Lease Options

Leasing provides a customer the use of equipment for a specified period of time with a possible option to buy at the end of the lease term. There are two types of leases:

1. Capital Lease
2. Operating Lease

Capital lease meets one or more of the four criteria of Financial Accounting Standards Board (FASB) Number 13. A capital lease can have a purchase option price that can range from $1.00 to some amount below expected fair market value. A lease in which 90% of the cost of the equipment would also qualify as a capital lease regardless of the purchase option. A capital lease is a finance lease, which means that for the customer it represents nominal ownership. The cost of the equipment and the lease obligation must appear on the customer's balance sheet. Taxes are paid monthly on each lease payment.

Operating lease must not meet any of the criteria of FASB 13. An operating lease is structured so that the customer can use the machine for the term of the lease with an option to:

1. Return the equipment
2. Purchase machine at its fair market value
3. Finance the balance

An operating lease is basically a long-term rental in which the customer can use the machine without the risks or benefits of ownership. For accounting purposes these types of leases are usually treated as off balance sheet.

Conditional Sales Contract is the more traditional form of acquisition of equipment. Typically this medium is based on the upfront payment of taxes, a down payment and subsequent payments over a fixed period of time. Often times skip payments, accelerated payments, balloon payments, quarterly, semi-annual, and annual payments along with trade-ins would be handled through a conditional sales contract.

A Conditional Sales Contract builds equity faster and normally will be the low cost means of acquiring equipment over the full term of the contract as compared to a lease.