Welcome

To the Insider's Guide to Leasing*

Your easy-to-understand guide to the benefits of equipment leasing from Harbor Financial Services NW

In the following pages, you'll find simple explanations of how leasing can help your business. We've also highlighted important definitions and answered commonly asked questions about leasing.

In the back, we've included a credit application, which you can use or pass along to a business associate.

Thank you for considering Harbor Financial Services NW's Lease Program. We look forward to helping you acquire the equipment you need to make your business grow.

Leasing Jargon

LESSOR……..the equipment owner.

LESSEE…..….the equipment user.

LEASE……..…A legal contract by which the lessor gives the lessee the right to use the equipment for a specified time in exchange for periodic payments.

LEASE LINE OF CREDIT.. .Line of credit, which a lessor approves for a company that anticipates financing future equipment acquisitions.

**This guide is intended to summarize many of the advantages of leasing. It is not intended to be legal, tax or accounting advice with respect to the matters discussed. For advice regarding a particular situation, consult with your legal, tax and/or accounting advisor.*

The Smart Choice

Over the last 30 years, leasing has become a powerful capital investment tool for businesses of every size - and with good reason. Leasing is unmatched in helping companies meet their expansion goals while preserving capital and improving cash flow.

Leasing can also help you meet other important objectives, such as protecting against equipment obsolescence or managing tax liabilities.

Most importantly, leasing can help your business stay competitive by increasing productivity and profitability.

Leasing Advantages

- **Conserves Capital**
- **Expands credit**
- **Protects against obsolescence**
- **Offers tax advantages**
- **Finances 100% of equipment costs, plus related expenses**
- **Provides a fixed rate**
- **Fits cash flow**

Conserves Capital

Purchasing equipment can place a heavy demand on your available capital. With leasing, you can keep your cash available for marketing opportunities, daily operating expenses, or business emergencies. You can even convert a recent purchase into a lease for a healthy cash flow injection.

Leasing generally requires no deposit or down payment to acquire the equipment. And with payments in arrears, your equipment can go to work right away, increasing efficiency and productivity – and improving your bottom line.

What else can I include in the Lease?

Leasing can provide 100% financing of the equipment and its associated costs, including
(in some cases): Shipping, Installation, Training, Software Maintenance, Wiring, and Related Leasehold Improvements

Protects Against Obsolescence

Using the latest equipment can provide many competitive advantages from reduced operating costs to increased productivity. With leasing you have the flexibility to own or not at lease end and purchase options can be specified or at fair market value.

Leasing flexibility lets you keep pace with technology and stay ahead of the competition.

Can I lease additional or replacement equipment?

As your business needs change, so can your lease. You can generally finance add-ons costing as little as $3,000 over the remaining term of your original lease.

For example, if your telephone system is on a 60-month lease and you add voicemail four months later, the add-on would be leased over 56 months so that the leases for both items end at the same time. This way, you can exercise your preferred end-of-term option for the entire system, not just part of it.

Or, if you need to replace some or all of your equipment prior to lease expiration, this can generally be done.

The cost will depend upon where you are in the lease term, trade-in (if applicable), and cost of the new equipment.

Expands Your Options

Leasing is an alternative source of financing that lets you acquire the equipment you need with virtually no cash outlay. Your bank lines and other capital resources remain intact for times when you need ready access to cash.

Can I Lease Anything?

You can lease just about any type of equipment that produces income or saves time and labor. These are examples:

- Computers
- Faxes
- Copiers
- Office Furniture
- Telephones
- Printing Presses
- Construction Equipment
- Photo Processing Equipment
- Medical Equipment
- Excavators
- Agricultural Equipment
- Forklifts
- Manufacturing Equipment
- Audiovisual Equipment
- POS Systems
- Laundry Equipment
- Qualified Business-use Vehicles

May Be Tax Deductible

Leasing your equipment can provide tax advantages that benefit a profitable business.

If you select a true lease, your monthly lease payments may be treated as a fully deductible operating expense. For a growing company, which may need to shelter income, this can be a huge benefit.

Leasing capital equipment may also protect your business from having to pay the higher alternative minimum tax (AMT). What is AMT? Alternative minimum tax is triggered when a company's tax preference items (equipment depreciation, net generating losses, etc.) exceed 70% of its net taxable income. Business in equipment intensive industries can be particularly prone to AMT. You may want to discuss this topic with your tax advisor.

Should I buy or Lease?

To help make this decision, consider the following:

- Does my business have a limited amount of cash?
- What are my expansion goals over the next few years?
- Is the equipment likely to become obsolete in the next three to five years?
- Would my business benefit from reduced tax liabilities?
- How does the lease rate compare to my alternative acquisition cost, considering differences in the timing of cash flows and tax treatment?

If you answered, "Yes" to one or more of these questions, Leasing may be your best option.

What Kind of Lease is Best for Your Business?

Usually the best alternative depends on the type of equipment being considered. For example, if you are acquiring high tech equipment, consider a true lease or a 10% purchase option lease. Or, if your equipment is a longer-term asset, such as a drilling machine, you may want a finance lease with a $1 purchase option. If you are acquiring a revenue-earning vehicle, you may qualify for a TRAC lease.

The following pages provide some additional information on these kinds of leases.

When is Leasing the Best Choice?

When anyone of the following applies to your business:

- Conservation of Capital
- Equipment-intensive operations
- Rapid Growth
- Office automation equipment
- Competitive requirement to be leading edge
- Seasonal cash flow
- Many other situations

10 % PURCHASE OPTION LEASE

A lease with a 10% purchase option provides ownership at the end of term at a price equal to 10% of the original transaction amount. This gives you:

- The flexibility of a true lease;
- The security of knowing your purchase price at the outset of the transaction; and
- End of term flexibility, including the option to purchase for 10%, renew the lease, or return the equipment to the lessor.

Consider a 10% purchase option if:

- You want to know exactly what the purchase amount would be if, in fact, you decide to purchase the equipment at lease expiration;
- You definitely want ownership but also want the lower payments that this structure provides when compared with the finance lease with $1 purchase option

$1 OUT LEASE

A $1 out lease provides the benefits of ownership with the lessee taking depreciation and interest expenses. At the end of the term, you may own the equipment for $1. This type of lease is considered a virtual purchase, because the $1 purchase option is so minimal, it’s always exercised.

Consider a $1 out lease if:

- You want to own the equipment at the end of the lease;
- The asset has a very long, useful life;
- You want 100% financing;
- You do not need tax-advantaged leasing.

TRUE LEASE

A true lease, (also called a fair market value lease) is popular for several reasons:

- It provides for the lowest monthly payments compared to any other kind of lease.
- The payments are tax deductible.
- It can allow you to trade up or add equipment during the life of the lease.
- It provides maximum flexibility. At end of term you may purchase the equipment at fair market value, renew at fair market rental, or return the equipment to the lessor.

Consider a true lease if:

- The equipment you need may become obsolete;
- Your business is growing so fast you will outgrow the equipment quickly;
- You don't plan to won the equipment;
- You want the lowest monthly payment possible;
- You have income to shelter.

What is fair market value?

Fair market value is the value of the equipment at the end of the lease as reflected by market demand.

TRAC LEASE

A TRAC lease is designed for commercial vehicles that generate revenue while in use. At the end of the term, the vehicle may be purchased for a pre-specified amount (usuall7 20%) or sold to a third party.

If it is sold for less than the pre-specified amount, the, the lessee must make up the difference to the lessor.

It is an adjustment clause that allows the lessee to fully deduct the payments for tax purposes.

Consider a TRAC lease out if:

- You want the tax benefits of a True Lease without the risk of an unknown purchase price at lease expiration;
- You want100% financing and no mileage restrictions; and;
- You have an established business location that is separate from your primary residence.

To qualify, the leased vehicle must be:

- Used for business purposes at least 50% of the time;
- Earning revenue while on operation over the road; and
- Sold by an independent authorized dealer representing a national manufacturer

Vehicle eligible for a TRAC lease (given the above conditions):

- New or used vans, pick-ups and trucks, up to two years old. (from compact to heavy duty)
- New or used tractors up to three years old; and
- New or used trailers up to five years old (from compact to heavy duty)

Question & Answers

Q: ***Why would I Use Harbor Financial Services NW's Lease Program, when my vendor offers its own leasing program?***

A: Harbor Financial Services Lease Program is just as competitive as vendor lessors, plus you have the following advantages with our lease line of credit:

- The security of knowing that financing will be in place when you need it.
- The ability to finance equipment from multiple vendors with only one credit review.

Q: ***I already have a line of credit at my bank, wouldn't it be easier to just get the money there?***

A: Leasing represents an additional source of borrowing above and beyond your bank. Your operation line of credit should never be tied up with term debt on depreciation capital equipment. Working capital can be better used to finance growth opportunities, reduce payments and maintain liquidity.

Q: ***I don't have a lot of free time. Is this process going to bog me down?***

A: Your time is valuable. That's why you should use Harbor Financial Services as your exclusive provider of business credit services. You can reach us direct by calling 1.800.290.1225. We offer fast credit decisions, easy to understand paperwork, and most importantly, volume pricing – which will save you even more.

Q: ***What is the purpose of applying for credit?***

A: It's easy! Complete the application on the next page and fax it to: 253.460.1940 or call, 1.800.290.1225. In most cases, a credit decision will be made in the same business day. Then, a Harbor Financial Lease professional will assist you in exploring lease alternatives so you can decide which one best meets your business requirements.

Q: **What lease terms are available?**

A: We offer terms from 12 to 84 months with a minimum transaction of $1000.00. For maximum convenience, you can even finance most of your out of pocket expenses, such as installation, freight, software and training. We can structure payments to meet your special business needs.

Provides Fixed-Rate Financing

Payments on variable-rate financing options can make it difficult to anticipate your monthly expenses.

With fixed-rate lease financing, your monthly lease payments are predictable and easy to budget. Your financing rate and low monthly payment amount remain consistent over the term of your lease.

Leasing Jargon

LEASE RATE………….. The rate which equates to the periodic rental payments made over the initial lease term.

PURCHASE OPTION….A provision whereby the lessee has the option to purchase the equipment at the end of the

Follows Your Cash Flow

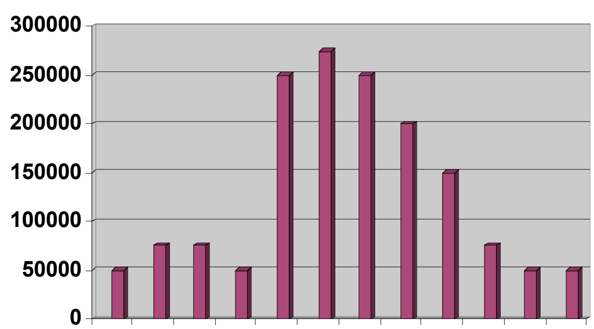
Leasing lets you schedule your payments to fit fluctuations in your cash flow.

If your business is seasonal, a lease can be structured to provide lower monthly payments when revenue drops and higher payments when your business is at its peak.

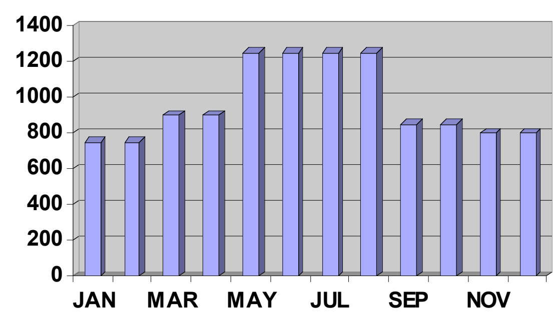
And, because your lease payments are tied to cycles of optimum production, your equipment virtually pays for itself *as you use it*.

Lease payments can be structured to meet seasonal fluctuations.

For example, if your cash flow looks like this:



You may be able to schedule payments to look like this…….



You may even request a skip-payment where you make no monthly payment at all during certain months. This is a very attractive program for businesses with irregular or seasonal income streams.