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GLOSSARY OF TERMS

Advance Lease Payments: Many leasing transactions call for one (1), two (2), or more payments in advance. As a rule, when advance payments are required for more than the just first periodic payment, the additional advances will apply to payments due at the end of the lease. If payments are made monthly, for example, one advance will apply to the first month's payment while any additional advances will be applied to payments due at the end of the lease term. Advance payments are payable at, or prior to, lease inception.

Note: Under certain circumstances, lease agreements can be structured to call for "Payment in Arrears". In this case, no advance payments will be required at lease inception, and lease payments are payable at the end of each lease period during the term.

"Application-Only" Credit Review: Some Lessor's grant credit using only the information submitted to them on leasing applications. This data, along with inputs from bank and trade references and independent credit bureau reports, is used to review credit up to certain transaction size limits (most often $50,000 to $75,000). For these Lessor's, decision-making is generally aided by the use of "Credit Scoring" systems. Written Financial Statements are not required from the applicant.

Tip: Leasing applicants and equipment vendors will get the fastest credit responses if leasing applications are filled out completely, accurately, and legibly.

Assignment: Lease agreements, and other types of financial contracts, generally contain a provision permitting the Lessor, or other type of lender, to transfer the contract to another party by "assignment". Most often, Lessor's, lease originators and/or equipment vendors employ their own documents, and utilize assignment provisions to discount transactions with funding sources.

Bargain Purchase Option: A lease provision allowing the lessee, at its option, to purchase the equipment for a price predetermined at lease inception that is substantially lower than the expected fair market value at the date the option can be exercised.

Benefits of Leasing:

- Leasing conserves working capital.
- Leasing provides 100% financing for equipment acquisitions.
- Leasing keeps existing bank and other lines of credit open.
- Leasing provides an additional line-of-credit for equipment acquisitions.
- Leasing helps to overcome budget restrictions and limitations.
- Leasing helps to maximize cash flow.
- Leasing does not require down payments.
- Leasing may provide tax savings.
- Leasing may provide Off-Balance-Sheet financing.
- Leasing provides specific equipment, chosen by the lessee.
- Leasing provides equipment acquired from suppliers chosen by the lessee.
- Leasing protects against operating obsolete equipment.
- Leasing hedges against inflation.
- Leasing is flexible financing that can be matched to specific customer needs.
- Leasing makes a few cents work like dollars.

Broker: A company or person who arranges, for a fee, transactions between lessees and Lessor of an asset.

Budgets: Most businesses use "budgets" to forecast and allocate expenditures for specific periods of time. Typically, capital budgets include allocations for equipment acquisitions, while operating budgets apply to the periodic expenses incurred in running a business. Often, when capital budgets are exhausted, or have been allocated for other purposes, businesses can use available funds from operating budgets to lease needed equipment. Since leasing payments are made periodically (i.e. Monthly, Quarterly, or Yearly) and are small in comparison to the full outlay of the equipment's purchase price, businesses' can "stretch" their equipment acquisition power by leasing.

Cash Flow: Cash flow is a critical measure of a businesses' ability to meet lease obligations. Cash flow is calculated by adding the businesses' "net income" to its "depreciation expense" for a particular period (i.e. Month, Quarter, Year), and subtracting the "current portion of long term debt." The remainder of this formulation is the available cash to "service" new lease obligations.

Credit Application Form: Most Lessors use a "Lease Application" form to list the information required to evaluate a prospective lessee's credit condition and history.

Application forms call for specific information about the applicant such as, but not limited to:

- Exact legal name of the business
- Type of Organization (Proprietorship, Partnership, Corporation)
- State of incorporation
- Number of years in business
- Nature of business
- Number of employees
- Principal(s)/Owner(s) information (name, home address, Social Security number)
- Bank(s)/Trade Reference(s)
- Equipment Vendor information and detailed equipment list.

Additional Lease Application Information: For equipment costing more than $50,000, accountant prepared financial statements or federal income tax returns will more than likely be needed. At times, the principals' personal financial statement, and/or bank reference may also be required.

Common Equipment Lease Types: The three most popular lease types are Finance Leases, True Leases and Operating Leases.

- ***Finance Lease*** - Generally call for the "Full-Pay-Out" of the total equipment cost and financing charges over the original lease term. These leases ordinarily include a fixed purchase option (i.e. $101.00 or a fixed percentage of equipment cost.) Since the end-of-term purchase price is predetermined, finance leases may not meet the requirements for tax deductibility or for "Off-Balance Sheet" accounting treatment.

- ***True Leases*** - Do not call for full pay out of the equipment cost and financing charges during the original lease term. Typically, lessees receive either no option or, at most, an FMV option to purchase the equipment. Since true leases intend to provide only equipment usage, and don't include predetermined purchase option prices, lessees often classify true lease payments as operating expenses, thereby gaining any available tax benefits.

- *Operating Lease* - Some True Leases are known as "operating leases" because the lessee can classify the lease payments as operating expenses on their income statement. Truly leased equipment does not necessarily appear on the lessee's balance sheet as an owned asset, nor do the corresponding lease payments appear on the lessee's balance sheet as fixed debt.

Note: Because of the complexities of the current tax codes, it's strongly suggested that the lessee seek competent tax and accounting advice to determine the exact benefits available.

Corporate Resolution/Certificate of Secretary: A Corporation must attest that the individual executing a lease agreement on its behalf is duly authorized to do so. A signatory's authority is commonly confirmed by the execution of a "Corporate Resolution" or "Certificate of Secretary". On this form, the Corporate Secretary, or other authorized officer, attests that the signatory is empowered, by name or title, to execute lease agreements for the lessee. The lessee's "Corporate Seal" is ordinarily required to be affixed to these forms, as well. As a rule, the requirement of a Resolution or Certificate depends on the equipment cost, type of lease, and the particular policies of the individual Lessor. Most leasing transactions covering equipment costing less than $25,000 do not require this document.

Credit Scoring: Credit scoring systems typically formulate values assigned to various credit criteria to create a "Pass/Fail" scoring "model". Leasing applicant's scores are then compared to appropriate models to determine credit acceptability.

Credit Scoring Models are generally derived from the particular Lessor's historical portfolio performance with Lessee's of similar type, organizational structure, credit history, size, age, and credit bureau rating, along with such other criteria as individual Lessor's choose to include. Lessors' equipment preferences ordinarily result from that Lessor's particular experience, or inexperience, with various equipment types. Scoring criteria vary, predicated on transaction size, type of business, and individual Lessor's particular preferences.

Note: Lessor's individually establish credit criteria and financial information requirements in their own discretion.

Default: A default is the failure of a lessee or a borrower to meet an obligation called for in a Lease, Loan, or other Contractual Agreement.

Delivery & Acceptance Certificate: When leased equipment is delivered and installed, the Lessee typically authorizes the Lessor, in writing, to pay for it. The Lessee's authorization to pay the supplier is indicated on a Delivery & Acceptance Certificate form.

Documentation (Leasing Agreements and Paperwork): Leasing terms and conditions are set out in written Lease Agreements, sometimes comprising several different forms. Documentation requirements vary, depending on the type of lease; equipment; equipment cost; number of units leased; equipment configuration; additional provisions (if any); and the particular contractual policies of individual Lessor's. For example, small ticket Lessor's today commonly use one page, self-contained leasing agreement forms while more expensive equipment generally calls for more extensive contracts.

Down Payments: Leases do not require "Down-Payments". Conditional Sales Contracts, Chattel Mortgages, Bank Loans, and other types of equipment based financing frequently require the borrower to pay 10 to 25 percent of the purchase price at the outset.

Economic Life (Useful Life): The period of time during which an asset will have economic value and be usable.

Effective Lease Rate: The effective rate (to the lessee) of cash flows resulting from a lease transaction. To compare this rate with a loan interest rate, a company must include in the cash flows any effect the transactions have on federal tax liabilities.

Equipment: The "Equipment" is the specific item(s) leased by the lessee as covered by a particular lease agreement.

Equipment Lease: A Lease is a transaction where a "Lessor" owns particular equipment and agrees to permit a "Lessee" to use it. Lease terms typically cover one to eight or more year periods, depending upon the specific equipment's type and usage. Lessor's ordinarily offer monthly, quarterly, semi-annual, or annual payment scheduling, where applicable. Individualized payment structures can often be tailored to meet the Lessee's accounting and cash flow, or other financial requirements. Lease Agreements can often provide for the Lessee's purchase of the equipment at the end of the original lease term. Most often, the Lessee will select the specific equipment to be leased and choose the vendor from whom that equipment will be purchased. The Lessor will then purchase the equipment on the Lessee's behalf.

Equipment Schedule: A document that describes in detail the equipment being leased. It may also state the lease term, commencement date, repayment schedule and location of the equipment.

Equipment Supplier (Vendor): The "Equipment Supplier" is the vendor of the equipment to be leased.

Fair Market Purchase Option: An option to purchase leased property at the end of the lease term at its then fair market value. The Lessor does not have the ability to retain title to the equipment if the lessee chooses to exercise the purchase option.

Guaranty, (Personal/Corporate/Other): At times, business owners (especially in the case of Proprietorships, Partnerships, closely-held Corporations, or Small Businesses) may be required to personally guarantee (PG) a leasing transaction. In these cases, the appropriate party(s) will acknowledge his or her guarantee on a separate guaranty form, or in a separate guaranty section of the lease agreement itself. At other times, a business may be a subsidiary of, or owned wholly or in part by, another business. Depending on the circumstances, the Lessee's "Parent"' may be required to guarantee a leasing transaction.

Indemnity Clause: A clause in which the lessee indemnifies the Lessor from loss of tax benefits.

Insurance: Most Lessors' require the Lessee to insure the equipment against casualty loss, all risks, and require that the lessee indemnify the Lessor of any liability incurred from the possession, operation, or usage of the equipment.

Lease: A contract in which one party conveys the use of an asset to another party for a specific period of time at a predetermined rate.

Lease Agreement: The agreement itself is most often, a pre-printed form that contains the basic leasing "terms and conditions", including: the equipment location and usage conditions, equipment insurance requirements, responsibility for taxes and fees, default provisions, late payment provisions, remedies, Lessor's assignment rights, equipment return provisions, indemnity, title to the equipment, and such other or additional provisions as determined by the Lessor and by law. The Lease Agreement also specifies the exact legal name and address of the Lessor and Lessee; a specific description of the equipment leased; the name and address of the equipment supplier; a schedule listing the term of the lease, the number and timing of lease payments, the amount of each lease payment, any applicable taxes payable, the number of advance lease payments required; and any additional fees or costs to be paid by the lessee.

Lease Payments: Most lease agreements call for a fixed payment for a fixed period of time. To simplify leasing payment calculation, leasing rate is typically stated as the amount of dollars ($'s) charged per thousand dollars ($'s) of equipment cost leased, per specific period of time. The percentage of equipment cost leased per period of time is commonly known as a "Rate Factor". Once the appropriate rate factor has been calculated, any applicable equipment cost can then be multiplied by that rate factor to derive the lease payment. For example, in a Five Year (60 month) lease that calls for a lease charge of $24.00 per $1000 per month, the Rate Factor equals .024. To determine the payment for equipment costing $25,000: Multiply $25,000 X .024 = $600 per month.

Leasing rate factors are based on various criteria such as: The then current money market costs, lease term, equipment cost, purchase option alternatives, lease type and any other variables applicable to particular lease configurations.

Lease Rate (Monthly Payment): The periodic rental payment to a Lessor for the use of assets.

Lessee: The user of the equipment being leased.

Lessor: The party to a lease agreement who has legal or tax title to the equipment, grants the lessee the right to use the equipment for the lease term, and is entitled to the rentals.

Leverage: "Leverage" commonly applies to the amount of a businesses' debt compared to tangible net worth or stockholder's equity.

Master Lease: A contract where the lessee is able to lease currently needed assets and to acquire other assets under the same basic terms and conditions without negotiating a new contract.

Net Lease: A lease wherein payments to the Lessor do not include insurance and maintenance, which are paid separately by the lessee.

Purchase Option: Most purchase options are drafted on separate forms. Purchase options forms may state specific purchase price or the percentage of equipment cost to be paid, the terms and conditions for purchase options and any other provisions, such as the method employed for the determination of "Fair Market Value" (if applicable).

Purchase Option Alternatives: Most often, leases provide an option for the lessee to purchase the equipment at the end of the lease term. The most common Purchase Options are:

- ***$101.00 Purchase Option:*** Permits purchase of the equipment at the end of the original lease term for $101.00.

- ***Fixed Purchase Option:*** Permits purchase of the equipment at the end of the original lease term for a fixed percentage of the original equipment cost. Option prices usually equal 5, 10, 15, or other percentage of equipment cost.

- ***Fair Market Value Purchase Option (FMV):*** Permits purchase of the equipment at the end of the original lease term for its fair market value. FMV is determined at lease expiration by recognized appraisers or similar experts.

- ***Prepaid Purchase Option:*** Requires payment of the purchase option before, lease inception.

Note: *purchase option alternatives can affect the accounting and tax treatment of leasing transactions. It's strongly suggested that Lessee seek competent accounting and/or tax advice as the Lessee is ultimately responsible for the accounting and tax treatment of leasing transactions on their books.*

Residual Value: Most equipment has a remaining or resale value at the end of the original lease term. The remaining value is referred to as the residual.

Sale/Leaseback: Businesses can sometimes raise capital by selling equipment to Lessor's and then leasing the same equipment back. Sale/Leasebacks may not be attractive to some Lessor's because although these types of transactions may be structured as leases, the prospective lessee's purpose is often to raise capital by refinancing owned assets. Refinancing risks differ from those incurred in leasing additional equipment needed for growth or for additional production. Therefore, it's important for businesses to have a valid, productive, reason for a Sale/Leaseback. When Lessor's consider Sale/Leasebacks, an equipment appraisal (at the lessee's expense) by a recognized appraiser is generally required. Most often, the Lessor wants to learn the auction, or distress sale value, of the equipment itself. Generally, Lessor's will offer the auction value, or less, as the buying price for the equipment to be sold and leased back.

Schedules or Addendums: At times, multiple equipment items or lengthy equipment descriptions require a separate schedule or addendum to the lease agreement, simply because physical space is lacking to enter information. Addenda may also be used to list special provisions or modifications to a lease agreement. At other times, schedules can be used when additional equipment is leased for the same, equipment at a different lease term. If Schedules or Addenda are added to the lease agreement at a later date, the "Schedule of Lease Payments" pertaining to the added equipment will generally be included in a new Schedule or Addendum.

Security Deposits: Similar to advance lease payments, security deposits are paid at, or prior to, lease inception. Security deposits protect the Lessor by offsetting losses due to: unreasonable wear and tear to returned equipment; the non-return of equipment; or any other costs incurred due to the lessee's actions or negligence.

Structured Leases: A major leasing benefit is the Lessor's ability to meet specific lessee needs through Lease Structuring. Common lease structures include:

- ***Step-Lease:*** Some Step-Leases call for lower payments early in the Lease term and higher payments later on. Businesses acquiring more efficient or higher capacity equipment than currently needed, but that will require greater productivity in the future find this type of lease attractive. Rather than installing a smaller unit today, and then having to soon upgrade or replace the equipment, reduced front-end lease payments can make the acquisition of higher capacity equipment possible. Conversely, ***Step-Down*** leases can permit a faster write-off of leased equipment that will be obsolete in a short period of time. This structure matches the higher front-end lease payments to the highest productivity stage of equipment usage.

- ***Skip Payment Lease:*** This structure permits payment reductions or abatements during seasonal businesses' slow periods. Seasonal businesses can then match their lease payments to the times of year that a business generates its income.

- ***No-Payment Lease:*** This lease structure offers a payment moratorium at lease inception. Ordinarily, the no-payment period is limited to two or three months and may sometimes extend as long as six months. Businesses benefit from No-Payment leases when the equipment requires a down time, operator training, or settling in phase. This way, the Lessee is not required to remit lease payments during the equipment's initial start-up stage. No-Payment leases also help when existing equipment will be replaced shortly, but some leasing or financing payments remain. With a No-Payment period, lessees can install new equipment earlier while avoiding making payments for both items. Often, installing new equipment while an older unit is still in place permits easier changeover and transfer to newer technology.

Synthetic Lease: A synthetic lease is financing structured to be treated as a lease for accounting purposes, but as a loan for tax purposes. Corporations that are seeking off-balance sheet reporting of their asset based financing, and that can efficiently use the tax benefits of owning the financed asset use this structure.

Tax Lease: A lease wherein the Lessor recognizes the tax incentives provided by the tax laws for investment and ownership of equipment. Generally, the lease rate factor on tax leases is reduced to reflect the Lessor's recognition of this tax incentive.

Taxes - Sales/Use/Personal Property/Other: Most lease agreements require the lessee to pay any applicable taxes or fees related to the leased equipment including sales or use tax, personal property tax, or any other applicable taxes.

TRAC Lease: A tax-oriented lease of motor vehicles or trailers that contains a terminal rental adjustment clause and otherwise complies with the requirements of the tax laws.

Turn-Around Time: The time required to review a credit submission and reach a credit decision.

Uniform Commercial Code Financing Statements (UCC1): Standardized UCC1 forms are commonly used by Lessor's to secure their ownership of leased equipment. UCC1's are filed with the Secretary of State's office, (and in some cases the County Clerk's office), where leased equipment is located. The purpose of filing these forms is to notify other parties who may seek a security or other interest in the specific equipment, that a particular party currently has a secured interest in the identified equipment.

Vendor (Equipment Supplier): The Vendor is the seller of the equipment to be leased.

Vendor Leasing: A working relationship between a financing source and a vendor to provide financing to stimulate the vendor's sales. The financing source offers leases or conditional sales contracts to the vendor's customers. The vendor leasing firm substitutes as the captive finance company of a manufacturer or distributor through the extension of leasing to customers, provisions of credit checking, and performance of collections and operational administration. It is also known as Lease Asset Servicing or Vendor Program.

Working Capital: Working Capital equates to "current assets" minus "current liabilities", or a businesses' available funds. Leasing conserves working capital.