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# LEASING COMPETITIVE ENVIRONMENT

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This comprehensive study of Information Technology Equipment Leasing Market Dynamics and Outlook in the U.S. has been conducted by R.S. Carmichael & Co., White Plains NY, in cooperation with the Equipment Leasing Association.

Objectives

The primary objectives guiding the study have been five-fold:

1. Measure and characterize the U.S. IT equipment leasing market.
2. Identify trends impacting lease financing utilization.
3. Evaluate the leasing practices and needs of IT equipment customers and vendors.
4. Examine the leasing competitive environment.
5. Forecast the U.S. information technology equipment leasing market and pinpoint the drivers of leasing company success.

Methodology

These steps have been taken in the conduct of the market study:

1. In-depth telephone interviews were conducted with IT lessees, equipment vendors and other industry participants throughout the U.S.
2. Secondary data from industry trade associations, publications, government agencies and other sources were analyzed.
3. Recent R.S. Carmichael & Co. research on IT leasing markets also was tapped.

This market study focuses mainly on equipment leasing dynamics as opposed to technology forecasting. It covers the major market segments only.
EXECUTIVE SUMMARY

Overview

• The information technology (IT) equipment leasing market is one of the largest segments of the entire U.S. leasing industry. It also had been one of the fastest growing leasing markets until the sluggish economy of the past few years sharply impacted IT equipment acquisitions by corporations, institutions and government agencies. However, there are signs of some market recovery this year, and IT equipment vendors, users and lessors are all forecasting further rebounds in leasing in 2004 and 2005.

Market Size and Growth

• The total U.S. market for IT equipment leasing in 2002 was an estimated $23.8 billion based on the value of new equipment acquisitions. Over the period 1998-2002, the average annual rate of market growth was a mere 1.5%, reflecting the substantial downturn in IT equipment acquisitions accompanying the economic deadline.

The IT equipment leasing market is poised for recovery over the next two years. It should reach an all-time high of $28 billion in 2005.

The IT equipment leasing market is poised for recovery over the next two years. It should reach an all-time high of $28 billion in 2005.

• The IT equipment leasing market is projected to turn around this year (2003) and reach a level of $28 billion by 2005. This would represent a healthier 6.5% average annual rate of growth over the 2003-2005 period.

$ Billions

The IT equipment leasing market is poised for recovery over the next two years. It should reach an all-time high of $28 billion in 2005.
EXECUTIVE SUMMARY (Cont.)

• Personal computers (PCs) and workstations represent the largest IT equipment leasing market segment, accounting for nearly $9 billion in volume in 2002.

• The mainframe and server leasing market in 2002 amounted to nearly $7 billion. Equipment acquisitions in this segment were particularly hard-hit by the pullback in corporate IT spending.

• Software leasing represented a relatively small proportion of the overall IT leasing market, accounting for about $4 billion in 2002.

• Each of the major IT equipment markets has distinctive leasing characteristics.

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Equipment Distribution</th>
<th>Lease Types and Lease Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal Computer and Workstation</td>
<td>• 50% indirect through VARs, dealers, etc.</td>
<td>• &gt;50% residual-based</td>
</tr>
<tr>
<td></td>
<td>• 50% through Internet, mail order and direct to corporate customers</td>
<td>• Finance leases (dollar buyout, 10% purchase option) also widely utilized</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• &lt;20% lease penetration</td>
</tr>
<tr>
<td>Mainframe and Server</td>
<td>• 50%/50% customer-direct/value-added reseller</td>
<td>• &gt;50% residual-based</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Refresh/upgrade leases growing</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• 20-30% lease penetration</td>
</tr>
</tbody>
</table>

**The software market may have the greatest upside potential for leasing growth.**
EXECUTIVE SUMMARY (Cont.)

<table>
<thead>
<tr>
<th>Market Segment</th>
<th>Equipment Distribution</th>
<th>Lease Types and Lease Penetration</th>
</tr>
</thead>
</table>
| Storage Device | • 50%-75% direct to end-users | • >50% residual-based  
• FMV leases prevalent  
• 20-30% lease penetration |
| Networking Equipment | • Over 50% indirect through VARs, etc.  
• At least 25% direct to Fortune corporations and other major businesses | • >50% residual-based  
• Technology refresh/upgrade leases, full-solution financing (including service), and per-seat leases  
• 20-30% lease penetration |
| Software | • Over 75% of database software is sold direct  
• Over 75% of application/system utility software is indirect through VARs, etc. | • Finance leases prevail (>75%)  
• Specialty leases also seen  
• <20% lease penetration |

Small-ticket IT equipment leasing growth will be stimulated by lessors’ e-commerce platforms.

- Almost 60% of the U.S. IT equipment leasing market involves middle-market ticket sizes ($250,000-$5 million).

Leasing Market Drivers

- Economic Climate. Corporate and institutional IT expenditures have been slashed dramatically over the past two years in light of the economic downturn. Investment in IT hardware and software declined for the first time during the 2001-2002 period. The impact on leasing has been double-edged: less investment in equipment has meant less leasing, while customer cash flow constraints have favored leasing as a tool for acquiring equipment.
**EXECUTIVE SUMMARY (Cont.)**

- *Technology Cycles.* IT lessees want greater flexibility in being able to upgrade to state-of-the-art equipment. This favors “technology refresh” leasing and other flexible structures. The refresh lease is also appealing to vendors because it keeps them in the loop for the sale and installation of new equipment, while the customer automatically obtains next-generation equipment as it becomes available.

- *Residual Values.* Technology cycles and competition have forced IT lessors to book high residual values to win deals. This has exposed them to losses at lease-end when booked residuals were not realized. In today’s climate, residuals booked by IT lessors are much more conservative. This has forced them to compete less on residuals-based pricing and more on value-added and enhanced service quality at the vendor and end-customer levels.

- *Lessee Sophistication.* IT lessees, particularly the larger corporate and institutional users, have become more aware of their lease contracts and the need to manage IT assets over their life cycle. Lessees also have been more savvy in capping lessors’ end-of-lease positions.

- *Industry Consolidation.* While the IT industry itself has been consolidating (e.g., Hewlett-Packard/Compaq), IT equipment vendors and lessees seem to have relatively fewer choices for lease financing providers in light of the consolidation and shakeout that have occurred in the U.S. leasing industry. Prominent IT lessors such as Comdisco have disappeared, and generalist lessors with significant IT leasing portfolios have been acquired by others. The merger trend in the banking industry also has reduced the number of bank-affiliated lessors active in IT equipment leasing.

- *Equipment Distribution.* Value-added sellers (VARs) are still playing an important role in the distribution of technology equipment and the sourcing of leasing products for end-customers. While they utilize manufacturer-sponsored leasing programs to some degree, they are also inclined to establish their own leasing company relationships.

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Lease penetration has grown in the IT field as vendors emphasize leasing as a sales-aid and lessees hedge technology risk and conserve their working capital through leasing structures.


EXECUTIVE SUMMARY (Cont.)

- **Vendor Attitudes.** IT equipment vendors appear confident that incremental sales can be generated through the provision of leasing to prospective customers. Leasing programs now seem ingrained as part of vendors’ overall IT equipment marketing strategies. Vendors also believe that they have more control over customers, including upgrading them through product lines, when they provide leasing.

- **Captive Finance.** IBM Global Financing, HP Financial Services and other captive finance companies have considerable influence over IT equipment leasing markets. Since their major mission is to move product, they can be extremely competitive in terms of lease pricing and structure and also have a strong influence on IT equipment aftermarkets.

- **Internet.** Acceptance of e-commerce is growing among IT equipment vendors. They are seeking application processing, transaction status, billing and sales/management reporting from their leasing partners via the web. The Internet is also being used as a tool by leasing intermediaries that seek funding sources on the web for their vendor partners.

**Leasing Competitors**

- Captive finance companies enjoy more than a 50% market share.

Full-solution leasing that includes equipment, software, consulting, installation, maintenance and other soft costs is an important requirement for success in the IT industry.

![Leasing Competitors Chart]

*Base: $17.2 billion, 2002*  
*Source: Equipment Leasing Association*
EXECUTIVE SUMMARY (Cont.)

- GE Commercial Finance has a leading market share among all third-party leasing companies active in the IT equipment leasing market. GE is recognized for developing state-of-the-art products and new web-based capabilities.

- CIT is visible in several market segments and enjoys a joint venture relationship with Dell Computer.

- CitiCapital, De Lage Landen Financial Services, Fleet Capital Leasing and others are also prominent IT lessors.

<table>
<thead>
<tr>
<th>Competitor</th>
<th>Strengths</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Captives</strong></td>
<td></td>
</tr>
<tr>
<td>Dell Financial Services</td>
<td>• Successful joint venture with CIT</td>
</tr>
<tr>
<td>HP Financial Services</td>
<td>• Market momentum through HP/Compaq merger</td>
</tr>
<tr>
<td>IBM Global Financing</td>
<td>• Long-established captive globally with strong VAR ties</td>
</tr>
<tr>
<td><strong>Independents</strong></td>
<td></td>
</tr>
<tr>
<td>GE Commercial Finance</td>
<td>• Major third-party force in many IT markets</td>
</tr>
<tr>
<td>American Express Business Finance</td>
<td>• Newer player with small-ticket IT focus</td>
</tr>
<tr>
<td>GATX Technology Services</td>
<td>• Value-added lessor at the end-user level</td>
</tr>
<tr>
<td>CIT</td>
<td>• Benefits from Dell relationship and Tech Finance growth</td>
</tr>
<tr>
<td><strong>Bank-Affiliates</strong></td>
<td></td>
</tr>
<tr>
<td>CitiCapital</td>
<td>• Major lessor that could become more significant in IT</td>
</tr>
<tr>
<td>De Lage Landen</td>
<td>• Emerging competitor in wholesale and retail IT vendor leasing</td>
</tr>
<tr>
<td>Fleet Capital Leasing</td>
<td>• Long-established competitor in many IT markets</td>
</tr>
<tr>
<td>Key Equipment Finance</td>
<td>• Consistent appetite for IT leasing</td>
</tr>
<tr>
<td>US Bancorp Equipment Finance</td>
<td>• Newer competitor via acquisitions (e.g., Oliver-Allen)</td>
</tr>
<tr>
<td>Wells Fargo Financial Leasing</td>
<td>• Newer competitor via acquisition (Conseco Finance)</td>
</tr>
</tbody>
</table>
Opportunity and Strategy Considerations

- **Product Line.** To be successful in today’s IT leasing market, a lessor needs a product line that includes residual-based (e.g., FMV) and fixed-price purchase options (e.g., dollar buyout, 10%), as well as specialized products that meet the unique needs of IT lessees and vendors. Specialized products include:

<table>
<thead>
<tr>
<th>Product</th>
<th>Characteristics</th>
</tr>
</thead>
<tbody>
<tr>
<td>Full-Solution</td>
<td>* Lease structures that include multi-vendor hardware and software, as well as installation, training and other services, are expected by the IT marketplace.</td>
</tr>
<tr>
<td>Technology Refresh</td>
<td>* Technology refresh/upgrade leases help customers hedge against technological obsolescence and are important to vendors because of customer control.</td>
</tr>
<tr>
<td>Pay-Per-Seat</td>
<td>* IT customers will increasingly lease networking systems based on a set price-per-seat. The pricing includes regular upgrading of equipment, software and services.</td>
</tr>
<tr>
<td>Pay-Per-Use</td>
<td>* HP Financial Services recently introduced metering on its servers. This is similar to pay-per-use leasing products found in the office copier market.</td>
</tr>
<tr>
<td>Tax-Exempt</td>
<td>* Municipal and federal leasing, for example, can be an important adjunct to a lessor’s product line. These products are known to open doors to new vendor and end-customer relationships.</td>
</tr>
<tr>
<td>Rentals</td>
<td>* IT equipment users have a number of specialized project needs or peak loads where rentals are applicable.</td>
</tr>
<tr>
<td>Channel Financing</td>
<td>* As distribution channels for IT hardware evolve, more resellers are seeking accounts receivable financing, inventory financing and purchase-order financing.</td>
</tr>
</tbody>
</table>

- **Value-Added Services.** Lessees will require their lessors to play a larger consultative role in IT equipment life-cycle management. This will take lessors well beyond their traditional lease financing function. “Value-added” will increasingly come in the form of ongoing assistance with IT planning, equipment procurement, maintenance, and equipment disposition. In the vendor leasing field, value-added services will include training, marketing materials and localized sales support.

Lessor appetite for financing soft costs is a critical requirement for success in the IT market.
EXECUTIVE SUMMARY (Cont.)

• *Training/Education.* Further lease penetration in the IT field will not occur unless the awareness and understanding of lease financing are advanced. Lessors can achieve this through more-intensive training of their channel partners, such as value-added resellers (VARs) and distributors. In addition, vendor-oriented IT lessors will need to better train the equipment sales forces of their manufacturer partners to help them more effectively utilize lease financing as a sales-aid.

• *Market Niches.* IT lessors with a market niche orientation are perceived to offer more competitive lease structures based on their specialized knowledge of market cycles, distribution channels, customer credits and equipment aftermarkets. Examples of vertical markets where IT leasing growth is projected to be above-average are healthcare, banking/finance, education and government. Each market has unique IT equipment leasing practices and needs.

• *Service Quality.* IT lessors’ service quality, particularly fast turnaround, is a prerequisite for success in most IT market segments. Superior service quality includes responsiveness to inquiries, ease of doing business, simplified documentation, and fast turnaround on credit approval and funding (in the case of vendors).

• *Vendor Origination.* Vendor relationships will become even more crucial to IT lease origination. IT equipment vendors will seek even higher service levels from their leasing partners as they try to counteract the sluggish demand. Vendors in the channel (e.g., VARs) will want more credit capacity and faster payment from their leasing partners. Greater marketing support from IT lessors also will be sought as vendors strive to better integrate leasing with their equipment sales activities.

• *Asset Management.* IT lessors need to anticipate the continuing decline of residual values of IT equipment as the price/performance characteristics of newer generations of hardware improve. “Stick rates” will be affected as a higher proportion of off-lease equipment is returned to lessors. Hence, both wholesale and retail outlets will need to be created to successfully remarket off-lease equipment. Lessors also will need to take stronger contractual positions on renewals to avoid potential residual losses.

Lessors with consistent appetite and visibility in the IT marketplace will be successful.
**EXECUTIVE SUMMARY (Cont.)**

- **Internet Capabilities.** The web will continue to provide opportunities for lessors to reduce their costs of lease origination, processing and administration. In this regard, IT lessors will need to make additional investments in Internet capabilities. From the lessee and vendor standpoint, a seamless web-based solution is sought that includes application processing, transaction status, documentation, billing and sales/management reporting. In the case of smaller-ticket IT leases, real-time credit scoring is also desired.
INFORMATION TECHNOLOGY EQUIPMENT
LEASING MARKETS
Overview

- IT equipment vendors and leasing companies report a slow recovery this year in IT spending and lease financing activity. Market conditions are “still difficult” and a “lot of leasing capacity is out there.” The modest rebound in 2003 comes on the heels of depressed levels of IT equipment investment in the 2001/2002 timeframe.

  - U.S. Department of Commerce data shows the depth of the IT equipment spending decline in 2001 and 2002.

  ![Graph showing IT equipment investment from 1998 to 2003.](image)

  *Source: U.S. Department of Commerce/Bureau of Economic Analysis
  *Base: Private (i.e., non-government/non-personal) investment in IT equipment

  - IT-related capital expenditures in 2003 are expected to represent a 4% increase over 2002.

- The consensus among market participants is that a more meaningful recovery in IT equipment spending will occur in 2004 and 2005. This uptick will reflect the pent-up desire among U.S. businesses to upgrade and expand their IT systems with state-of-the-art equipment.
• IT spending priorities this year will include storage, server and PC equipment. Mainframes will be a low priority.

Market Size and Growth

• The IT equipment leasing market in the U.S. amounted to an estimated $23.8 billion in 2002. This represented new-business volume and included both the hardware and soft-cost (e.g., installation, training) components of lease financing transactions.

  The Equipment Leasing Association, in its most recent Survey of Industry Activity, indicated that its reporting members had $17.8 billion in IT leasing volume in 2002. In addition, the Monitor reported that leasing companies contributing data to its most recent Monitor 100 issue had $17.4 billion in IT lease originations for 2002.

Source: Morgan Stanley CIO Survey
Base: 300 CIO interviews
Market growth over the 1998 to 2002 period was at an average annual rate of 1.5%. The modest growth of the leasing market, compared to the 2.2% decline in private investment in IT equipment, reflects gains in the lease penetration rate. IT equipment vendors have been emphasizing leasing as a sales-aid to help stimulate shipments in the weak economy, and IT lessees have been trying to conserve their working capital through lease structures.

Lease penetration rates differ by equipment category. For example, smaller-ticket PCs and software have experienced lower penetration, while workstations and servers are leased more often because of the magnitude of technological risk as well as cash flow considerations.

<table>
<thead>
<tr>
<th>Equipment</th>
<th>Ticket Sizes</th>
<th>Lease Penetration</th>
</tr>
</thead>
<tbody>
<tr>
<td>PC/Workstation</td>
<td>&lt;$10,000-$250,000</td>
<td>&lt;20%</td>
</tr>
<tr>
<td></td>
<td>(high-end workstations)</td>
<td></td>
</tr>
<tr>
<td>Mainframe/Server</td>
<td>$15,000-$1.5 million</td>
<td>20%-30%</td>
</tr>
<tr>
<td>Storage Device</td>
<td>$25,000-$5 million</td>
<td>20%-30%</td>
</tr>
<tr>
<td>Networking Equipment</td>
<td>$10,000-$500,000</td>
<td>20%-30%</td>
</tr>
<tr>
<td>Software</td>
<td>$10,000-$2.5 million</td>
<td>&lt;20%</td>
</tr>
</tbody>
</table>

The IT equipment leasing market is projected to resume its growth and reach $28 billion in lease volume by 2005.
According to the Equipment Leasing Association in its most recent Survey of Industry Activity, PCs and workstations are the equipment categories comprising the largest IT equipment leasing market, followed by mainframes and servers.

**Personal computers, workstations, mainframes and servers are at the core of the IT leasing market.**

**Personal Computers and Workstations**

- The principal PC categories are desktops and portables. The latter continue to make inroads on desktops in light of their wireless connectivity and improved functionality.

- PC shipments are expected to significantly recover next year (2004) in the U.S. according to industry analysts.

**Millions of Units**

2000: 32.7
2001: 30.5
2002: 30.7
2003E: 31.4
2004E: 34.2

*Source: IDC*
INFORMATION TECHNOLOGY EQUIPMENT LEASING MARKETS (Cont.)

- The corporate, institutional and government customer segments continue to represent more than 50% of PC industry shipments.

- The corporate market for PCs has remained weak in step with the sluggish economy.
  - Because of IT budget pressures, corporations have been extending the life of their installed base of PCs rather than replacing them with newer equipment.
  - PC technological advances have not been compelling enough for users to upgrade their equipment.
  - Corporations have developed a strong interest in managing and tracking their installed base of PCs. This has led to their seeking equipment leasing partners with specialized “life-cycle management” capabilities.

- The proportion of PC sales through value-added reseller (VAR) and distributor channels has declined as direct sales have grown.

- Lease financing penetration in the PC market is still low relative to other IT markets, but greater inroads are being achieved as the benefits of lease financing become more widely understood.

- Lease structures now allow lessees to “refresh” outmoded PCs during the term of existing leases.

- PC lease terms typically range from 18 to 36 months.

- Customers will source lease financing for their PCs through manufacturers’ captive finance companies or from third-party leasing providers.
• Residual-based leases, especially those with fair-market value (FMV) purchase options, remain important in the PC field.

• Dell Computer enjoys the leading PC market share, exceeding 30% by some estimates.

---

**Market Share for PC Leasing**

- **Dell Computer** 31%
- **Hewlett-Packard** 19%
- **IBM** 10%
- **Toshiba** 3%
- **Gateway** 4%
- **Others** 38%

*Source: Gartner, Inc.  *
*Base: Q03 U.S. PC shipments (11.8 million units)*

Hewlett-Packard’s #2 market share is estimated at nearly 20% domestically. IBM is a distant third, with a share in the 5% range.

• Captive finance companies of the leading PC manufacturers are the major competitive force in PC leasing.

---

**Finance Companies Market Share**

- **Captives** 54%
- **Independents** 32%
- **Banks** 14%

*Base: $6.5 billion new-business volume, 2002*

*Source: Equipment Leasing Association*

---

**Dell Financial Services and HP Financial Services have a strong captive presence in the PC leasing market.**
INFORMATION TECHNOLOGY EQUIPMENT LEASING MARKETS (Cont.)

- Dell Financial Services is a joint venture between Dell Computer and CIT.
- HP Financial Services is the wholly owned captive for the merged Hewlett-Packard/Compaq Computer.
- IBM Global Financing is a longstanding captive in IT leasing.

• Other PC manufacturers such as Gateway and Apple tend to sponsor private-label lease financing programs through third-party providers.

• Prominent third-party PC leasing competitors at the national level include:
  - American Express Business Finance
  - CIT
  - CitiCapital
  - De Lage Landen Financial Services
  - Fleet Capital Leasing
  - GE Commercial Finance
  - US Bancorp Business Equipment Finance
  - Wells Fargo Financial Leasing

• Emerging national competitors include GreatAmerica Leasing, IFC Credit and Marlin Leasing.

Workstations

• Workstations are high-performance desktop computers, often utilized for specialized technical applications such as computer-assisted design (CAD) and engineering (CAE).

A number of small-ticket leasing companies compete in the PC market at the local and regional levels.
• Ticket sizes range from $25,000 to >$250,000 for high-end workstation systems.

**PC and Workstation Leasing Ticket Sizes**

<table>
<thead>
<tr>
<th>Ticket Size</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large-Ticket (&gt; $5 million)</td>
<td>14%</td>
</tr>
<tr>
<td>Middle-Market ($250,000-$5 million)</td>
<td>36%</td>
</tr>
<tr>
<td>Small-Ticket (&lt; $250,000)</td>
<td>50%</td>
</tr>
</tbody>
</table>

*Base: $6.5 billion new-business volume, 2002*
*Source: Equipment Leasing Association*

• The competitive structure of the U.S. workstation market includes Sun Microsystems and Hewlett-Packard. Sun has been the leading Unix workstation provider in the U.S., but its share has been eroded by manufacturers of Windows NT-based workstations.

• The workstation market has been one of the hardest hit segments in the recent IT spending slowdown.

• There are also signs of saturation in the U.S. workstation segment and limited technological innovation compared to other IT markets.

• Vendors report that lease financing penetration for workstations can range from 20% to 30% of eligible equipment sales.

Willingness to finance soft costs (installation, software, maintenance, etc.) is a requirement for success in the PC and workstation leasing market.
INFORMATION TECHNOLOGY EQUIPMENT LEASING MARKETS (Cont.)

- Technology-upgrade leases for workstations have grown in popularity. This trend has helped lessors create remarketing opportunities among customers that do not require state-of-the-art workstations for their applications.

Mainframes and Servers

- Mainframes range from small-scale to large-scale systems and have the ability to process large volumes of data much more efficiently than PCs or workstations.

- Mainframes (and “minicomputers”) are now frequently referred to as “mid-range” systems.

- Despite forecasts that mainframes would lose market share to networked PCs and workstations, demand continues among customers that require processing and storage capacity for larger user bases.

- Typical applications being handled by mainframes include enterprise resource planning (ERP).

- Most mainframe and server leasing ticket sizes fall in the middle-market.

Technology refresh has become an important aspect of lease structures.

Base: $5.1 billion new-business volume, 2002
Source: Equipment Leasing Association
As in other IT equipment markets, a strong trend to “refresh” or “upgrade” leases is occurring in the mainframe and server market. These specialty leases allow customers to migrate to the latest technology within the terms of their original leases.

Both residual-based and finance leases are utilized, with 2 to 3 year FMV leases prominent. By some estimates, the split in today’s market is 65%/35% residual-based/finance leases.

Software content in mainframe and server leasing transactions continues to grow.

Major lease financing providers in this market are IBM Global Financing, HP Financial Services and GE Commercial Finance which has a joint-venture relationship with Sun Microsystems.

Servers

Servers are computer systems in a network that are shared by multiple users and are utilized for a wide range of functions such as web servers, application servers, file servers, and network-access servers.

Users have been cutting back and deferring acquisition of high-end server computers (>250,000) and focusing more on lower-priced systems.

According to industry analysts, Hewlett-Packard retained its position as the top server manufacturer in the U.S. and shipped almost 507,000 servers in 2002, up from the 484,000 units in 2001. However, HP market share slipped to 26% from 28%.

Dell Computer was #2 in the US with 488,000 units shipped and a 25 percent share. During 2001, Dell sold 399,000 servers for a 23 percent market share.
IBM, Sun and Gateway are the other prominent server manufacturers. IBM now has the leading market share for servers with ticket sizes exceeding $250,000. A rise in 2002 server unit shipments and a corresponding drop in revenue are attributed to price competition and the economic climate leading customers to acquire low-end servers.

- Revenue from servers with Intel processors is expected to exceed revenue from servers with RISC (reduced instruction set computing) processors for the first time in 2003.

More users are looking for cheaper, more secure storage solutions.

Storage Devices

- Expenditures on Network Attached Storage (NAS) systems could rebound this year.
  - NAS systems connect directly to a company’s LANs so that all clients can access data on a file level.
  - NAS systems feature “plug and play” functionality and reduced costs from unnecessary operating system overhead.
Sales of Storage Area Networks (SAN) also may be stronger this year.

SANs consist of storage devices attached on a separate network. SANs are usually clustered in close proximity to other computer resources such as mainframe, and can also be located remotely for backup and archival storage.

By some estimates, the U.S. storage device market overall could turn around this year.

Ticket sizes for SAN and NAS systems vary depending on storage capacity. Maximum capacity systems (e.g., scalable up to 6-8 terabytes) can have ticket sizes ranging from $200,000-$300,000 or more.

Hewlett-Packard is now a leader in the storage industry as the result of its acquisition of Compaq Computer. EMC continues to be a force at the high-end of the market.

Hewlett-Packard is a leading maker of SANs and a significant provider of NAS systems. HP Financial Services is the captive finance source.

EMC is a leader in the SAN market. EMC makes RAID devices that banks, manufacturers, retailers and government agencies use to store data. However, “few have fallen as hard as EMC in the collapse of the technology sector.”

Declining prices and slackening demand have characterized the U.S. storage market.

Source: U.S. Department of Commerce and R.S. Carmichael & Co. estimates
INFORMATION TECHNOLOGY EQUIPMENT LEASING MARKETS (Cont.)

• Hitachi Data System competes with EMC in the production of RAID storage systems. The company is also a player in the NAS field. Hitachi Credit America is the captive.

• While IBM is the world’s leading supplier of IT equipment, it has lost some ground in the storage market. However, IBM still maintains substantial market share in both NAS and SAN systems.

• Lease transaction sizes can range from $25,000 to >$5 million. The average ticket size for the industry leader EMC may be in the $250,000 range.

• Some storage device manufacturers claim to capture 20-30% of storage device sales with their leasing programs. Others report more modest 15-20% lease penetration.

• FMV leases are prevalent, and the majority are 36 months.

• The leading storage device manufacturers either have captive finance companies (e.g., IBM Global Financing, HP Financial Services, Hitachi Credit America) or formal third-party programs.

Networking Equipment

• Networking equipment includes switches, routers and hubs.
  - Networks are essentially the connection of computers, including PCs, workstations and servers, for sharing files and services such as databases.

• The major networking equipment vendors such as Cisco Systems, Lucent Technologies and Nortel Networks have experienced greatly reduced sales over the past few years.
  - Smaller networking equipment providers such as Juniper Networks also have felt the IT spending downturn.

Captives are also a competitive force in the storage device leasing market.
The average annual rate of networking equipment market growth dramatically slowed in light of problems with struggling service providers and the economic decline.

Soft costs in the networking industry may represent 50% of manufacturer sales.

Value-added resellers are an important distribution channel for networking equipment.

The lease penetration rate can range from 20% to 30% for networking vendors. Some estimate that leases capture up to 40% of their sales.

More than 50% of lease financing in the networking equipment market is residual-based (FMV, operating).

Specialized lease financing structures in this market include technology refresh/upgrade leases and per-seat leases.

2 to 5 year lease terms have been the range, with 3 years the most prevalent. Shorter-term leases are used to hedge technology obsolescence.

Cisco Systems Capital is a prominent captive financing source that had been leasing other manufacturers’ equipment. However, problems at Cisco may have curtailed this practice.

IBM Global Financing is also a captive provider. It has strong partnerships in place with many VARs.

GE Commercial Finance is a third-party that has had a strong focus on networking equipment leasing. Fleet Capital Leasing and CIT also have been active lessors of networking systems.

VARs are important channel partners for IT equipment leasing companies.
Software

- Maintenance and extension of existing software have been the priority for users during the economic downturn.

- When U.S. software market growth rebounds, it could be in the 5-10% range in light of declining prices.

- Sales of CRM software packages fell in 2001, and growth in 2002 was flat. Growth in 2003 is projected to be below 10%.
  
  - Customer Relationship Management (CRM) software enhances marketing and account management and improves customer relationships.

- Sales of ERP software peaked at the end of the 1990’s around $16 billion and have fallen off since.
  
  - Enterprise Resource Planning (ERP) software manages product planning, purchasing, inventory, maintenance, interaction with suppliers, and order tracking.

- ERP/CRM blending has been the trend in recent years, as many ERP providers migrate into the CRM market.

- Oracle is a leading provider of ERP software. The company has extended its core data base products into additional business applications. Oracle is also competing with Siebel Systems in the CRM software market.
  
  - Oracle Credit is the captive finance company.

Lease penetration continues to be modest in the software market, but its acceptance is growing.
PeopleSoft is a leading provider of ERP software that ties together customers' back-office applications and databases. Its software addresses such tasks as accounting, customer relationship management, human resources, and supply chain management.

PeopleSoft announced that it would buy rival J.D. Edwards & Co., creating the second largest business software company. Oracle, in the meantime, has made a hostile takeover bid for PeopleSoft.

J.D. Edwards is a leading vendor of ERP and SCM software. The company’s software is used for functions such as human resources, accounting, logistics, and manufacturing.

SAP is a leading provider of ERP software. SAP has continued to expand its product lines into both the CRM and SCM software fields.

The vast majority of software leases are middle-market transactions.

Leasing in the software industry is growing for CRM and ERP solutions.

Base: $2.0 billion in new-business volume, 2002
Source: Equipment Leasing Association

Awareness of leasing as an option is still relatively low among software vendors and their customers since licensing issues had hampered the acceptance of lease financing.
INFORMATION TECHNOLOGY EQUIPMENT LEASING MARKETS (Cont.)

- Lease financing penetration is below 20% of eligible software industry sales, but is growing.
- Finance leases prevail (at least 75% of all leasing), and they often have a $1 purchase option.
- Lease terms can range from 2 to 5 years; most seem to be 3 years.
- Installation, training, consulting and maintenance are often bundled in the lease financing transaction.
- IBM Global Financing and Oracle Credit are captive finance companies providing a large proportion of software leases.
  - IBM Global Financing has made a big push in software financing through relationships with VARs and other channel partners. These partnerships enable end-customers to include not only hardware costs in their lease, but also soft costs including software license fees, training/education, ongoing maintenance and support fees.
  - Oracle Credit is a leading captive software financing source. The average transaction is reportedly between $500,000 and $1 million.
- CIT and GE Commercial Finance are sizable third-party lease financing providers in the software market.

Residual values associated with software are limited, so that lessors have to look to spreads for profitability.
Customer Overview

- Technological obsolescence and cash flow management are major reasons why IT customers choose to lease their equipment.

![Chart showing various leasing concerns]

<table>
<thead>
<tr>
<th>Concern</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Technological Obsolescence</td>
<td>41%</td>
</tr>
<tr>
<td>Low Monthly Payment</td>
<td>9%</td>
</tr>
<tr>
<td>Equipment Disposition</td>
<td>13%</td>
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<tr>
<td>Asset Management</td>
<td>14%</td>
</tr>
<tr>
<td>Cash Flow Management</td>
<td>23%</td>
</tr>
</tbody>
</table>

*Source: HP Financial Services
Base: Survey of 700 IT Decision Makers, 2002*

- In selecting leasing companies, IT equipment customers value the following attributes:
  
  - **Pricing/Structure**: Pricing within a competitive bandwidth (e.g., 50 basis points) is widely sought. A lessor’s flexibility in structuring transactions to meet the unique needs of the customer is also valued.
  
  - **Turnaround**: Fast turnaround on credit approval is important to customers and is considered an indicator of a lessor’s comfort in doing particular transactions. Depending on the market segment, turnaround expectations can range from minutes to several business days.
  
  - **Experienced People**: Lessor experience is important to customers because they rely heavily on personal relationships and trust factors in interfacing with their financing sources.
CUSTOMER AND VENDOR LEASING PRACTICES AND NEEDS (Cont.)

- **Product Line**: A line that extends beyond traditional lease product offerings is important to some customers that have specialized needs such as tax-exempt financing.

- **Industry Expertise**: Expertise has become a key factor in many market segments where customers seek lessors that are intimately familiar with equipment, industry cycles and aftermarkets. Expertise is perceived to be necessary for competitive pricing, structuring and turnaround.

- **Other Attributes**: In most market segments, customers seem to prefer dealing with a recognized financial institution. Market visibility is also an element of a lessor’s reputation.

• Customers cite specific reasons for leasing their IT equipment.

  “For our needs, leasing is a good way to go. When I started here, we were using equipment that was 5-8 years old. We can’t afford to fall behind with outdated equipment. Since we are given a specific budget for IT equipment procurement, the natural step was to lease, so that we could update every three years.”

  “I believe it’s more prudent to lease, because as mainframes keep getting better, they keep getting cheaper. So we’re better off on a lease.”

  “If I buy, I’m in the used computer business, and I certainly don’t want old mainframes.”

  “The life cycle is a factor. If we’re procuring assets and don’t think their value will endure in our timeframe, we’ll lease. With hardware, three years is our standard. Anything needing to be replaced in less than three years would be leased.”

The value of lease financing is widely understood in the IT field.
“If it costs less to lease on a monthly basis vs. buying, we would take that into consideration. But we also have to factor in the life cycle and whether the equipment is actually good for longer than the lease term.”

“At this point, we lease everything. We are a start-up and need positive cash flow.”

“Maybe sometime in the future we would look at buying, but not for some time. Our first priority is cash flow.”

“I think it’s a good idea to lease the PCs and printers. We want to enforce a standard, so that all the PCs are alike, with updated software and increased memory.”

“I believe it’s more prudent to lease than to buy. A big consideration is to keep those assets off the books.”

- Some IT customers prefer to purchase their equipment.

“We are starting to re-think leasing the servers and will probably start buying them. The servers can last beyond three years, and it’s a hassle and too costly to extend a lease. It’s also a challenge to keep track of what has gone into each server and to make sure to take it out or replace added parts with those of original value.”

“We buy everything. We are small, so we just use everything as long as we can, rotating the older PCs to employees with fewer requirements.”

“We mostly purchase desktop workstations. People here used to buy new equipment every 2 or 3 years, but now they may be able to stretch to 4 years. In that case, leasing isn’t feasible.”

Customers are keeping IT equipment longer in the current economic climate.
This impacts the lease vs. purchase decision.
“I think we’re finding that hardware will last longer in most cases, so we’ll keep buying them.”

“Historically, we have purchased nearly all of our IT equipment, with very little leasing. It all boils down to a cost analysis.”

“Interest rates have a big effect on our decision, too. As the interest rates go down, we will buy more rather than lease.”

- The lease vs. buy decision-makers can vary from company to company.

“The actual decisions are made by the CFO, who considers rates, operating vs. capital leases, whether he wants the assets on the books, etc.”

“Each division has its own policies and budgets regarding how they obtain their IT equipment. They all go through a cost analysis, and most of them do lease. Since they are all separate, there’s no company standard to follow.”

**Lease Product Usage**

- Traditional IT lease financing products consist of fixed-price purchase option leases ($ buyout, 10% buyout) and residual-based (FMV, operating) leases. In the IT leasing market, these products can be customized to customer needs and are constantly being modified to reflect changing market conditions.

- The popularity of specific lease financing products also depends on the type of equipment being leased. For example, notebook PCs might favor an FMV option.

- While traditional lease financing products continue to be important in the IT market, a number of specialized product offerings have become more evident. They include full-solution, technology refresh, pay-per-seat, pay-per-use, rental and asset management products for IT customers.

**Specialized leasing products have become more important to the IT marketplace.**
CUSTOMER AND VENDOR LEASING PRACTICES AND NEEDS (Cont.)

- **Full-Solution Financing:** This offers a bundled solution for customers in the form of a lease structure that includes multi-vendor hardware and software, as well as installation, training and other services. From the customers’ standpoint, full-solution leasing provides the convenience of a single lease payment and also facilitates the tracking of assets that are lease financed.

- **Technology Refresh Leasing:** Technology refresh/upgrade leases help customers hedge against technological obsolescence. Offering these leases also enhances a lessor’s value as a full-solution provider.

- **Pay-Per-Use:** HP Financial Services introduced this product for its Unix-based servers to complement its pay-per-use offerings for its storage devices. Lease pricing is based on a percentage of CPU utilization, and the customer must agree to pay a minimum amount (e.g., based on 25% CPU utilization). This pay-per-use structure is similar to those found in the healthcare and office copier markets.

- **Rentals:** IBM Global Financing and others offer IT equipment rentals that enable customers to add or retain hardware on a short-term basis (e.g., <12 months). These rentals seem to be especially appealing to customers having peak-load needs or wishing to test new hardware before making longer-term leasing or purchase commitments. Short-term software development is another circumstance where rental financing may be utilized.

- **Asset Management:** This enables customers to track their IT equipment under lease from acquisition to termination. It also can be part of a larger, single-source offering where the IT lease provider oversees maintenance and sale of off-lease equipment. Asset management products are designed to permit customers to track IT equipment on a real-time basis over their life cycles.

- **Tax-Exempt Leasing:** Many tax-exempt customers seek lease structures tailored to their needs. Municipal and federal leasing, for example, can be an important adjunct to a lessor’s product line. These products are known to open doors to new customer relationships.

Life-cycle asset management has become a value-added component of lessor product offerings.
• In addition to IT customer-oriented leasing products, a number of specialized offerings for “channel” players (e.g., distributors, value-added resellers) have emerged. They include inventory floorplanning, accounts receivable financing and purchase order financing.

Vendor Overview

• IT equipment “vendors” include manufacturers, distributors and dealers, including “value-added resellers” or “VARs.”

  VARs continue to have influence on IT equipment distribution and customer lease financing. Larger VARs source their own third-party leasing programs in addition to using manufacturer-sponsored programs.

• Vendor leasing in the IT market consists of two basic types of programs: retail and wholesale.

  A “retail” program is a traditional program in which a third-party lessor provides sales financing for the equipment vendor. The third-party is involved in lease origination, approves credits, and performs billing and collecting. Third-parties may also provide vendors with point-of-sale support, marketing materials, and training for equipment sales representatives and dealers.

  “Wholesale” programs are those in which the vendor handles lease origination and utilizes a third-party for funding of the leases. The range of services provided by the third-party beyond funding (e.g., billing and collecting) depends on the needs of the vendor.

IT equipment vendors are a critical source of lease originations.
Vendor leasing is well-established in the IT field since provision of customer financing has become ingrained at the manufacturer and channel levels. Lease financing is a proven sales builder and an integral part of manufacturer and reseller marketing programs. End-customers value a one-stop approach and often require that manufacturers and resellers provide financing programs. Vendors also feel a need to respond to competitors, especially those with captive finance companies that offer lease financing in conjunction with equipment sales.

A number of IT manufacturers have established captive finance companies to facilitate customer financing, although these captives vary in terms of size and scope of operations. The larger captives (e.g., IBM Global Financing) use financing representatives/specialists to assist the equipment sales force in closing sales, thus diminishing the need for full-service retail programs from leasing companies. But some third-party lease financing programs are still utilized to support captives.

Vendors are balancing service quality and value-added services with rates in selecting third-parties. Industry knowledge, high acceptance rates, quick turnaround time, flexibility in structuring, and marketing support are among the non-price variables.

IT Manufacturers

IT equipment manufacturers report various leasing practices as a sales-aid.

A major vendor of enterprise software for industry-specific applications reports that the average leased sale is about $1 million. All services pertaining to leasing this software are outsourced to several third-party providers. Lessors are chosen for particular transactions based on their industry expertise, quick turnaround, flexibility and reasonable documentation.
A major provider of storage solutions that include specialized hardware, software and services has annual revenues approaching $1 billion per annum and a variety of lease financing options. Through an internal finance division it offers a fair market value lease, a deferred payment lease and a technology refresh lease (which allows exchange or add-on credits to upgrade or expand capacity with no change in the existing lease structure). Lease terms vary, but they are usually three years. This vendor is bullish on the future for leasing since customers increasingly seek cheaper storage solutions.

A major manufacturer of servers and storage equipment states that leasing transactions can range from $25,000 to several million dollars. The average lease is perhaps $250,000 to $500,000. Leasing programs include residual-based leases (FMV and operating), fixed-price purchase option (dollar-out) leases, technology refresh options and customized payment structures. The latter can involve step or skip payments, or even a line of credit. In the U.S., lease penetration is now averaging 15% to 20% of sales. This vendor reports that its sales force is emphasizing the lease option since customers in today’s economy do not have the budget or cash flow to purchase systems outright.

A leading IT hardware manufacturer indicates that 90% of its sales are direct to the end-user and 20% of the sales involve lease financing. It prefers cash sales but will offer leasing if requested by the customer. It has formal vendor-leasing program agreements with several third-party providers. They are utilized only to fund the stream of payments, and the third-parties are not given the option of taking a residual position. During the course of the lease, the customer is allowed to return the system for upgrades. The fee for the upgrade can be built into the existing lease contract or the lease term may be extended (e.g., one year) to accommodate the upgrade.

IT equipment sales reps are emphasizing the lease option in today’s challenging market.
IT Distributors

- IT equipment distribution is consolidating in the hands of a few large distributors.

- Following the acceleration of technology procurement during the 1990’s, distributors as a whole experienced a greater-than-anticipated slowdown in revenue due to lack of customer demand.
  - MicroAge filed for voluntary Chapter 11 Reorganization. (MicroAge ultimately emerged from Chapter 11.)
  - Merisel grew to become a leader in the distribution of computer products, with revenues reaching nearly $6 billion. As the 1990s grew to a close, management recognized that margins in the hardware distribution business were shrinking rapidly and decided to concentrate on the software license marketplace.

- Ingram Micro is the largest global distributor of technology products. Ingram Micro is partnering with third-parties to package and bring leasing to its network of resellers to help their business development.

- Tech Data, another leading distributor of IT products, has enhanced its financing offerings through agreements with third-party providers. These agreements enable Tech Data resellers to provide additional leasing and credit options to their end-user customers.

Distributors are still influential in sourcing various IT leasing and financing products.
Value Added Resellers (VARs)

- VARs are typically segmented into four major categories: Total Solution VARs, Software VARs, Networking VARs, and IT Consultants.

- While systems, software, network hardware and storage are important revenue sources for VARs, a growing percentage is coming from consulting and services.

- The average lease transaction size is closely linked to VAR size.

VARs have a strong reliance on lease financing to generate IT systems sales.
VAR customers are seeking a total solution, not just computers. For customers without an IT department, VARs are utilized to integrate systems since it is more cost effective.

Value-added resellers indicate a wide range of lease financing activities:

- A software VAR in the Northeast U.S. with annual sales of $60 million writes software for customer interfaces. It has an alliance with Hewlett-Packard and will recommend its systems because the VAR writes software for the H-P platform. At present, this VAR does not lease any of its products. However, it does perceive an opportunity for leasing but is not sure how it would work.

- A VAR that specializes in developing networking solutions for the banking industry, with annual sales just under $100 million, reports that its clients routinely use lease financing and look for a bundled program/overall package that covers hardware and software. Most leasing occurs with middle-market accounts (i.e., $100 million to $1 billion in annual sales). The leasing option allows them to spread the upfront costs over several years and helps their cash flow. This particular VAR is considering the formation of its own captive finance company.

- A California-based VAR with annual revenues exceeding $100 million indicates that the average lease financing transaction size is $1-$2 million. Approximately 20% of sales are leased, usually with a 10% purchase option. The advent of technology-refresh lease arrangements has been beneficial for this VAR since customers can be retained as new product releases become available. It has relationships with three leasing companies – two are considered primary providers while the third spot is rotated among several providers to try out new leasing companies.

VARs establish their own leasing programs and also look to their platform providers for support.
Another VAR indicates that its $70 million in annual revenues breaks down as follows: 15% hardware, 35% software and 50% services. It provides systems as small as 50 seats with transaction sizes in the $125,000 to $175,000 range. The largest system is 1,000 seats. An estimated 30% to 40% of sales are leased, mostly finance leases. This VAR does not have formalized, contractual relationships with leasing providers, but prefers to maintain informal referral relationships for customers who request leasing.

An IT solutions VAR with nearly $30 million in annual revenues reports that the past 12 to 18 months have been extremely slow in terms of sales and leasing activity. For equipment leasing, it refers customers to a third-party leasing company. Most leases have a dollar-buyout option, with terms averaging two years. This VAR projects that sales and leasing activity should pick up with the improving economy. The third-quarter (of 2003) will be telling since this is when “IT departments usually buy.”

A VAR specializing in systems development and integration for law firms and corporate legal departments reports that 50% of its sales are leased. It has relationships with 3 to 4 lease financing providers and refers particular lessors depending on how fast they can approve transactions and fund the lease. This VAR indicates that customers frequently have lined up their own lease financing sources.

A VAR in the Midwest has customers that are mainly comprised of Fortune 1000 companies. They tend to have their own sources of funds and purchase systems outright. As a result, the VAR’s sales force does not promote leasing and customers rarely request it.

Another VAR in the Southeast, concentrating on the automotive market, reports that 40% of its sales are leased through residual-based (FMV option) and dollar-buyout transactions. The lease penetration has not grown recently because of sales force turnover and the need to constantly educate new sales.

VARs have become a more important channel for mid-range systems and less important for PC sales.
rep on the advantages of leasing and how to sell it. As a result, this VAR would like to see its leasing partners make more of an effort to train its sales force on how to position leasing.

- A VAR that specializes in developing point-of-sales systems for retailers indicates that its customers prefer leasing because of concerns with technological obsolescence. Even though leasing is perceived as expensive, customers are willing to pay extra for the obsolescence protection. In situations where customers are not considered creditworthy, this VAR will utilize a broker to shop the deal around and find leasing companies with an appetite for high-risk transactions. Otherwise, the VAR will refer the leasing opportunity to one or both of the leasing companies that it has a formal relationship with.

- A VAR that sells IT systems to resorts and hotels indicates that its revenues are 50/50 hardware/software and services. It has two customer leasing programs in-place: one with a captive finance company and another with a third-party source. The captive will provide better pricing and structuring when its hardware is a large part of the transaction. It seems to be willing to take more risk on the hardware because it can remarket this equipment through its parent’s channels. By contrast, the third-party can be competitive when the transaction involves a large percentage of soft costs.

VARs often specialize vertically, and this influences their leasing product needs.
LEASING COMPETITIVE ENVIRONMENT
LEASING COMPETITIVE ENVIRONMENT

- Captive finance companies, independent lessors and banks and their leasing affiliates all compete for IT equipment leasing business in the U.S.

Captive Finance Companies

- Captive finance companies now account for more than 50% of IT equipment leasing.

**Consolidation has occurred among third-parties competing for IT equipment leasing business.**

- **Independent** 21%
- **Banks** 26%
- **Captive Finance Companies** 53%

*Base: $17.2 billion new-business volume, 2002
Source: Equipment Leasing Association

- **IBM Global Financing** exists primarily to finance IT systems and services sold by IBM Corporation. The portfolio also includes other brands of IT equipment that are part of an IBM-sponsored package. Lease financing covers all IBM lines including mainframes, mid-range systems, storage, peripherals, software and services.

  - One of the unique aspects of IBM Global Financing is its involvement with the parent’s product development cycle so that residual values and other leasing-related considerations are weighed.

  - New customer financing originations for acquisition of IT products and services decreased 12 percent in 2002 to $5.9 million, compared with $6.7 billion in 2001.
LEASING COMPETITIVE ENVIRONMENT

- **HP Financial Services** is a wholly owned subsidiary of the Hewlett-Packard Company. HP Financial Services is headquartered in Murray Hill, NJ with over $9 billion in assets and more than 1,500 employees in 51 countries.

  - HP Financial Services supports all customer needs, from the largest corporate accounts to individual consumers.
  - $4.8 billion in new-business volume was reported in 2002, compared to $5.3 billion in 2001. This represented almost a 10% decrease.

- **Dell Financial Services** is a joint venture between The CIT Group and Dell Computer Corporation that was established in 1997. It is not a captive finance company per se, but rather operates as a completely separate organization.

  - The current joint venture agreement with CIT expires in October 2005.
  - Net income generated by DFS is allocated 70% to Dell and 30% to CIT.

- **Hitachi Credit America** supports Hitachi Data Systems’ sales domestically. HDS is a leading manufacturer of IT systems and storage devices, and transaction sizes for systems packages can range from $500,000 to >$5 million. (Storage device transactions may fall below $100,000.)

  - This captive reported new-business volume exceeding $500 million in 2002 for all equipment categories that it finances.
LEASING COMPETITIVE ENVIRONMENT (Cont.)

- *Oracle Credit’s* parent is a leading vendor of software and software-related services. The captive historically originated lease contracts and outsourced the entire package, including servicing, to third-parties. It has since developed its own system for accounting and billing/collecting so that third-parties serve as wholesale funding sources.

  □ Lease penetration is estimated to be 25% to 30% of sales.

  □ The typical lease term appears to be 2 to 3 years, but Oracle Credit will customize terms to meet the needs of individual customers.

  □ Even though Oracle sales are usually direct to the end-customer, it has recognized the role of value-added resellers as a sales channel and has developed lease financing programs for VAR use as a sales-aid.

- *Microsoft Capital* is one of Oracle’s strongest software competitors on the data base side. Microsoft Capital was formed in late 2002. This new captive has come on-stream during a period of sluggish IT investment and could serve as an important sales-aid for Microsoft products. Microsoft also has been moving down-market where vendor-provided lease financing is more widely sought.

  □ The leasing products being offered by Microsoft Capital feature below-market interest rates.

  □ The average transaction size appears to be in the $100,000 range.

  □ In addition to “retail” leasing products, Microsoft Capital is extending “wholesale” lines of credit up to $150,000 to resellers that build and sell IT systems with Microsoft software.
LEASING COMPETITIVE ENVIRONMENT (Cont.)

• *Cisco Systems Capital* has most of its business flowing through the channel. This wholly owned subsidiary of Cisco Systems is providing channel partners with a range of lease financing products.
  
  □ Some product options are offered through third-party finance or leasing partners.
  □ Accounts receivable financing and accounts receivable purchase are also provided.

Third-Party Lessors

• Prominent non-captive IT lessors include independents and bank-affiliates such as:

<table>
<thead>
<tr>
<th>Competitor</th>
<th>IT Leasing Volume, 2002</th>
</tr>
</thead>
<tbody>
<tr>
<td>GE Commercial Finance</td>
<td>$&gt;1.0 billion</td>
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<tr>
<td>CIT</td>
<td>&gt;1.0</td>
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<td>CitiCapital</td>
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<td>Key Equipment Finance</td>
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<td>American Express</td>
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<tr>
<td>Wells Fargo Financial Leasing</td>
<td>&lt;1.0</td>
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**GE Commercial Finance**

• GE Vendor Financial Services enjoys a joint-venture relationship with Sun Microsystems and is one of the major third-party competitors in the IT leasing industry.
LEASING COMPETITIVE ENVIRONMENT (Cont.)

- GE Commercial Distribution Finance is a leading provider of distribution financing programs and services to the IT industry.
  
  CDF’s popular short-term accounts receivable financing program (STAR) provides VARs with access to extended terms and larger credit facilities based on the end-customer’s credit qualifications, not the VAR’s.

CIT

- CIT is a major player in PC leasing by virtue of its joint venture with Dell Computer.
- CIT works with other vendor partners to provide financing for software, storage devices and other IT assets.
- CIT Technology Finance is the small-ticket IT leasing unit.

CitiCapital

- CitiCapital vendor finance programs provide IT equipment manufacturers with customer financing designed to increase equipment sales.
- CitiCapital also targets IT resellers.
- CitiCapital’s specialized products include cost-per-usage, software financing, and technology refresh.
- CitiCapital also offers customized captive finance programs.

CIT and CitiCapital are also strong competitors in certain IT market segments.
American Express Business Finance

- The American Express IT focus is on PCs and peripherals with smaller tickets.
- American Express has direct links to vendor partners that feature online lease application processing and same-day equipment shipping upon lease application approval.
- OPEN is the small-business network through which American Express directly solicits small-ticket leases. Solicitation is via the Internet and direct mail.

De Lage Landen Financial Services

- Wholesale IT vendor leasing at DLL is growing and is focused on major IT manufacturers that discount large volumes of lease paper.
- DLL also seems to be expanding its presence in IT reseller channels.
- DLL has added more functionality to “@oncefinance.” This web-based system automatically credit scores lease applications submitted by IT vendors.
- DLL has a strong marketing department that supports vendor partners’ business development (thus increasing the lease penetration rate).

Fleet Capital Leasing

- Fleet Capital Leasing enjoys a long-standing presence in the IT equipment leasing market.
- Fleet Capital Leasing is a leader in providing IT equipment lease financing for end users, captive finance companies, equipment manufacturers and other vendors.
- Fleet Capital Leasing is a significant IT leasing competitor in mid-range computers and storage devices.
- Fleet Capital Leasing is also an active software lender.
LEASING COMPETITIVE ENVIRONMENT (Cont.)

GATX Technology Services

- GATX is a leading independent IT lessor in the U.S.
- GATX provides IT hardware and software leasing, as well as life-cycle asset management services for acquiring, managing and replacing IT equipment.
- GATX offers technology refresh leases and other specialized products.

Key Equipment Finance

- Key has an $8.5 billion equipment leasing portfolio with more than $3 billion in equipment financed annually.
- IT equipment leasing has been an important market for Key, which has bolstered its presence in the national-account vendor leasing field.

Siemens Financial Services

- Siemens Financial Services has become a sizable player in the IT vendor market.
- Siemens enjoys wholesale leasing relationships with some of the most prominent IT national accounts.

US Bancorp Equipment Finance

- Both IT hardware and software are leased through U.S. Bank Business Equipment Finance.
- US Bancorp Oliver-Allen Technology Finance is a niche IT leasing company that finances computers for middle-market customers. It not only finances the initial equipment, but also manages and upgrades it over time.
**LEASING COMPETITIVE ENVIRONMENT (Cont.)**

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**Wells Fargo Financial Leasing**

- Wells Fargo Financial Leasing obtained vendor relationships in the IT field through the acquisition of Conseco Finance.
- Wells Fargo Financial Leasing has a technology group focused on small-ticket IT leasing.

**Others**

- Bank-affiliates such as Citizens Leasing, Fifth Third Leasing, Lombard Equipment Finance, PNC Leasing, TCF Leasing and Wells Fargo Equipment Finance have a strong interest in leasing IT equipment.
- ePlus, GreatAmerica Leasing, IFC Credit, Marlin Leasing and others are independent leasing companies with a significant interest in the IT equipment leasing field as well.