

REASONS TO LEASE CERTAIN TECHNOLOGY EQUIPMENT

In the business world when it comes to considering lease financing for equipment, there are all kinds of reasons to lease all types of equipment with a variety of lease terms, structures and end of lease specifications coupled with an assortment of “Terms and Conditions”.

Specifically, with regard to certain types of technology equipment such as desktops, laptops and various servers, many large organizations prefer to lease much of this equipment utilizing a “True Lease Structure.” Typically a true lease implies the lessor owns the equipment throughout the lease term and provides the lessee the right to purchase the equipment at the end of lease for its then fair market value or return the equipment to the lessor. Other plans and structures are always available; however, the economics associated with each will differ depending upon the variations.

The reason for pointing out the above is it is important to financial evaluators to understand that a Lessor like Fortran specializes in “True leases” for the purpose of taking a risk in its investment into the lease, so that it can obtain an optimized price on the eventual disposition of the assets, associated with the lease, to achieve a fair return on its investment. It is the lack of Return on Investment (“ROI”) that is the key why a firm like yours should consider leasing some of its I/T equipment in the first place. Some of the real reasons why companies should consider leasing follows:

- **Technology Asset Value.** The day after your firm purchases a desktop, laptop or some servers, the value of the asset is immediately 50% of its cost. By the end of 36 months, if the asset was originally a leading edge, level tier one, equipment at purchase, your realizable value can be as low as 3%. Why in the world would a company, who is not in the business to market and resale, invest in an asset with virtually no real ROI, especially when alternative uses of capital can bring much higher returns?
- **Fixed Asset Value Reporting and Certification.** Today, executive level management of public companies are charged with the responsibility of reporting and certifying current values of assets owned and can be held accountable for misrepresentations. More financial officers are now opting to lease certain technology equipment to avoid the uncertainty of reporting incorrect values on those assets, particularly if their company has historically owned significant numbers of such assets are I/T related. With ownership transferred to a Lessor, the CFO can easily treat the lease as an expense and thereby avoid any possible false reporting of values and any potential challenges by overseeing agencies.
- **Depreciation recapture.** If a company is indeed refreshing certain technology assets within every 36 to 40 months of acquisition, and then disposing, by sale or other means, of the asset in some way, that firm must account for depreciation recapture on its tax books which in turn negatively effects its ROI even more. As you know, there is a difference between reporting and tax accounting. If a company were to lease those assets under a Revenue Procedure 75-21 lease, then they can then just treat the payments as a deductible expense for tax purposes and avoid adjustment issues. Additionally, the lease payments in most cases can be treated off-balance sheet. This is important because true leases typically don't negatively impact debt covenants, financial ratios and balance sheet requirements necessitated by the rating agencies and market lenders.
- **Technology Edge.** Companies via the use of leasing can keep their I/T department at top efficiency by instituting an organized refresh program. Historically, everyone knows, if cash is used to purchase an asset, a business will use the asset long beyond its need to be replaced. In the case of technology equipment this methodology can create all types of infrastructure difficulties and platform issues. The reason is the I/T department is using older equipment with newer operating software platforms that don't integrate well together, or just continues to have failures in operating performance that significantly slows down efficiencies throughout the company.
- **Maintenance Cost.** Extended maintenance can be purchased to help keep systems running during the first 36 months after purchase. However, as a practical matter most firms try to self maintain after initial maintenance expires. The cost of maintaining I/T equipment begins to appreciably rise after 36 months of use in a business environment. Without refreshing your equipment on a timely basis, your firm will begin to lose even more money on its investments in the purchase of certain technology assets through the added ongoing expense of maintaining such equipment. Leasing to timely refresh technology assets avoids additional cost of maintenance.
- **Disposition of Assets.** Recently, Gartner Group, IDC and other research organizations have been quick to point out evolving ownership risk of technology assets. New privacy laws and various EPA requirements have begun subjecting businesses to liability issues when disposing of those assets. Working with a Lessor providing these services, as part of the lease arrangement, does away with this issue. Although there are local firms in your neighborhood that purport to dispose and/or clean disk appropriately, most local firms are not as complete and thorough as typically required by a lessor concerned with the same risk, and who will provide certifications at DOD standards.