LeaseQ™ Whitepaper Series

Bringing You a Better Way to Shop and Buy Equipment

Leasing 101

by

eLease

get equipped for your future today

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Leasing Overview

Leasing defined
A lease is a contractual arrangement in which a leasing company (lessor) gives a customer (lessee) the right to use its equipment for a specified length of time (lease term) and specified payment (usually monthly). Depending on the lease structure, at the end of the lease term the customer can either purchase, return, or continue to lease the equipment.

Leasing works for any type of business
Every imaginable type of organization leases throughout the world including proprietorships, partnerships, corporations, government agencies, religious and non-profit organizations. Over 80% of American businesses lease at least one of their equipment acquisitions and nearly 90% say they would choose to lease again.

Almost limitless possibilities
You can lease anything associated with the operations of your business (including all types of capital equipment, hardware, software, and soft costs such as installation and consultation).

How leasing is done on Leasing Companies
Fill out a short online lease application. Leasing Companies will review your application and contact you the moment you are approved to begin the leasing process.

Why Lease?

Leasing has become the preferred method of acquiring equipment among businesses. Currently, 35% of all equipment is leased. Leasing offers real advantages including better value, more convenience and greater control.

Better Value

Make better use of your money

- Conventional bank loans usually require more money upfront than leasing and often have restrictive covenants.
- Conventional debt financing may require a 10-20% down payment.
- Leasing generally requires only one or two payments upfront, which are applied to your future payments.

Finance 100% of your costs

In most cases, the full amount of the equipment, as well as the service, shipping, installation costs and maintenance can be included in the lease. This spreads the cost out evenly over the term of the lease freeing up your money to work harder for you.

Realize significant tax savings

Monthly payments on operating leases are typically viewed as operating expenses offering significant tax benefits. You should always consult with your financial advisor to determine the most tax-beneficial lease for your company.

More Convenient

Speedy and easy

With Leasing Companies, most applications receive bids within two business days. This means that you can acquire equipment now, so your business can focus on increasing revenues.

You can tailor a solution that meets your requirements

Leasing is flexible so that you can tailor the length and amount of your payments to meet your business' needs.

- "step-up" leases allow you to start with low payments that increase over time so you can concentrate on using the equipment to generate revenue.
- "skip" leases restrict payments to given months of the year so you can plan ahead to cover the slow times.
- "deferred payment" leases allow a significant grace period before your first payment is due.
- "master" leases offer a more convenient way to add more equipment to your existing lease.

Greater Control

Avoid the risk of your equipment becoming obsolete

With ownership you run the risk that new technology will render your equipment obsolete within a few years, leaving you with equipment that no longer meets your needs and that is difficult to sell. Leasing allows you to replace or upgrade equipment to keep your business competitive.

Improve your cash flow forecasting

The fixed nature of a lease obligation eliminates uncertainty about the future cost of the equipment. Your lease payments facilitate more accurate forecasting and planning.

No ownership dilution

Leasing allows you to increase the cash flow of your company without bringing in investors to finance capital expenditures.

Understanding Leasing

Types of Leases	Buyout / Purchase Options
- True Lease or Operating Lease	- Fair Market Value (FMV) Purchase Option
- Finance Lease or Capital Lease	- Fair Market Value (FMV) Purchase
- Skip Lease	- 10% Option
- Sale Leaseback	- 10% Put
- 60 or 90-Day Deferred Lease	- $1 Buyout
- Master Lease	- Comparing Purchase Options
- Municipal Lease	
- Step Up Lease	

Types of Leases

While leasing companies may use the same name to describe a lease, the terms and conditions written in their contracts often vary. Be certain to review your documents carefully and ask your leasing company or Leasing Companies to explain anything that is unclear.

True Lease or Operating Lease

- *What it is good for*: Used with equipment that rapidly depreciates or becomes obsolete in a short period of time.
- *How it works*: In a true or operating lease, the leasing company retains ownership of the equipment during the lease. True or operating leases typically have no predetermined buyouts; customers usually classify these payments as an operating expense.
- *Benefits*: Lower payments and typically the most tax-friendly form of leasing, Additionally, true or operating leases offer three choices at the end of your lease:
    1. return the equipment to the leasing company,
    2. purchase the equipment at its fair market value or option amount, or
    3. extend your lease term.

Finance Lease or Capital Lease

- *What it is good for*: If you plan on owning the equipment at the end of the lease.
- *How it works*: The full purchase price plus interest charges are spread over the length of the lease.
- *Benefits*: You will own the equipment at the end of the lease for a minimal amount, such as a fixed percentage of the original cost or $1.00.

Skip Lease

- *What it is good for*: Organizations that need a flexible repayment schedule such as seasonal businesses, agricultural companies, recreational services firms, and school systems.
- *How it works*: You specify months when no payments are made.
- *Benefits*: Flexibility to adjust to irregular cash flow.

Sale Leaseback

- *What it is good for*: Customers who decide that leasing is more beneficial after having purchased their equipment. Sale-leaseback also allows companies to raise cash for other investments or cash flow purposes.
- *How it works*: The business that has already purchased equipment sells it to a leasing company, which, in turn takes ownership of the equipment and then leases it back to the business. Leasing Companies requires that the equipment be purchased within 90 days.
- *Benefits*: The sale-leaseback allows you to put money back into your business or into investments that appreciate rather than depreciate.

60 or 90-Day Deferred Lease

- *What it is good for*: Businesses that need equipment for operation and development that will not immediately generate revenue.
- *How it works*: A 60 or 90-day deferred lease can be structured as a finance lease or a true lease. There is usually no advance payment required, and the first payment is not due until 60 or 90 days after the lease begins.
- *Benefits*: The equipment you need can be acquired with little to no money up front and no payments for 2-3 months.

Master Lease

- *What it is good for*: Leasing additional equipment over a certain period of time.
- *How it works*: Separate lease schedules are created to accommodate the addition of equipment over that period of time. The master lease governs the basic terms and conditions. Each schedule may include different end of term options and different lease lengths but all will come under one "e;Master Lease."e;
- *Benefits*: Acquiring additional equipment is made more convenient.

Municipal Lease

- *What it is good for*: Local and state government organizations looking to acquire equipment.
- *How it works*: The tax structures and details of municipal leases vary considerably from standard business leases. Seek the advice of your financial advisor to better understand your municipal lease options.
- *Benefits*: Municipal leases are designed specifically for local and state government organizations.

Step Up Lease

- *What it is good for*: Businesses whose financed equipment will become more profitable over time.
- *How it works*: Payments increase according to a regular schedule over the life of the lease.
- *Benefits*: Payments can be differed to match cash flow.

Leasing Industry Links

- *Equipment Leasing Association.* The Equipment Leasing Association (ELA) is a national organization comprised of member companies within the equipment leasing and finance industry.
- *United Association of Equipment Leasing* . The mission of the United Association of Equipment Leasing (UAEL) is to further the welfare of its members and to provide and promote a forum for interaction and programs which enhance business opportunity
- *National Association of Equipment Leasing Brokers* . The National Association of Equipment Leasing Brokers (NAELB) is an organization formed to promote the interests of equipment leasing brokers through education, advocacy, improved communication with funders and programs designed to upgrade the professionalism and profitability of brokers, funders and others engaged in the business of equipment lease financing.
- *Equipment Leasing and Finance Foundation* . The Equipment Leasing and Finance Foundation, the prime developer and disseminator of the body of knowledge for the equipment lease financing industry, since 1989. A non-profit, tax deductible organization.
- *Equipment Leasing Association's (ELA) LeaseAssistant* . An educational portal for information on equipment financing and leasing.
- *Monitor Daily* . Every month the Monitor provides readers with in-depth information supplied by trusted sources in the leasing and financial centers of the United States.

Buyout / Purchase Options

Buyout/Purchase options are determined prior to the inception of the lease. They outline the customer's final financial obligations at the end of the lease. Leasing provides a number of options for purchasing your equipment, including:

Fair Market Value (FMV) Purchase Option

At the end of term, you usually have the following options:

1. Purchase the equipment for its then Fair Market Value,
2. Extend the lease for a pre-determined length of time (this will be specified in your lease contract), or
3. Return the equipment at the end of term (please check your lease documents to see if this is one of the options). Please note that some leasing companies require you to enter into a new lease agreement of equal or greater value if you choose this option.

Fair Market Value (FMV) Purchase

At the end of term you are obligated to purchase the equipment for its then Fair Market Value.

10% Option

At the end of term, you usually have the following options:

1. Purchase the equipment for 10% of its original purchase price,
2. Extend the lease for a pre-determined length of time (this will be specified in your lease contract), or
3. Return the equipment at end of term (please check your lease documents to see if this is one of the options). Please note that some leasing companies require you to enter into a new lease agreement of equal or greater value if you choose this option.

You are often required to give written notice of the option you wish to select prior to the end of term. Please review your lease agreement to understand the timing of this written notice

10% Put

At the end of the lease term you are obligated to purchase the equipment for 10% of its original purchase price.

$1 Buyout
The customer purchases the equipment for $1 at the end of a capital lease and title to the equipment is transferred from the leasing company to the customer.

Comparing Purchase Options

	Advantages	Disadvantages	Commentary
Fair Market Value	End of term option is open ended. Lower monthly payments. Maximized tax benefit. Great for rapidly depreciating equipment.	Fair Market Value can be ambiguous and result in a disagreeably high valuation.	Fair Market Value allows you and your leasing company to negotiate what the value of the equipment is at the end of the lease. There are normally 3 options at the end of the term: buy the equipment for a mutually agreeable price, continue leasing it, or return it. You should ask your leasing company what they normally expect to receive at the of the lease term and if they can cap the amount.
10% Purchase Option / Put	End of lease payment is predetermined at either a fixed percentage of the equipment cost or a specified dollar amount.	You must pay the Fixed Put. It is considered an additional payment.	The Fixed Put is beneficial if you would like a lower monthly payment and are not concerned about making an additional payment at the end of lease.
$1 Buyout	End of lease payment is $1.00.	Higher monthly payments. Minimized tax benefit.	You can own the equipment for $1.00 at the end of the lease.

Please make sure to read your lease contract. Definitions may vary depending on the leasing company you choose.

Comparing Financing Strategies

Leasing Companies vs. Borrowing, Credit, and Cash

	Leasing Companies	Borrowing	Credit	Cash
Interest Rates	Fixed rate	Can fluctuate with the market	Fixed or floating	None
Speed of Approval	Within two business days after a bid has been selected for most amounts	Days to weeks	Days to weeks	Instant
Down Payment	Typically, only 1 or 2 payments upfront which are applied to your balance	Typically, 10-20% of the total amount	Typically, 10-20% of the total amount	100%
Financial Statements	Generally unnecessary for transactions under $150,000	Generally needed regardless of amount requested	Generally needed regardless of amount requested	None
Tax Benefits	Operating lease payments can be 100% tax deductible when shown as an operating expense.	Depreciation can be taken over the useful life of the equipment.	Depreciation can be taken over the useful life of the equipment.	Depreciation can be taken over the useful life of the equipment.
Equipment Obsolescence	Used as a hedge against obsolescence. Why own when you can lease?	You own the equipment.	You own the equipment.	You own the equipment.