

2008



**THE PREMIER
BUSINESS
MANAGEMENT FIRM
FOR EMERGING AND
GROWTH COMPANIES**

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at our website to learn
more and get documents
to start your plan.

Leasing may be quick and
simple but the actual cost
can be very expensive for
a new company compared
to a loan.

Read and understand ALL
of the lease terms. If you
do not understand a term
ask your attorney not the
lessor because they
probably do not know the
actual answer and may
give you an incorrect re-
sponse. Equipment ven-
dors sell the lease and
make a profit on both the
equipment and the lease.

LEASE = RENT

Most of us have seen offers to lease cars, boats, equipment, furniture, and computers. Almost anything that we can purchase we can lease. Often sellers list the monthly lease payment and any required downpayment but omit the purchase price of the item being advertised.

Why do they omit the purchase price of the item showing only the monthly lease amount and in smaller print any deposit? Easy, because it's a fact that consumers don't look at the true cost of their purchase once they have made the decision to purchase the object -IF- the monthly payment amount is within their budget. That's as true of businesses as it is of consumers.

In 1968 Congress passed the Truth In Lending Act for the purpose of promoting the informed use of consumer credit by requiring disclosures about its terms and costs. Effective Annual Percentage Rate of interest discloses the actual rate & amount of interest to be paid. This Act does not apply to leases.

Leases are not loans and thus do not have an interest rate. Think of a lease as a rental agreement. You've probably rented an apartment at one time and signed a 12-month lease. You paid the landlord a fixed payment for the use of the apartment and perhaps a small additional cost if you paid your rent payment late. You did not own the apartment, you only had the right to use it - that's a lease.

Path of Lease Resistance

Some tough product-return terms that lessors try to install:

▶ "All or nothing" clauses may call for full payment if even a few items are not returned.

▶ Moving a piece of equipment could force the lessor to buy it.

▶ Returns in original boxes or to distant locations may be required.

▶ Steep charges may apply for even superfluous missing parts.

▶ "Keep well" fees often make the lessor whole if it cannot redeploy the equipment at the same rate.

▶ Unreasonable wear-and-tear standards may result in penalties.

▶ Up-front deposits may be applied for such unexpected charges as restocking, preventing the money from being returned.

CFO Magazine July 2006, "{Don't} Look Deep Into My Lease" by Linda Corman

LET OUR GROUP HELP YOU

- We have assisted many small businesses to obtain long-term financing to start-up, expand or improve their business. **With our guidance from application to cash can be less than 90-days!**
- Our Group helps you think through the issues critical to growing your business and getting you the cash required to implement those plans.
- We know that the top 3 reasons for business failure is; 1) MANAGEMENT, 2) SALES & 3) CASH. Without adequate cash the best manager is unlikely to be able to achieve sales that can create a profitable business! We can get you the cash you require!

TWO BASIC TYPES - A SIMPLE LEASE AND A CAPITALIZED LEASE**SIMPLE LEASE**

In a simple lease the lessor purchases the equipment and then agrees to lease/rent the equipment to the lessee for a fixed period of time with fixed monthly payments. At the end of the fixed number of payments the lessee returns the equipment to the lessor.

Leasing equipment is presented as an easy alternative to purchasing equipment. Lessors cite the low monthly payments, convenience, and fast approval time compared to obtaining a loan, plus they tout tax advantages. Tax advantages for most start-up companies are not that helpful since they seldom have taxable profits. But the devil is in the details! What is the actual cost of leasing the equipment compared to purchasing it? That depends on multiple items. For example, most lessees do not comprehend the little “extras” that increase the effective cost such as cash deposits. When your cash is held as a deposit that increases your effective cost. Entrepreneurs and small business owners are normally required to be a joint lessee along with their company. This effectively makes them a “co-obligor” for the lease payments. If the company can't pay guess who will? Also, lessors typically purchase the equipment for 10% to 15% less than your purchase quote.

If you want to pay off the lease early most likely the payoff will equal the number of months remaining multiplied by the monthly payments — remember its not a loan but an agreement to rent. At the end of the rental period you can return the equipment to the lessors however you may be in for a nasty surprise because the lease may allow the lessors to keep some or all of your deposit and require additional money for excess wear, missing parts, and even changes in technology. You must read the lease terms carefully and if you don't understand the terms have your attorney read and explain the terms to you, not the lessors!

CAPITALIZED LEASE

A capitalized lease is really a “rent-to-own” lease. The typical lease is structured with a fixed number of payments with an option to purchase the leased goods for their fair market value or for \$1 after the last payment. If the lease purchase is for fair market value you must read and understand how that amount will be computed. Many leases make this difficult for the novice who is not familiar with legal technical terms. If the end-of-lease buyout is \$1 then you know that the lessor made all of their profit from the lease payments and the goods have a nominal value—perhaps even a negative value if returned to the lessor.

Accountants treat a capitalized lease as a loan allocating the payment among interest, principal and depreciation. IRS Publication 535, Rent Expense; Conditional Sales Contract if you have the right to buy the property at a nominal value at the end of the lease term.

LEASE INTEREST — AN OXYMORON

Leasing agents may imply or state that the “interest rate” on this lease is **X%** but there is no interest rate on a lease. Here's how to compute an imputed or effective interest rate (part of the lessors profit). First, determine the cost of the goods you want to lease. Second, have the leasing agent provide you with the monthly lease payment and number of months. Next go to our Group's website for a free easy to use calculator that can help you estimate the effective interest rate. You will use the “trial and error” method. Using the on-line calculator: **1)** Enter the cost of the goods you want to lease, **2)** Enter the number of lease payment years or months, **3)** Enter the “interest rate” the leasing agent stated and **4)** click “Calculate”. The result will be a monthly payment of interest and principal based upon the cost of the goods, the number of years/months and the “interest rate”. **IF** the payment amount is approximately the same as the lease payment quoted by the leasing agent then the “interest rate” is correct. **HOWEVER**, if the monthly lease payment is different then you must increase the interest rate in the on-line calculator and enter “Calculate” again repeating this process until the on-line calculator's payment amount is approximately the same as the stated lease payment. **Do not be surprised if the effective rate is much higher than the rate the seller told you!**

We have helped many companies obtain new credit or credit sources for a variety of industries.



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We can help your company!