To Lease or To Buy? That Is the Question.

Written By:

Tom Savage

Inside Sales Manager, Zunesis

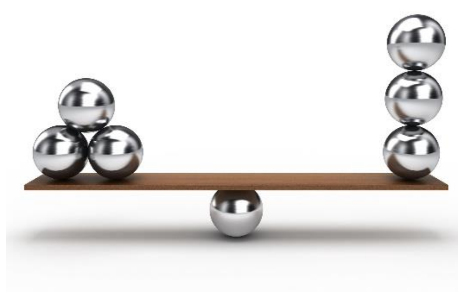
As maintaining the data center becomes more and more expensive, not to mention *updating* the data center, we find that many of our clients are interested in the idea of leasing equipment. Having walked with a number of our clients through the process of determining whether or not a lease is right for them, we've learned a handful of things that will help if you find yourself wondering if a lease might be the best option for your company.

Leasing: The Pro's

- ✓ **Leasing keeps your equipment up to date.** Keep your data center modern. With a lease, you pass the financial burden of obsolete product to the equipment leasing company. For example, let's say you have a three-year lease on your production storage environment. After that lease expires, you're free to lease whatever equipment is newer, faster, and cheaper.
- ✓ **You'll have predictable monthly expenses.** With a lease, you have a pre-determined monthly line item, which can help you budget more effectively.
- ✓ **You pay nothing up front.** Because leases rarely require a down payment, you can acquire new equipment without tapping much-needed funds.
- ✓ **You're able to more easily keep up with your competitors.** Acquire sophisticated technology that might otherwise be unaffordable.

Leasing: The Con's

- ✓ **You'll pay more in the long run if you plan on keeping the equipment.** For example, a $4,000 computer would cost a total of $5,760 if leased for three years and then purchased at the end of the lease term at fair market value (assuming a lease cost of $160 per month).
- ✓ **You're obligated to keep paying even if you stop using the equipment.** Depending on the lease terms, you may have to make payments for the entire lease period, even if you no longer need the equipment.



Buying: The Pro's

- ✓ **It's easier than leasing.** Buying equipment is easy--you decide what you need, then go out and buy it. Taking out a lease, however, involves at least some paperwork, as leasing companies can ask for financial information.
- ✓ **You call the shots regarding maintenance.** Equipment leases often require you to maintain equipment according to the leasing company's specifications. When you buy the equipment outright, you determine the maintenance schedule yourself.

Corporate Zunesis, Inc.
8375 S. Willow St.,
5th Floor
Lone Tree, CO 80124
Phone: 720-221-5200
Fax: 720-221-5199

Colorado Springs
6645 Delmonico Dr.
Suite 201
Colorado Springs, CO 80919
Phone: 720-221-5213

Las Vegas
6280 S. Valley View Blvd.
Suite 604
Las Vegas, NV 89118
Phone: 702-837-5300

Buying: The Con's

- ✓ **The initial outlay for needed equipment may be too much.** Your business may have to tie up lines of credit or cough up a hefty sum to acquire the equipment it needs.
- ✓ **Eventually, you're stuck with outdated equipment.** Computer technology becomes outdated quickly. If you want to keep your data center current, you will be stuck every few years with outdated equipment that you must donate, sell, or recycle (not to mention pay to replace!).

Asking the Right Questions

If you're thinking about leasing equipment, you will need to do your homework to ensure you get the most favorable terms. Here are a few questions that will help you get started:

- ✓ **What type of lease are you being asked to sign – a capital lease or an operating lease?**
  - ✓ A ***capital lease*** is similar to a loan. With this type of lease, the equipment is considered an asset on your balance sheet, and you get the benefits (such as tax depreciation) and risks (including obsolescence) of ownership. Capital leases are often for as long as five years.
  - ✓ With an ***operating lease***, the leasing company retains ownership; and for tax purposes, the equipment is considered a monthly operating expense rather than a depreciable asset. Operating leases are more popular because they do not tie up funds and are usually short-term (three years or less).
- ✓ **Is there a buyout option?** You may have a choice between a fair-market value (FMV) option and a $1 buyout option. FMV means you can buy the equipment at the lease's end for its fair-market value, which could be hundreds of dollars. In contrast, a $1 buyout option means the equipment is yours for $1 when the lease expires. However, while that sounds like the best option, keep in mind that monthly payments on FMV leases are usually lower than $1 buyout leases.

  If you are fairly certain that you will want to upgrade to new technology when your lease expires, go with the FMV option.
- ✓ **How long is the lease term?** Usually, leases for computer equipment run 24, 36, or 48 months. The longer your lease, the lower your monthly payments; but you're also likely to pay more over time with a longer lease.

24 months	36 months	48 months
• Highest monthly payments • Potentially lowest overall cost	• Middle of the road, could fit both overall budget and monthly budget	• Lowest monthly payments • Potentially highest overall cost

- ✓ **Does the equipment have to be insured?** Some leasing companies require you to insure the leased equipment. If you don't, fees may be added to your monthly payment to cover insurance.

Moving at the Speed of Trust

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- ✓ **Can I add to the lease?** Most leasing companies don't mind if you add equipment to an existing lease. Your lease payment will be recalculated accordingly; lease terms do not usually change.
- ✓ **Can I terminate the lease early?** What if you no longer need the equipment you're leasing, or you want to upgrade to newer technology sooner than you expected? Find out in advance if you can pay off your lease early as well as if there is a prepayment penalty (and if so, how much?).

CUSTOMER first

Bottom Line

If you intend to keep your data center current and require a substantial amount of equipment, leasing equipment may be a better option than buying. However, do some research before jumping head first into a leasing contract.

As I mentioned at the beginning of this essay, my team at Zunesis and I have experience navigating the waters of lease vs. buy; and we would be more than happy to help you determine which is the best option for your company's needs.

Please reach out to your account manager, or email info@zunesis.com to learn more.