Lease vs. Buy Analysis

Leasing information technology solutions is rapidly becoming the preferred program for a number of organizations, ranging in both size and industry. There are a number of individual criteria that must be considered before choosing how you acquire your technology to run your business. Your company's specific needs must be addressed in order to determine if leasing your Dell Hardware is a cost beneficial solution. There are 2 key areas that will also be explored: Technological and Financial Considerations.

Client Requirements	Operating Lease	Cash	Bank Finance
Full Ownership of the Equipment		✔	✔
Achieve Lowest Monthly Payment During Use	✔		
Improve Cash Flow and Liquidity Position	✔		
To Simply Use and Return	✔		
No Down Payment – Full 100% Financing	✔		✔
To Be Able to Expense 100% of your Payments	✔		
Eliminate Equipment Disposal Costs/Compliance Issues	✔		
Need Depreciation and Interest Write-Off's		✔	✔
Fit the Needs of Fluctuating Staff Levels	✔		
Depreciation Schedule Exceeds Required Use of Product	✔		
Best Possible Tax Shelters	✔		
Uncertain in Current Business Forecast	✔		
Take Delivery of Current Relevant Technologies	✔		
Evaluating Equipment for Longer Term Considerations	✔		
Planning Replacement of the Equipment	✔		
Off Balance Sheet Financing	✔		
Hedge Against Technology Obsolescence	✔		
Concerns of Conflict with Current Creditors	✔		
Optional Ownership	✔		

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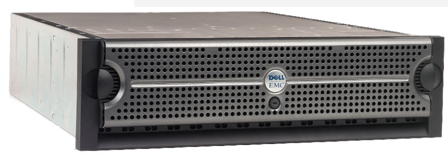
Technological Considerations

Obsolescence Protection

Leasing equipment allows for simple return of the equipment at the end, or during, the contracted period. If an organization requires newer technology faster then the depreciation schedules allow for, then a capital loss on the books would have to be recorded. This generally encourages an organization to maintain existing obsolete technology.



Expected Lifecycle of the Equipment

At the end of a lease contract, if the end user determines that the equipment still services their needs, the lessee has the options to buy it at Fair Market Value or extend the lease for a shorter period of time. If it is determined that the life cycle of the equipment has expired, the business tools are simply returned. In a finance scenario, if the equipment cannot be re-deployed, the end user is faced with disposal costs and/or recycling fees.

Leading Edge Equipment

The ability to maintain more advanced equipment is enhanced through a leasing program. Technology refreshes can be done at anytime through the return and replacement of the assets. In an ownership scenario, an organization is required to re-allocate the technology, re-market to re-coup costs, or dispose of other equipment in order to acquire newer gear. All of these functions have associated costs applied.

Simplicity

Captive Lessors provide a “one-stop” source for acquiring the right equipment. Leasing approvals are generally quicker decisions in corporate policy then capital budget approvals. Dell Financial Services and Dell Computer Corporation incorporate advanced internal processes to manage and execute our functions to meet your needs in an efficient and simple manner.

Flexibility

Upgrades, replacements and early releases are all functions of operating leases. In technology changes, an organization faces re-assignment, re-sale and disposal of existing equipment. This type of effort diminishes the internal efforts on the part of the organization in terms of concentrating on their core business.

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Financial Considerations

Cash and Liquidity Position

Leasing preserves cash for a number of uses, including other operating expenses, unanticipated expenses and short-term interest bearing investments. These options are not available once the funds have been allocated, and spent on a budget.

Balance Sheet Implications

Operating expenses are considered “off-balance sheet” financing since there is no associated ownership. There is neither an asset on the books or a corresponding debt commitment. Booked equipment requires depreciation schedules, following CICA and GAAP procedures.

Budgetary Considerations

Investments in the leases are usually drawn from operating budgets, which are generally forecasted a number of years in advance. This alleviates the vulnerability to budget freezes and exhaustion. In a finance scenario, organizations can suffer from declining annual budgets. They require extended approval processes and timelines, and new equipment cannot be acquired if budgets are suspended, or spent.

Budgetary Considerations – Cascading

Leasing equipment, and stipulated buyout costs give solid positioning for internal transfer pricing and allocation to another department. The internal re-deployment of assets requires a number of time consuming steps. Determining the transfer pricing between departments, budget allocations on upgrades and trades. Most importantly, the time required executing the transaction. Generally, these are not perceived as Win-Win situations for an organization.

Budgetary Considerations – Refresh and Retirement

Organizations can incur rather substantial costs when refreshing their information technology. Apart from cascading, the financial resources required to retire an asset are much higher then you would expect. Leading industry researchers suggest that steps involved to the properly retire an asset range from $400 to $600 per unit. This would include de-installation, media cleansing, testing, packaging, storing, shipping and accounting administration. The majority of these expenses can be bundled into a structured program to eliminate unexpected charge-outs.