

Freeze on Capital Expenditures Coinciding with Expiring Equipment Leases Lead to Expensive Lease Extensions

Tough economy leaves firms with expiring leases and no budget for replacement equipment looking for lease extension strategies.

(Pitchengine) September 1st 2009, Mission Viejo, CA - The tough economy is creating some difficult decisions for companies with expiring equipment leases. According to the Equipment Leasing and Finance Association, “new business volume for July 2009 declined by 35.1 percent when compared to the same period in 2008. Month-to-month new business volume actually decreased 7.7 percent from June to July, from \$5.2 billion to \$4.8 billion.”

With less access to financing options to replace aging equipment, many firms are opting to extend their existing lease contracts. While this is typically quite convenient and a quick fix, in most cases this approach is also the most expensive solution.

When equipment leases are extended, the economics of the original lease can be negatively affected since most extensions do not involve a recalculation of the value of the aged equipment being leased or an adjustment to the monthly payment.

If a company does not properly negotiate the lease extension, the company may find itself in a multi-year extension at the prevailing lease payment amount which will adversely affect the original economics of the lease contract. In some instances, companies can pay over 150% of the original equipment cost resulting in effective interest rates in excess of 30%.

For example, Richard Boyd, Senior Vice President for The Optimus Group comments: “A major hospital had not budgeted for replacement equipment within the fiscal year that multi-million dollar leases were expiring. The lessor’s extension option offer would have increased the original costs by an additional 110% over a very short period of time.”

Companies considering extending multi-million dollar equipment leases can request a free lease extension analysis by contacting info@optimusgroup.com.

About The Optimus Group

The Optimus Group provides financial advice on equipment lease and loan transactions, potential contract conflicts, optimal lease or loan structures, early termination, upgrade/replacement rights, default provisions, FMV and other end of term disputes, casualty loss, and forced renewals and extensions. Working closely with Chief Financial Officers, Vice Presidents of Finance, Corporate Treasurers and Corporate Purchasing executives from a variety of industries, The Optimus Group reduces expenses by eliminating unnecessary financing costs. Clients include publicly traded and privately held businesses with revenues that range from \$100 Million to over \$10 Billion.

###