



**Then you can schedule your payments as...**



## Upgrading and Adding Equipment

### Leasing can accommodate additional equipment acquisitions.

When you need to add equipment, simply add it to your existing lease. With some limitations, you can finance add-ons over the remaining term of your original lease.

For example, if your computer network is on a 36-month lease, and you add peripherals six months later, this addition could be leased over 30-months. The leases for both pieces of equipment would end at the same time.

### Leasing offers financing of soft costs, too.

Include costs such as software, training, and installation into your lease to amortize start-up expenses—and minimize the impact of “soft” costs.

With a lease, you can bundle shipping, training, software, maintenance agreements, and wiring with your equipment costs.

### Leasing is a good way to maintain a technological edge.

You can enjoy the advantages of today’s technology and be protected against equipment obsolescence. It’s easy with the upgrade features of leasing. In the future, when your needs will undoubtedly exceed your present equipment capacity, simply modify your existing lease to include upgrades and/or additional equipment.

## Tax and Reporting Advantages

### Leasing may be able to help your tax situation.

If you select a True Lease, your monthly lease payments may be treated as a fully deductible operating expense. For a growing company, this can be a huge benefit.

### Leasing can help you maintain financial ratios.

The monthly lease expense is reflected solely on the income and cash flow statements.

With a lease, you can acquire the equipment you need without adding an asset (and, often, the corresponding liability) to your balance sheet. It's a good way to maintain required financial ratios and stay in compliance with loan covenants.

*Please consult your accountant concerning the treatment of your particular transaction.*

## The 3 Types of Leases

### 1 Fair Market Value Lease (FMV)

A Fair Market Value (FMV) Lease (also known as a True Lease) is a frequently chosen lease by companies that want to capitalize on the benefits of leasing.

It provides for the lowest monthly payments compared to any other kind of lease. The payments are tax-deductible. It can allow you to trade-up or add equipment during the life of the lease and provides maximum end-of-term options. You can purchase the equipment at fair market value, renew at fair market rental, or return the equipment to the lessor.

FMV is the estimated value of the equipment at the end of the lease term. An FMV Lease is often referred to as a “True Lease” because the purchasing option and associated residual value has the least amount of impact on the rental fees.

### 2 10% Fixed Price Purchase Option Lease

A lease with a 10% Fixed Price Purchase Option provides ownership at the end of the term at a fixed purchase price equal to 10% of the original transaction amount. This lease gives you all the flexibility of a FMV Lease and identifies the eventual purchase price at the start of the lease transaction.

At the end of the lease term, you may purchase the equipment for 10% of the original amount financed, renew the lease, or return the equipment to the lessor.

A 10% Fixed Price Purchase Option is helpful if you want to know exactly what the purchase amount would be if you decide to purchase the equipment at the end of the term. When compared with the Finance Lease and \$1.00 Out Lease, described next, the 10% Fixed Price Purchase Option offers lower rental fees.

### 3 \$1.00 Out Lease

A \$1.00 Out Lease provides the benefits of ownership with the lessee taking depreciation and interest expenses. At the end of the term, you may own the equipment for \$1.00.

This type of lease is considered a virtual purchase, because the \$1.00 purchase option is so minimal that it is always exercised. For that reason, the \$1.00 Out and the 10% Fixed Purchase Price leases are known as Finance Leases.

As a \$1.00 Out Lease is very close to a 100% financing loan, the rental fees are typically the greatest of all the three lease types. Consider a \$1.00 Out Lease if you intend to own the equipment at the end of the lease, or if the asset has a very long useful life.

## The 3 Types of Leases

(continued)

Lease Type	Lease Payment Amount	Co-Terminous Addendum	Upgrades / Trade-ups	Available Terms *	Customized Structures
<b>\$1 Out Option</b>	Low	Yes	Yes	24, 36, 39, 48, 60, or 63 mo.	Yes
<b>10% Purchase Option</b>	Lower	Yes	Yes	24, 36, 39, 48, 60, or 63 mo.	Yes
<b>FMV Purchase Option</b>	Lowest	Yes	Yes	24, 36, 39, 48, 60, or 63 mo.	Yes

Lease Type	Accounting Benefits	Down Payment Requirements	Obsolescence Protection	Includes Soft Costs	Tax Advantages
<b>\$1 Out Option</b>	Yes	None	No	Yes	Yes
<b>10% Purchase Option</b>	Yes	None	Yes	Yes	Yes
<b>FMV Purchase Option</b>	Yes / No	None	Yes	Yes	Yes

\* Term may vary depending on equipment type

## Commonly Asked Questions

### Under what conditions should I consider leasing?

- Equipment-intensive needs
- Technology-obsolescence concerns
- Rapid growth
- Cyclical or seasonal sales

### What types of equipment can I lease?

Generally you can lease just about any type of equipment that produces income or reduces time or labor costs. Examples might be:

- Office equipment
- Office furniture
- Telephone systems
- Mail / Distribution equipment
- Computers
- Hardware
- Software
- Storage
- Medical equipment
- Manufacturing equipment
- Point-of-Sale (POS) systems
- Inventory Control Systems (ICS)
- Audio / Visual equipment

### How should I decide whether to purchase or lease?

When considering whether to purchase or lease consider these questions:

1. Do I need to reserve my working capital for short-term operating needs?
2. Do I have a limited amount of cash at my disposal?
3. Is the equipment I need likely to become obsolete in a few years?

## Glossary of Terms

**Assets:** Things of value owned by the business.

**Balance Sheet:** Financial statement listing a company's assets, liabilities, and stockholders' equity.

**Capital Lease:** Financial lease that does not qualify as an operating lease by FASB13.

**Fair Market Value:** Value of a piece of equipment sold in a transaction between unrelated parties consisting of a willing buyer and a willing seller.

**Lease:** Legal contract by which an equipment owner (the lessor) gives another party (lessee) the right to use the equipment for a specific period of time at a specific rate or fee.

**Lease Line of Credit:** Pre-approved lease line for future business needs.

**Lessor:** The equipment owner.

**Lessee:** The equipment user.

**Liabilities:** Debts and obligations that usually have a known or determinable amount and maturity date.

**Line of Credit:** Maximum amount of credit that a lender will extend to a borrower.

**Off Balance Sheet Financing:** Any form of financing that satisfies FASB13 and does not appear on the firm's balance sheet.

**Purchase Option:** Allows the lessee to purchase the equipment at the end of term for a fixed amount or fair market value.

**Renewal Option:** An option to extend the term of the lease.

**Rentals:** Lease payments required for use of equipment.

## Glossary of Terms

(continued)

**Residual Value:** The value, actual or expected, of leased equipment at the end (or termination), of the lease.

**Sale-Leaseback:** Transaction where one party sells an asset to another and immediately leases it back.

**Tax-Exempt:** Not subject to taxation.

