

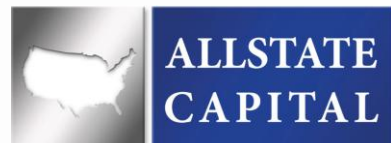


Leasing Versus The Rest

The following pages highlight:

- Leasing Versus Cash
- Cash & Impact on Borrowing
- Leasing Versus Loans
- Leasing Versus a Line of Credit

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Lease Versus Cash

Time Value of Money:

The value of money based on where and when it's invested.

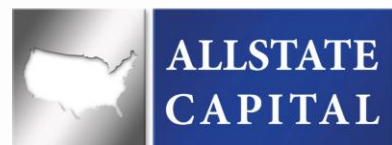
1. CASH: Consider investing \$25,000 in a 5 year investment with an average return of 8% (second example shows 15% return). After 5 years, the \$25,000 = \$36,733 or \$50,284 with a 15% return.

2. LEASE: In comparison, finance \$25,000 in equipment via a five year lease with a monthly payment of \$517.50 and an end of the lease option of 10%. The cost to lease, not including the 10% option is $(\$517.50 \times 60) = \$31,050$.

Time Value of Money \$25,000

Lease Versus Cash	8% Return	15% Return
Cash Investment	\$36,733	\$50,284
Cost of Leasing	(\$31,050)	(\$31,050)
Gain by Leasing	\$5,683	\$19,234

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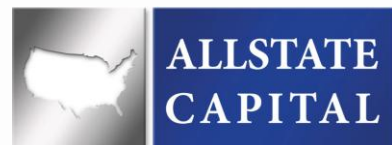




Lease Versus Cash

Key Differences	Lease	Cash
Equipment Risk	The end user transfers the risk of obsolescence to the lessor when there is no obligation to own the equipment at the end of the lease. Easy upgrades to new technology maintains efficiencies.	The owner bears all the risk of equipment devaluation. Obsolescence must be tracked by the owner and the owner must manage the disposal or selling of the outdated equipment.
Cash Flow	Leasing usually has a lower impact on cash flow due to low monthly payments versus a large cash outlay.	Buying equipment has a greater, immediate impact on cash reserves.
Tax, Liability and Depreciation	Leased assets are expensed when the lease is a Tax Lease. Such assets do not appear on the tax return which can improve financial ratios. Non-Tax Leases can accelerate depreciation using Section 179 giving companies substantial savings.	Owners must manage asset liability on their books. Accounting standards require owned equipment to appear as an asset with corresponding liability on the balance sheet.

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Impact on Borrowing

When choosing how to acquire business equipment, it is important to consider the affect on the ability to borrow:

Scenario:

You have \$25,000 available in cash:

Lender reviews financial statement: \$25,000 in cash (asset)

Take that cash and replace it with: \$25,000 computer system

Impact:

Lender is not likely to allow for soft costs (sales tax, commissions, shipping, warranty, distributor/ manufacturer profit) and may reduce the value of the asset as much as 50%.

Ability to Borrow:

If that asset value is reduced from \$25,000 to \$12,500 (50% reduction allowing for soft costs) and your business can borrow at six times equity, the cash purchase has effectively reduced the ability to borrow by \$75,000.

Example Calculation:

\$50,000 in cash: if you can borrow at 6 x equity, you can borrow \$300,000. Purchase \$50,000 in equipment with cash:

Equipment Cost		\$50,000
Sales Tax	- \$3,250	
Sales Commission	- \$4,000	
Shipping & Handling	- \$ 750	
Warranty Allocation	- \$1,200	
Distributor's Profit	- \$10,000	
Manufacturer's Profit	- \$3,000	
Total	- \$22,200	
Lendable Value		\$27,800

Instead of being able to borrow \$300,000, you can only borrow \$166,800.

The \$22,200 that the lender has eliminated from "lendable asset value" reduces a company's borrowing ability by \$133,200 (\$22,200 X 6).

$$\$300,000 - \$133,200 = \$166,800.$$



Lease Versus Loan

Differences	Lease	Loan
Equipment Risk	Upgrades and add-ons can be built into lease agreements to avoid obsolescence.	Ownership of equipment at the end of loan regardless if it is outdated.
Cash Flow & Outlays	No or low down payments with leasing. Average: 0%-6% down.	Loans have high down payments. Average: 10% – 20% down.
Soft Costs: sales tax, installation, freight, etc.	Paid over time as part of lease payment. Also, lessee can wrap most soft costs into a lease.	Upfront payments may be significant including sales tax (9% in some states). Also, banks may not finance soft costs. Cash is needed.
Line of Credit	A lease does not affect a company's credit.	Loans immediately reduce credit lines.
Tax and Depreciation	Customers save an avg. of 1.5% on a lease vs. loan due to tax savings. When leases are structured as true leases, lessee may claim entire lease payment as a tax deduction. Write-offs can result in large tax deductions.	Depreciation is tied to IRS depreciation schedules. With loans, customers can only write-off the interest portion of loan. The principal is depreciated.

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Lease Versus Loan

In addition to the previous table, contracts may be structured so payments are lower than a loan:

Compare Contracts:

A loan and a lease with similar terms

Payments:

A lease can be lower due to the existence of residuals
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When a lessor passes on tax benefits to lessees, the true cost of ownership is further reduced.

Conclusion:

From a cash flow perspective, lease payments can be lower than loan payments.

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Lease Versus LOC

Differences	Lease	Line of Credit (LOC)
Variability	Same monthly payment throughout the life of the contract.	LOC have variable rates – the current trend: rates are rising.
Cash Flow	No or low down payments with leasing. Average: 0%-6% down.	Most LOCs require a zero balance at least once a year. In addition, many have annual fees ranging from \$50 - \$100+.
Ability to Borrow	A lease does not affect a company's credit.	A LOC impacts your available credit.
Turnaround Time & Simplicity	Process can take as little as a couple of days or even same day financing.	Many companies take up to 30 days from receipt of application. Also, greater documentation is needed on larger line -Schedule of debt & payment amounts.
Overlimit Fees and Issues	Not applicable.	Borrowing the full amount may result in overlimit fees since finance charges may cause your balance to exceed your credit limit.
Collateral	Collateral is not applicable.	LOC requirements may include collateral/blanket lien: accounts receivables to corporate or personal assets.
Asset Management	Leased assets are expensed (Tax Leases). Such assets do not appear on tax returns & can improve financial ratios. Non-Tax Leases use Section 179 for savings.	Owners must manage asset liability on their books. Accounting standards require owned equipment to appear as an asset with corresponding liability on the balance sheet.
Equipment Risk	Upgrades can be built into the lease to avoid obsolescence.	Ownership of equipment regardless if it is outdated.