### Lease vs. Loan

<table>
<thead>
<tr>
<th>LEASE - GOOD</th>
<th>LOAN - NOT GOOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>No down payment with an option to buy equipment at the end of the lease</td>
<td>Requires a 10%-20% down payment and finance the remaining amount</td>
</tr>
<tr>
<td>Leased equipment is enough to secure a lease transaction</td>
<td>Borrower usually pledges other assets for collateral</td>
</tr>
<tr>
<td>When lease payments are current, the lessor cannot disrupt the lessee's use of the equipment or demand payment</td>
<td>Must maintain certain financial ratios or business profits to continue to use the equipment or lender has the right to demand total payment</td>
</tr>
<tr>
<td>Lease usually requires only the first payment, which is much lower than a down payment</td>
<td>A higher down payment with a loan payment at the end</td>
</tr>
<tr>
<td>Equipment obsolescence is transferred to the lessors with no obligation to you at the end of the lease</td>
<td>You bear all the risks of equipment devaluation because of new technology</td>
</tr>
<tr>
<td>True Lease can be claimed as a tax deduction, while taking advantage of shorter depreciation schedules</td>
<td>A portion of the loan payment as interest and for depreciation can be deducted only</td>
</tr>
<tr>
<td>Operating-leased assets are expensed and do not show on the balance sheet, which can improve financials</td>
<td>Accounting standards required owned equipment to appear as an asset with a corresponding liability on the balance sheet</td>
</tr>
</tbody>
</table>

### Lease vs. Cash

<table>
<thead>
<tr>
<th>LEASE - GOOD</th>
<th>CASH - NOT GOOD</th>
</tr>
</thead>
<tbody>
<tr>
<td>You are responsible for the equipment for as long as you are using it and in possession of the asset</td>
<td>Responsible for the entire life of the equipment</td>
</tr>
<tr>
<td>Lease transfers tracking of the equipment to the lender</td>
<td>Responsible for tracking the equipment through the entire life cycle</td>
</tr>
<tr>
<td>In many cases, interest, taxes and insurance is managed by the lessor</td>
<td>All costs are tracked by you</td>
</tr>
<tr>
<td>Risk of obsolescence is responsibility of lender</td>
<td>Lessor bears the entire risk of devaluation and must be accounted for</td>
</tr>
<tr>
<td>Leasing allows for easier upgrades and additions to the existing equipment, usually under the same terms</td>
<td>Lessor must manage the disposal or selling of the outdated equipment</td>
</tr>
<tr>
<td>Leased assets are expensed and do not appear on your balance sheet, which can improve financials</td>
<td>Lessor must manage assets on their books with a corresponding liability on the balance sheet</td>
</tr>
<tr>
<td>Leasing has a much lower impact on cash flow</td>
<td>Buying equipment has a much greater impact on cash flow—use your cash for operating capital</td>
</tr>
</tbody>
</table>

Always consult your Tax Advisor for final Accounting and Depreciation benefits.
TYPES OF LEASES & TERMINOLOGY:

**Capital Lease / Finance Lease / $1 Buyout** May also be referred to as a nominal or ($1) dollar-buyout lease. These leases share the advantage of fixed monthly payments but with the guaranteed option to purchase the equipment for a nominal price at the conclusion of the lease. With this type of lease there is no uncertainty about the value of the equipment at the conclusion of the lease as the buyout terms are generally a part of the initial agreement.
- Finance type lease may not qualify under I.R.S. regulations for deductibility.
- The lessee is considered the owner of the equipment (unlike an FMV lease) and maintains full control of the residual value.
- The lessee can depreciate the equipment.
- Lessees records the equipment as an asset and the lease payments as liabilities on their balance sheets.

**True Lease or Operating Lease** - Also known as fair market value leases. The most notable feature of this type of lease is that its structure does not contemplate a full payout of the cost of the equipment as is the case in a "Finance" type lease. Two of the common tests are:

- The term of the lease is generally not greater than 75% of the equipment's anticipated useful life.
- The present value of the lease payments should not exceed 90% of the fair market value of the equipment using the lessee's incremental cost of borrowing. A significant benefit is that the monthly payments are also less than on a finance type lease (above) or even a bank loan. Typically the lessee either returns the equipment at the conclusion of the lease or may be granted the opportunity to purchase the equipment from the lessor for "the fair market value." Payments under this kind of lease structure are treated (by the I.R.S.) as rental payments and therefore are 100% tax deductible operating expenses. Also, as rental payments, neither the asset nor its corresponding liability need to appear on the company's balance sheet. The lessor retains the right to depreciate the equipment. End of lease features:

- The lessee may have to option to continue renting the equipment
- The lessee may have the option to "re-lease" the equipment

**The "P.U.T." Option Lease (Purchase Upon Termination)** - This end-of-lease option establishes a mandatory purchase price, usually expressed as a percentage, e.g. "a 10% Put." This is a technique for lowering the lease payments during the lease term without creating an unknown end-of-lease risk for either the lessor or the lessee. As with our programs lease payments are fixed.

**TRAC Lease** - A TRAC lease is a special type of true lease that is generally used for "over-the-road" vehicles like trucks, tractors and trailers. Special provisions of the I.R.S. code allow for pre-determined residual values (as opposed to "future, fair market values) to be negotiated in advance while maintaining the "full deductibility" of a true lease. This type of lease is generally less expensive then other leases or conventional bank financing. The lessor would retain the rights to any depreciation.

**Acceptance ("Delivery & Acceptance")** - The lessee's acknowledgement that the equipment to be leased as has been received and is in satisfactory condition. For the lessee's protection, funds will not be released to your vendor until American Specialty Capital Equipment has received your written "delivery and acceptance" form and been able to reconfirm same by telephone.

**Advance Lease Payments** - Most leases call for a specific number of lease payments in advance. 1-2 payments is a typical requirement. The total number of payments during the lease are reduced by the advance payments. (Bank financing typically require much larger "down payments," typically 10-25% of the purchase price to close the loan along with "origination" and other fees.)
"Application Only" Program - A streamlined credit application and review procedure that only requires the submission of a single page application with basic information about the business' principals, bank and trade references. This type of program does not require financial statements, tax returns, business plans or other more detailed disclosures.

Deferred Payment Lease - The initial lease payments are deferred 60, 90 or 120 days to accommodate cash flow/capital budgeting requirements.

End of Lease Options - What happens to the equipment after all payments have been made. Typical options are the $1 Buyout, FMV, PUT, equipment return, continued leasing and more.

Fair Market Value (FMV) Lease - Provides greater flexibility and lower monthly payments than the Finance Lease format. Key benefits include a number pre-set end-of-lease options:

- Return the equipment with no further obligation, or
- Purchase the equipment for its fair market value, or
- Re-lease the equipment for its fair market value, or
- Continue leasing on a month-to-month basis
- The FMV lease may also qualify as a tax deductible operating expenses.

Finance Lease ($1 Buyout, Capital Lease or Bargain Purchase Lease) - These 4 terms describe leases that combine lower, fixed monthly payments with the guaranteed-in-advance right to purchase the equipment at the conclusion of the lease term at a pre-determined price. These leases generally do not qualify as deductible operating expense and must be amortized and depreciated. There are, however, some significant other tax benefits under I.R.S. section 179, that may be available to your business.

Insurance - Because leased equipment is technically owned by the lessor until the satisfactory conclusion of the lease term, (proof of) all risk/casualty insurance will be required showing the lessor as a "named insured."

Lessee - The entity that is leasing the equipment from its owner, the lessor.

Lessor - The owner of the equipment to whom lease payments are made.

Master Lease. One lease (and one credit approval) - For several pieces of equipment purchased at different times from one or more vendors. Once you have been approved American Specialty Equipment Capital only requires brief addendums and equipment schedules for each new batch of equipment.

Off-Balance Sheet Financing - Financing that does not add debt to a company's balance sheet. This can be extremely important to companies with bank and/or other lender-imposed key operating ratio requirements. Under a true lease for example, the lessee does not show the leased equipment as an asset (the lessee does not own the equipment, nor does the lease structure contemplate ownership), nor therefore, is the lessee required report the corresponding long term liability. See the "True Lease" definition in this section or the "Lease Types page for additional related discussions.

Operating Lease - Any lease that is not a capital or finance lease. See FMV lease (above)

Purchase Option - See "End of Lease Options"

PUT Option (Purchase Upon Termination) - A specialized option, that can be offered in conjunction with an FMV lease that requires a purchase of the equipment at the conclusion of the lease at a fixed-in-advance percentage of the original purchase price (e.g. 10%).
Rate Factor - Once the equipment cost has been determined, the actual monthly lease payment (before tax and one-time fees) can be computed by multiplying "the factor" (usually expressed as a 5-digit, decimal number) by the equipment's cost.

Recourse (or "vendor recourse") - Generally applies to the funding source (lessor's) right to require the manufacture or distributor take back and/or take responsibility for re-marketing equipment that is not paid for as a result of default by their customer(s), the lessee. Note: American Specialty Equipment Capital does not require recourse agreements with its vendors.

Residual Value - The remaining (market) value of the equipment at the end of the lease term.

Sale Lease Back - A technique for re-capturing cash previously expended on equipment by selling that equipment to ASEC who in turn leases that same equipment back to the company over a period of 12 to 60 (or more) months. Equipment may be subject to an independent valuation appraisal prior to funding.

Seasonally Adjusted Lease Payments - Lease payments that are "adjusted" to accommodate a businesses cash flow seasonality. Payments are set lower for the businesses "slower" or "off-season" months and set slightly higher during months of the business' traditionally stronger cash flow. e.g. payments might be lower initially to allow a company start generating.

Security Deposit - An amount paid at the beginning of the lease that is held by the lessor until the satisfactory payment of all amounts due under the lease terms, at which time the security deposit amount is returned to the lessee.

Skip Payment Leases - The lessee selects a series of months in which no payments will be due.

Step Payment Lease - Lease payments are stepped up (or down) to accommodate the lessee's anticipated cash flow pattern as the company begins to see its return from the acquired equipment. e.g. payments might be lower initially to allow a company start generating.

TRAC Lease, (Terminal Rental Adjustment Clause) - Many of the benefits of a true lease, but designed specifically for over-the-road vehicles like trucks, tractors & trailers. Special provisions of the tax code allow for pre-determined end-of-lease valuations (unlike a true or FMV lease). Generally the most aggressive pricing for vehicles. Lessee bears some risk if the equipment does not bring the anticipated resale value at lease end. May include FMV or continued rental options.

True Lease (Tax or Operating Lease) - A true lease, by definition, does not call for the full payout of the equipment cost during the lease term, nor does a true lease contemplate a transfer of title following the conclusion of the lease. The lessee is only "paying for the equipment during a portion of that equipment's useful life. Hence the lease payments are often treated as 100% tax deductible operating expenses. The lease generally does not appear on the balance sheet as a business asset or as a business liability. This type of lease also offers the lowest payments for a given term. A true lease may (but does not have to) include an FMV (fair market value) option which allows the lessee to purchase (take full ownership of) the equipment for its legitimate fair market value at the time the lease terminates.

Working Capital - In (basic) accounting/financial terms working capital is defined as current assets-current liabilities. It is one measure of a business' "ready cash." Leasing conserves working capital by allowing a business to better match (time) its expenses for the acquisition of equipment to the revenue generated by that that equipment generates.