Healthcare
CAPITAL SERVICES

The Leasing Advantage

Time and Money Working Together

The Time
Value of Money

Time defines the value of money.
A dollar today does not have the same value as a dollar tomorrow... or ten years from tomorrow. This concept is called "Present Value."

Leasing is an effective way to use time to maximize the value of money. It is a flexible management tool that enables money to be deployed where – and when – it will do the most good.

Lease or purchase?

Compare:

- The relative value of money over time.
- Income and other financial advantages that can be generated by retained and invested capital.
- Preserved credit resources.

A clock tells the time of day.
Time – and the use of it – tells the value of money.

Assumptions:

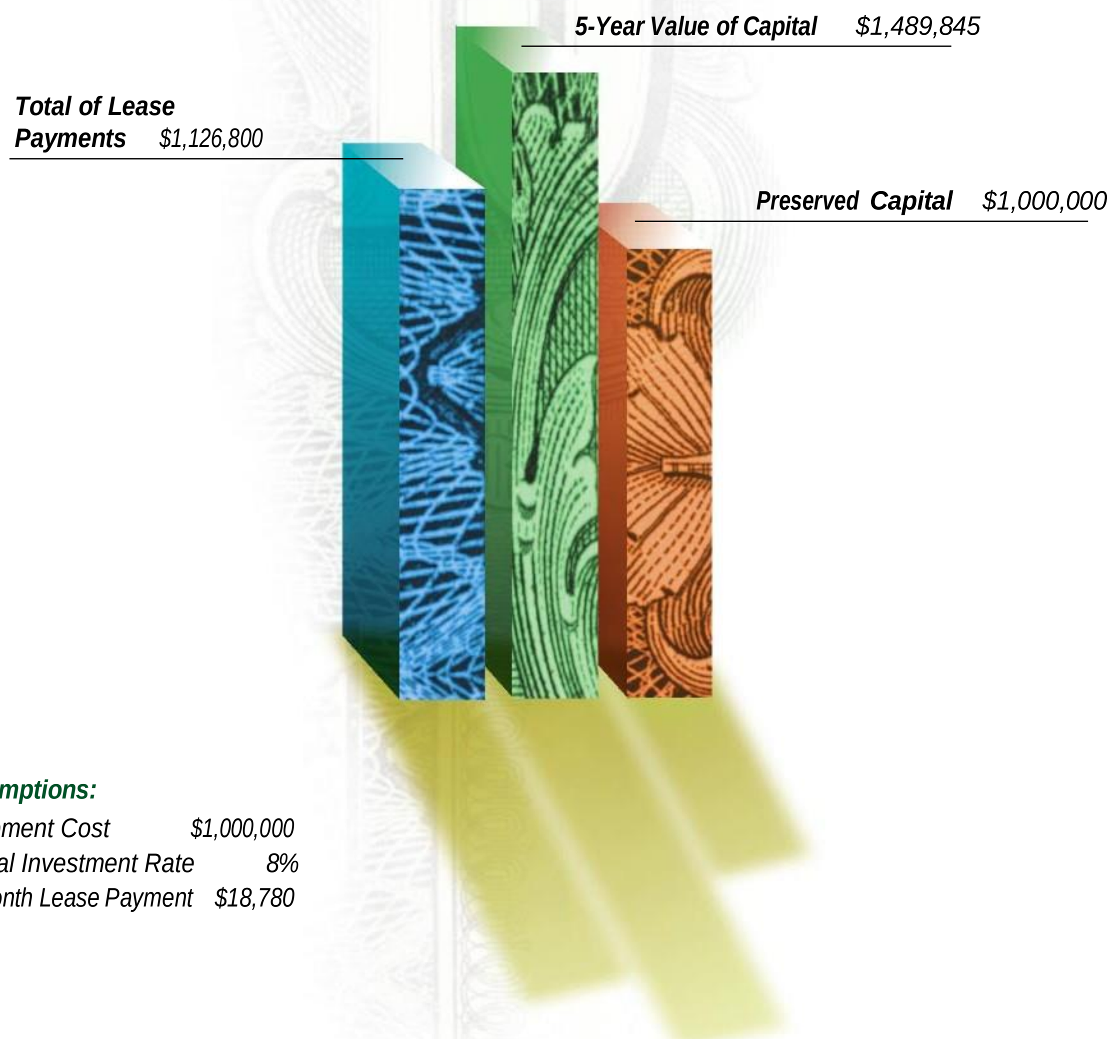
Equipment Cost $1,000,000
60-Month Lease Payment $18,780
Present Value Discount Rate 10%

Conservation
of Capital

A major benefit of leasing is its ability to conserve capital. Rather than an immediate depletion in capital dollars to fund equipment acquisitions, leasing preserves capital to fund other profitable activities.

This is why the outright cost of leasing is often misperceived. The temptation is to compare costs in absolute dollars against conventional financing. But this does not take into account leasing options which may eliminate the need for deposits, down payments or compensating balances. Also, many other cost factors such as installation, freight, training and service can be incorporated into lease programs. Typically, lease terms can be set for a longer time period than a standard loan thus lowering payments to further improve cash flow.

Leasing also provides certain tax advantages that again preserve the capital an organization requires to maximize its technology needs.



Assumptions:

Equipment Cost *$1,000,000*
Capital Investment Rate *8%*
60-Month Lease Payment *$18,780*

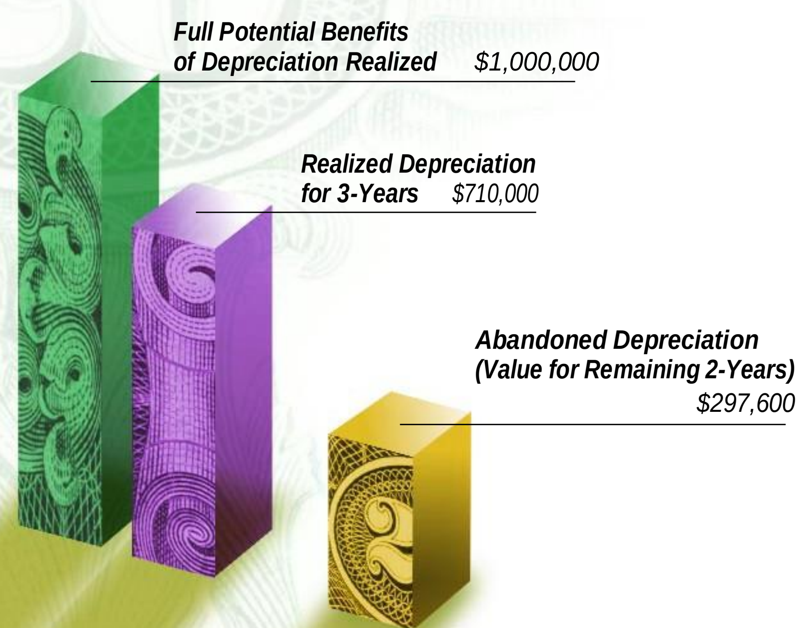
Obsolescence
Protection

Technology does not stand still. Equipment can become obsolete even before it can be paid for or fully depreciated. Management must plan for ongoing investments in technology.

Leasing is an important strategy in leveraging the reality of obsolescence. Lease terms can be matched to the practical life of the technology... or even accommodate ongoing upgrades or replacements.

Leasing is a prospective process that continues to deliver new and improved technology into the future.

Leasing represents one of the most affordable and flexible way to obtain – and maintain – the latest and most effective levels of medical technology necessary for optimum performance and patient care.



Assumptions:

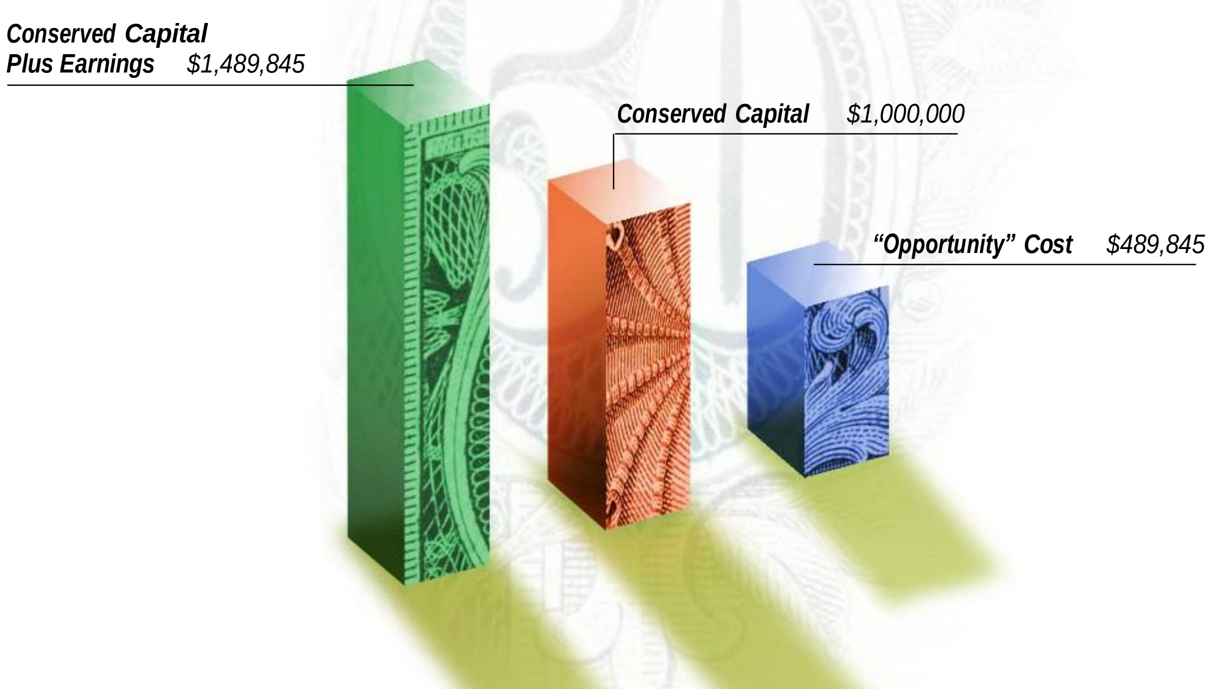
Equipment Cost	*$1,000,000*
Depreciation Shown	*5-Year MACRS (Pre-Tax)*
Tax Bracket	*34%*

Generation
of Profit

Leasing enhances profits by making conserved capital available for investments yielding higher returns. It improves cash flow and contributes to a healthier bottom line.

Profits are generated indirectly through preserved capital because working capital is available to take advantage of alternative investments, prompt payment discounts and other incentives.

Time is the critical factor. Money invested wisely today can continue to increase in value. Money invested tomorrow may forfeit potential returns.



Assumptions:

Earnings Rate 8%

5-Year Investment Period Earnings (Pre-Tax)

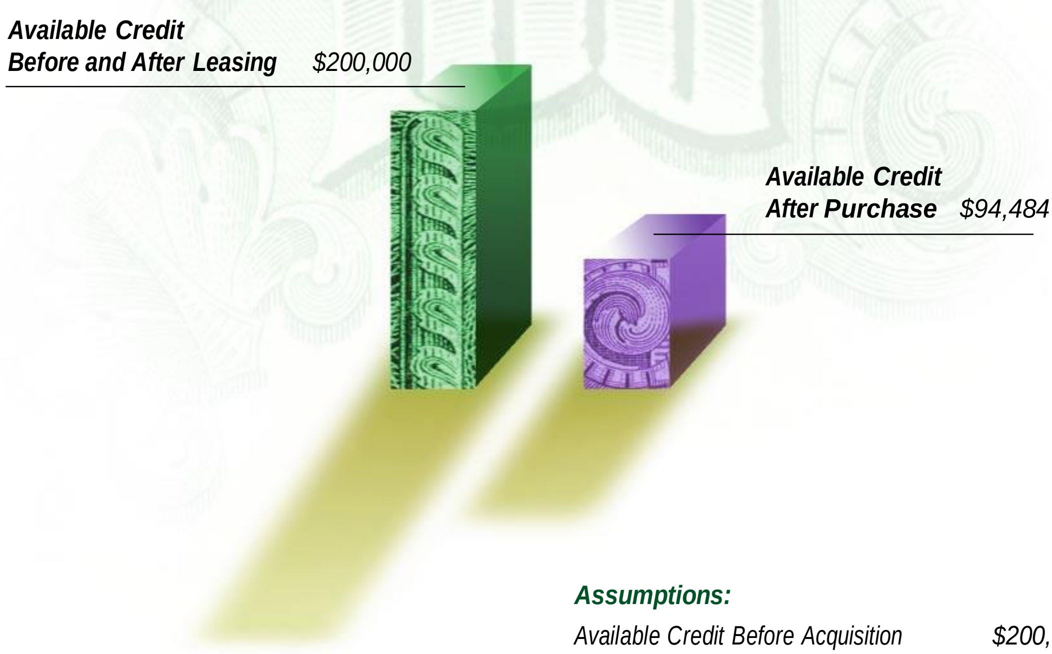
Conservation
of Credit

Credit standing is the measure of an institution's financial reputation and borrowing power. It is a resource that must be managed as wisely as cash. Credit is not unlimited.

In times of high demand on capital, credit is tight. This reality competes against the need to achieve and sustain appropriate levels of technology.

Leasing has advantages even in difficult economic times. As an alternative form of financing:

- Leasing means equipment needs can be met without depleting traditional sources of credit.
- Not only capital, but credit, will be available for unexpected, short-term or seasonal requirements.



Assumptions:

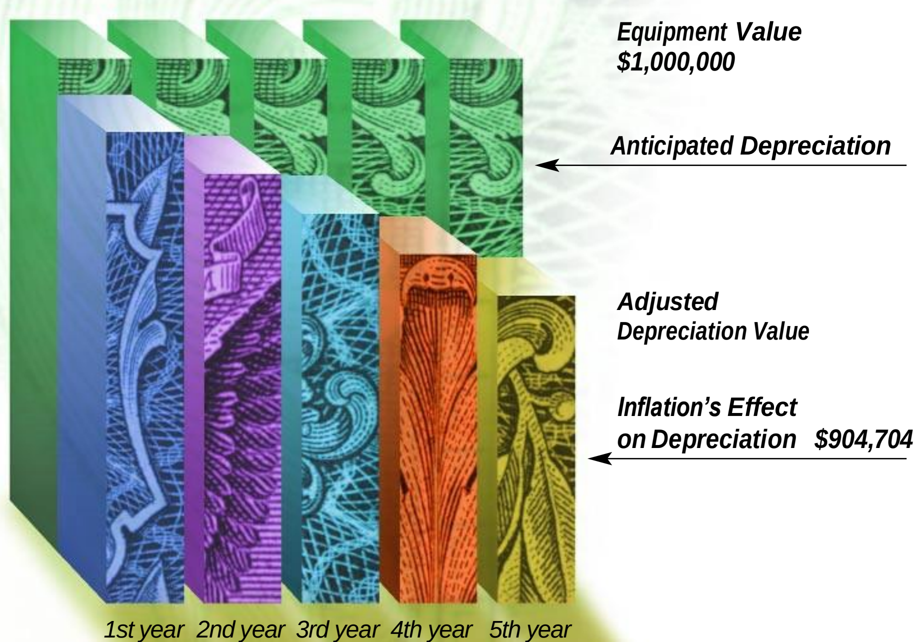
Available Credit Before Acquisition	*$200,000.00*
Loan ($90,000.00 loan, 15% compensating balance, interest rate 15%)	*105,515.73*
Credit Available After Purchase	*$94,484.27*
Credit Available After Leasing	*$200,000.00*

Leasing Defends
Against Inflation

The only thing low inflation promises is high inflation later. Inflation must be factored into any long-term equipment financing decision.

In theory, the original capital outlay for technology is recovered through depreciation over time. Since time erodes the value of money – at rates compounded during periods of higher inflation – dollars recovered through depreciation decline in value.

Leasing can be an effective hedge against inflation. Equipment acquired today is paid for with tomorrow's cheaper dollars.



Assumptions:

Equipment Cost *$1,000,000*
Inflation Factor *4%*
Depreciation Shown *5-Year MACRS (Pre-Tax)*

Tax
Implications

In today's competitive environment the decision whether to lease or purchase equipment is a major and sometimes complex issue.

On the surface, the answer may seem simple enough. On a pre-tax basis, a direct purchase may be less than the total cost of the lease. However, the impact of time and taxes are ever-present factors that need to be incorporated in any comparison of these two dissimilar methods of equipment acquisition.

So which approach is better and how can these two dissimilar methods be compared? As the present value lease versus buy model illustrates, the after-tax story may show a big difference between the two methods.

Direct purchase makes use of expensive after- tax dollars and the cost of equipment is recovered through depreciation over the life of the asset.

Leasing utilizes cheaper pre-tax dollars to pay for equipment over time and the cost of the equipment is recovered through annual expense credits. Thus, the leasing option not only matches equipment expense to useful life, but it can have a significant effect on selecting the best overall equipment acquisition method.

Again, leasing takes advantage of time. This model, along with the other fundamental benefits, makes leasing a powerful alternative to managing ongoing and long-term equipment financing needs.

Lease Versus Purchase: After–Tax Analysis (5-Year Lease Term)

Sale Price of Equipment	$1,000,000
Lease Rate Factor	1.9100%
Federal Income Tax Rate	34%
Discount Rate for PV	9%
Monthly Lease Payment	$19,100

Initial Outlay:

FMV Lease	**Year 0**	**Year 1**	**Year 2**	**Year 3**	**Year 4**	**Year 5**	**Year 6**
Cash Flow Day 0	$0						
Annual Lease Payment		($229,200)	($229,200)	($229,200)	($229,200)	($229,200)	
Annual Tax Impact		$77,928	$77,928	$77,928	$77,928	$77,928	
Net Annual After-Tax Cash Flow		($151,272)	($151,272)	($151,272)	($151,272)	($151,272)	
Cash Purchase							
Cash Flow Day 0	($1,000,000)						
Annual Depreciation %		20%	32%	19%	12%	12%	5.76%
Annual Depreciation $		$200,000	$320,000	$190,000	$120,000	$120,000	$57,600
Annual Tax Impact		$68,000	$108,800	$64,600	$40,800	$40,800	$19,584
Net Annual After-Tax Cash Flow		$68,000	$108,800	$64,600	$40,800	$40,800	$19,584

Present Value of 'Lease' Flows	($607,274)
Present Value of 'Purchase' Cash Flows	($719,057)
Present Value Advantage to Lease	**$111,784**

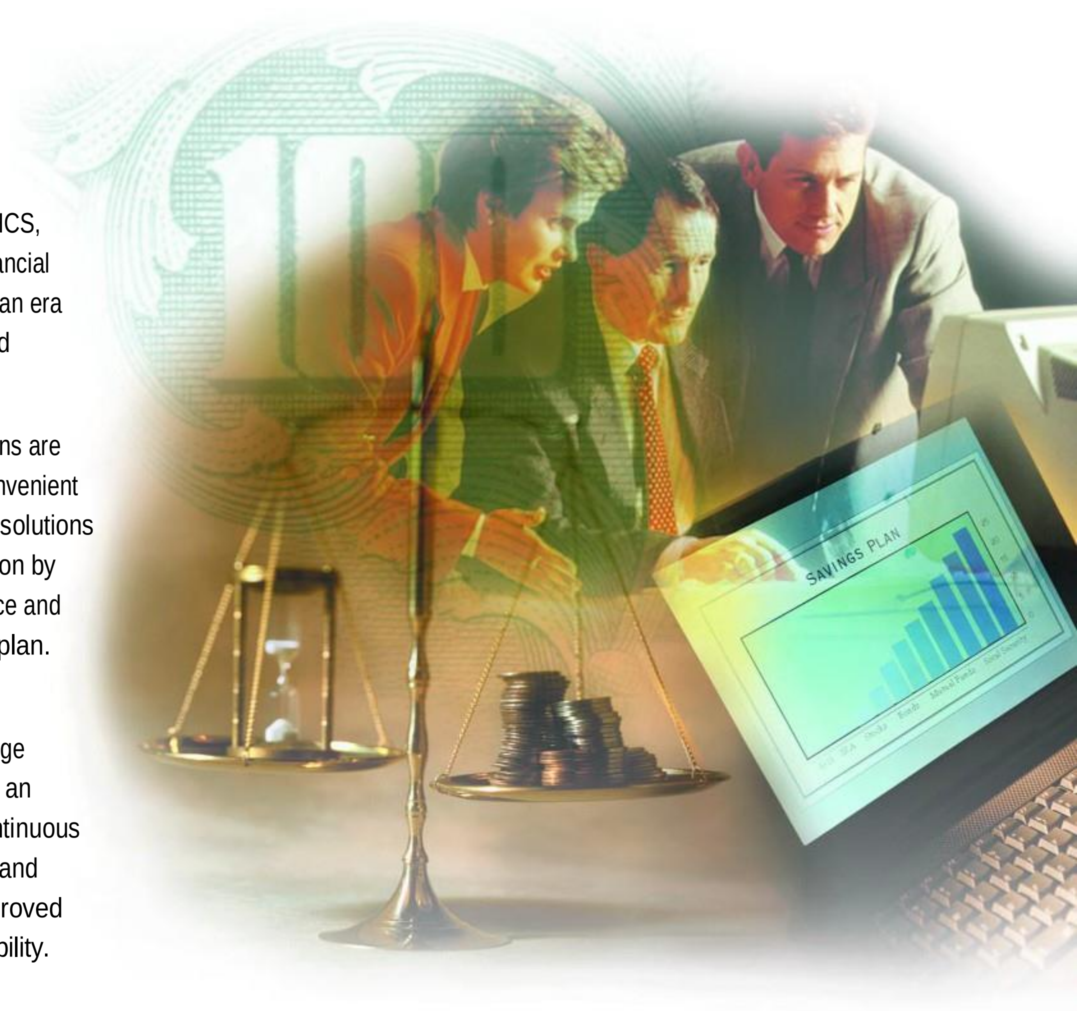
Note: *Pre-tax Lease versus Purchase present value analyses are available for tax-exempt and 501(C)(3) entities.*

Leasing
Is Flexible

Leasing is more than a financing solution. It is an economic tool that can be used to help manage technology, capital and credit requirements over time.

Unlike purchasing, leasing brings with it a multitude of options that make it possible to structure a payment program that meets an organization's needs now and in years to come.

For example, payment terms can be varied. Payments may be straight-line (equal payments at constant intervals)... accelerated (payments start high and decrease over time)... or even adjusted to meet start-up or seasonal cash flow requirements. Lease payments also can be structured at monthly, quarterly or yearly intervals, thus making technology affordable whenever you need it.



Financing programs, from HCS, are designed to address the financial challenges of staying current in an era of declining reimbursements and relentless cost pressures.

Our portfolio of financing solutions are structured to provide a more convenient and comprehensive financing solutions for your health care organization by consolidating equipment, service and financing under one payment plan.

HCS effectively protects your investment and helps you manage obsolescence by providing for an upgrade path that ensures continuous access to future technologies and enhancements that drive improved clinical outcomes and profitability.

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