

DOERING LEASING CO.

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NEWSLETTER

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Hybrid Vehicles Are Here to Stay, Fleet Use Growing Rapidly

J.D. Power & Associates estimates that by 2007 over 410,000 hybrids will be sold. That number was only about 34,000 in 2002.

It is true that vehicles can run on everything from hydrogen to corn, it's just a matter of cost and convenience to get them mass produced.

The most common vehicle defined as a hybrid is one that has a conventional gas engine which functions just like the engine in your current vehicle, except they are mated with electric motors. Such a hybrid is called a gas-electric hybrid.

The hybrid vehicles also have some very efficient electric motors and a bank of high voltage batteries which are also able to run the vehicle.

The vehicles computer determines whether to run under battery power, the traditional gas engine, or both, through a complex system.

The gas engine will kick in when the batteries are low or the vehicle is accelerating quickly. Battery power is all that is needed to run the

electric motors under lighter work loads.

The electric motors operate best at low speeds and moderate acceleration. In traffic, the car is silent. The only system running is the electrical system normally

In the case of the Lexus brand, the vehicles have four electric motors, one for each wheel, in addition to the gas engine. There is no engine noise when first entering the vehicle and driving slowly.

One of the most innovative aspects of the hybrids is that the batteries require no manual charging. The gas engine charges the batteries.

When a driver depresses the vehicle's brakes, the motors use the energy created from the braking to recharge the batteries as well. Charging also occurs when the engine is running under normal driving conditions. Very little energy goes to waste.

A small computer screen in the vehicle shows whether power is being pulled from the battery bank or whether power is charging the batteries.

The more accessories used including air conditioning, lights and the stereo, the shorter battery power will last. The vehicle will automatically revert to the gas engine sooner under heavy electrical demands.

All this technology can result in fuel economy greater than 60 miles per gallon.

These vehicles are available today. They usually cost between \$1500 to \$4000 more than the non-hybrid models. Other less-prominent types of hybrids exist and are discussed in the media such as fuel cell and hydrogen vehicles.

Most of the major manufacturers either have a model in use today or will have one out shortly.

Some of today's hybrids include the Toyota Prius and Highlander. The Camry is upcoming within a few years. Lexus has the RX400h with the GS400h sedan due shortly.

Honda has the Insight, Civic and Accord out and the hybrid Pilot is on the way. Ford has the Escape hybrid out currently.

Our Company Can Pay Cash, Why Lease?

You have cash in the bank, but what is the best *use* of your cash? Cash in the bank means that you have the money to make your lease payments as well as the flexibility and liquidity to execute other projects to sustain, grow, or develop your business. Most small to medium sized businesses earn a 15-25% return on investment (ROI) on liquid capital. If you are a developer with fifty vehicles, the extra \$1,000,000 in working capital which leasing would afford you would allow you the flexibility to buy more land for development. The vehicles in the parking lot do not help you do that; The liquid capital does.

The intent of leasing is to use your cash where it benefits your business the most. In addition, businesses receive significant tax benefits from leasing. **Did you know that 498 of the Fortune 500 companies lease their vehicles or own a leasing company?** They have the working capital available to buy their corporate vehicles outright, so why do these companies opt for leasing?

Leasing frees up capital for use in profit centers, whether it is to put additional vehicles on the road, acquire new equipment, expand your workforce, or put an addition onto your building to help grow top-line sales.

Conservative and prudent business owners, controllers, and CFO's view leasing as a sensible financial tool to keep capital in the bank and available for emergencies, unexpected needs, or planned growth. Leasing also keeps vehicle loans off the corporate balance sheet, which in turn will help your business grow.

Through leasing, companies are able to maximize tax benefits. The Internal Revenue Service limits the amount of depreciation expense you may take on a vehicle based on an annual guideline. Leasing however will allow your business to expense all business-related lease payments over the period of the lease. The tax benefits of leasing are typically significantly greater than capitalizing your vehicles for tax purposes and depreciating them. Call Doering Leasing Co. for a formal analysis.

J. Paul Getty summed up the business principal best in his famous quote,

***"Buy Assets that Appreciate;
Lease Assets that Depreciate."***

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We Drive Too Much to Lease, Right?

People believe leasing will not work in high mileage situations for the same reasons it actually works well in such situations. Companies with fleets have been doing it for over 75 years! Likely to be the most common misconception of leasing, high mileage vehicles should be leased!

Most fleet leases are written for 20,000 to 45,000 miles per year. Many go as high as 75,000 miles annually.

The mindset that high mileage vehicles should not be leased is a very common misconception that was spread by car dealers. Such dealers sell leasing simply on the basis of lower payments, but there is a bigger picture to consider.



The true school of leasing states that you should “pay for a vehicle as you *use* it.” In most cases, this makes leases cheaper because you only use forty to sixty percent of the vehicle’s value over the lease term.

High mileage drivers may use eighty-five percent of the vehicle’s value over two or three years, at which time they want to dispose of the vehicle.

If the vehicle is financed, payments may be *lower* than a lease in a high mileage situation because a long-term finance contract is used without regard to the fast pace the mileage will be amassed. This is not a good decision. After two years, the company typically wants to get rid of the vehicle prior to major maintenance expenses. Only 35% of the vehicle’s initial value has been paid off in the two year period under the finance contract. The lease is structured based on the high-mileage use of the vehicle and pays off principal at a very fast pace. The lease would pay 50-85% of the principal off over the same period.

The lease is based on “pay for what you use,” so monthly payments are much higher and the company may walk-away at the end of the lease. In the finance contract, the company must pay \$5,000 to \$12,000 to dispose of the vehicle that was financed because much more is owed to the bank than the vehicle is worth because of the mileage that was driven in a short period.

Even in a normal finance contract with normal mileage, the buyer statistically does not have equity in the vehicle until the 51st month. This is called being “upside down.”

In both situations, the company eventually pays for the same amount of depreciation, but the lease gave the company very large tax deductions over the 24 months of the lease, level payments, and there was not a substantial lump-sum due at lease-end. The company could expense their lease payments rather than capitalize the vehicle and depreciate it.

At the end of the finance contract, a huge sum of money is due because the vehicle was under-depreciated and the company received minimal tax benefits from the finance contract because the vehicle was capitalized. The lease also has some other benefits, including sales tax savings, simplicity, no trade-in risk or hassle, and the company is able to take advantage of the time value of money.

A properly structured high mileage/short-term lease is superior to a finance contract because it reflects reality accurately as any automobile transaction should.

Is Leasing A Rip Off?

We often hear from professionals and individuals that they tried leasing once and felt it was a rip-off. We agree that can happen. Every lease experience is not perfect. However, in reality the “leasing” part is usually not the problem.

In a perfect lease contract, the customers payment would reflect the exact cost of the overall use of the vehicle. This takes into account mileage, interest and depreciation. You basically pay for what you use. That is the recipe for a lease that performs well.

So often consumer lease advertising is driven by monthly payment without regard to actual use of the unit. This is intentionally done to increase floor traffic at the dealerships. Other times, a lease is written properly but the drivers situation changes.

For example, if a driver moves to a new home, his or her commute may be much longer. The additional mileage and wear and tear on the vehicle can result in quite a large bill at the end of the lease contract.

Please keep in mind this was not a bad lease. The monthly vehicle lease payment was less than the amount that was actually used up due to a change in circumstances. This driver had not paid for what was used and this must be reconciled at lease-end.

The driver in the above example may feel ripped off. However, he or she was not. Through a proper lease education process, drivers should know what to expect throughout a lease and what their contractual obligations are.

There are other ways to improve the performance of a lease contract. For example the initial cost of the vehicle needs to be as low as possible, the interest rate and the associated fees should be low. In addition, a realistic lease-end value is *especially* important if the contract is terminated early for any reason or if the lessee wants the option to purchase the vehicle for a reasonable price at lease-end.

Years ago, we used to promote a lease statistic that over 85% of lease contracts do not end as expected. The vehicle could have been traded before maturity, had substantial excess miles, or been stolen or totaled. In these circumstances, it is very important to have a well written contract. We are not sure of the exact statistic today, however it is still very high, particularly for business uses.

Doering Leasing Co. takes great pride in the lease education process which not only increases customer satisfaction, but also reduces cost when the drivers know exactly how to properly use a lease.

One last thing, the addition of great service is an added benefit that when missing, can cause lessees to feel ripped off. Who you lease with makes a huge difference. How you lease typically has to do with good advice and expert knowledge from the professionals you choose.

Acclaim

After 17 years in business, Doering Leasing Co. is pleased to report, our research reveals that we are the largest locally-owned fleet leasing company in the Metro-Milwaukee area based on volume.

In addition, we have been recognized as one of the top 20 fleet leasing companies in the country using the Milwaukee Metro Auto Auction. This signifies that Doering Leasing Co. is in a group with some of the largest fleet leasing companies in the nation.

We are very appreciative of the companies and individuals who trust us with their fleet needs. We will continue to earn that trust.

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National Vehicle Remarketing

An often overlooked fundamental element of fleet leasing is vehicle disposition, typically called remarketing.

Quite often, lease agreements are entered into strictly based on monthly payment with no regard to what happens at the end of the lease. For open-end leasing in particular, the true cost of the lease can't be calculated until the unit is eventually sold.

Many leasing companies are content to simply ship a vehicle to auction, sell the vehicle, and return any excess proceeds or bill for any shortfall.

At Doering Leasing Co., we work harder for you.

We have made the commitment to have our own representative at the auction every week to represent Doering Leasing Co. and our clients. Doering Leasing Co. does everything possible to maximize the value of the vehicle before it sells.



Our used car manager has 35 years of experience. He thoroughly researches each vehicle prior to sale and can send the unit to any auction across the country if he feels a significantly higher price can be achieved.

In addition, we are enrolled in the nationwide Manheim Auction system. We are able to buy and sell any vehicle through any Manheim auction throughout the country.

If your fleet has three vehicles to sell in Pennsylvania, we can efficiently get the units to the auction, get the units properly reconditioned, and watch them go through the auction over the internet in real-time.

Through partnering with Doering Leasing Co., higher resale prices reduce the overall cost of leasing for the lessee.

EMPOWER

It is an indisputable fact that fleet leasing is the most efficient means to operate a fleet from a tax standpoint. High mileage fleets are especially efficient from a tax standpoint.

The Internal Revenue Code limits vehicle deduction when units are owned, but when they are expensed through a lease program, the tax write-off is practically unlimited.

Doering Leasing Co. has invested in a new software system highlighting every detail relating to lease tax issues.

Our system is internet-based and named *Empower*. With *Empower*, we are able to customize any tax situation and produce dozens of different reports and comparisons.

The best part of the system is that any and all IRS documentation can be referenced when necessary. If you need to know exactly what part of the tax code allows a particular write-off, it is noted in the software. The system also is constantly updated with the tax code changes.

Empower will help us illustrate to you how much leasing really saves in tax deductions and how that translates into real dollars saved by your company.

A recent illustration showed the savings at over \$8000 in income tax savings on one executive car alone! The results are slightly less dramatic for cheaper fleet vehicles, but the benefits of leasing remain steadfast.

We will be happy to produce a report for your particular situation upon request.

Naturally, this is a great help for our own sales process and we would be happy to do a comparison for you even if you do not lease through Doering Leasing Co...yet.

E-Mail Addresses

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New/Redesigned Model Schedule

| <u>Model</u> | <u>Availability</u> |
|--------------------------|---------------------|
| Buick Lucerne | 06 XXXXXXXX |
| Cadillac Escalade | Feb 2006, est. |
| GM Suburban/Yukon | April 2006, est. |
| GM Silverado/Sierra | April 2006, est. |
| Toyota Camry Hybrid | October 2006 |
| Toyota Highlander Hybrid | Available |
| Honda Accord Hybrid | Available |
| Lexus GS400h Hybrid | Mid 2006 |
| Lexus RX400h Hybrid | Available |
| Lexus LS600h Hybrid | 2007 |

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What is Our Product ?

SERVICE

Doering Leasing Co. continually strives to reduce your transportation expenses and create the most efficient programs for your corporate needs.

Our services range from providing one-stop-shopping for your transportation needs to routine service and warranty needs.

We provide all the information necessary for you to make an informed, hassle-free, and objective decision.

OUR CLIENTS

Doering Leasing Co. customers have one over-riding characteristic; they're fussy. You might even say they are demanding and uncompromising when it comes to things like: personal attention, high level of service, expert advice, timely response, and professional staff. "Good enough" is not part of Doering Leasing Co.'s customers vocabulary. Doering Leasing customers expect the best.

FINANCE OPTIONS

Every contract Doering Leasing Co. writes is customized to meet the needs of our client. From high-mileage contracts to executives with special needs, we are very accommodating.

We work with multiple local and national funding sources allowing us to have a selection of the most competitive rates and programs in the country.

Often contracts are created without security deposits, fees, and no money down.

There are many types of lease contracts which each have their own way of calculating depreciation and interest expenses.

A properly written contract with payments matching the actual use of a vehicle allows leasing to be hassle-free. We are the leasing experts with well over 85 years of experience. Each member of our staff strives to add value to you and your business.