



Lease, Don't Buy

Leasing equipment frees up capital, allows for easier budgeting and can help your in-plant avoid technological obsolescence. But watch out for questionable practices and fees.

By Kevin F. Clune

MORE THAN 35 percent of all capital equipment is financed through some form of leasing. Eight out of 10 companies have turned to leasing to get ahead and stay ahead.

Though leasing has existed from the time of the earliest known Samarian civilization, the lease concept surged in popularity after World War II as the U.S. economy took off. Quickly expanding companies sought to acquire the equipment they needed without depleting cash and exhausting bank lines of credit. Tax law changes gave companies the ability to expense lease payments, which gave them faster tax write-offs.

Leasing, once considered to be aggressive financing used only by those unable to get conventional terms, is now regarded as a stable alternative to wildly fluctuating interest and inflation rates. Today, there are approximately 2,000 leasing companies in the U.S. The quicker the rate of equipment obsolescence, the higher the likelihood that equipment will be leased. The hedge against obsolescence is one of the primary reasons companies lease equipment.



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The Value of Leasing

Leasing offers several business advantages over cash purchases. First, it frees up capital. Cash purchases not only deplete cash reserves, they can have a negative impact on the balance sheet. Leasing also has potential tax advantages that give companies the ability to expense lease payments, giving them faster tax write-offs. When leasing capital goods, a firm preserves its credit lines and no additional collateral is required. Cash purchases, on the other hand, reduce a firm's cash-asset position. Also, leasing allows for easier budgeting, and many firms can fiscally function more effectively when they have a fixed monthly payment, an option that leasing allows.

Ordinarily, if equipment is purchased, it must be set up as an asset on the balance sheet and depreciated over 60 months. Conventional wisdom holds that the useful life for equipment that is vulnerable to technological obsolescence is rarely more than three years. Purchasing professionals are especially aware of this and want a means by which they can keep their systems on the cutting edge. They detest having to constantly battle management for budget items relating to the acquisition of new equipment. They frequently emerge frustrated, delayed and feeling like the process will always be doomed to be inadequate.

Most companies cannot compete if they are handcuffed to second-rate equipment. Often a strategic plan is developed when management makes an ongoing commitment to fill the needs they know will constantly change and improve.

Technology Refresh Lease

How do you accomplish this? Enter the Technology Refresh Lease, a one-stop-shop where all needs are met. The user (lessee) asks

the lessor for approval of a line of credit for the estimated cost of their purchases for the year. They frequently choose a “master lease” concept whereby only one lease is signed but can be amended as needed with only a purchase order or schedule.

The lessee tells the lessor what to buy, from whom and at what amount. More frequently than not, the lessee chooses to include soft costs in the lease, including software, training, installation and service. The term of

the equipment schedule, chosen by the lessee, is anywhere from 24-60 months. At the end of the lease, the lessee normally has four options:

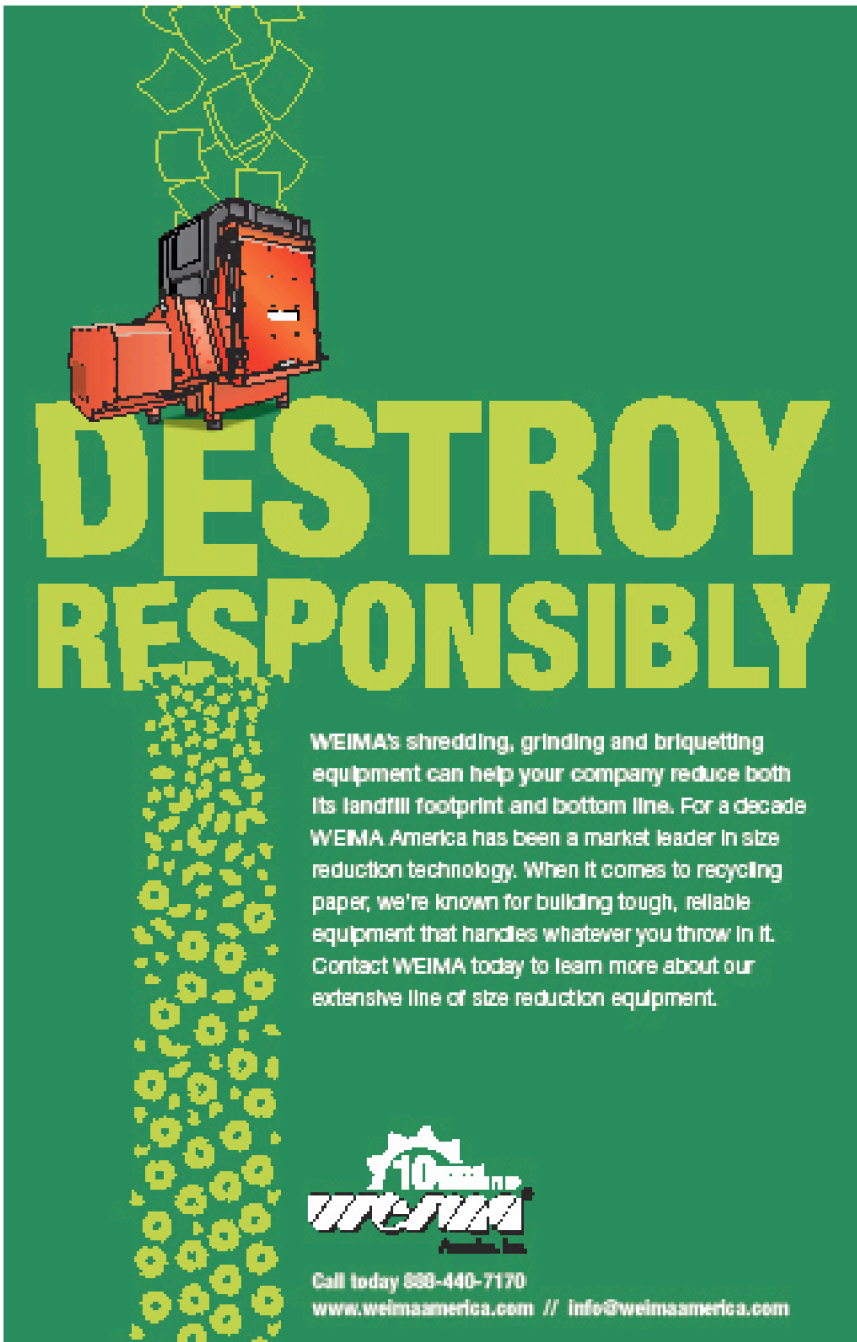
1. Return the equipment.
2. Purchase for fair market value.
3. Continue leasing.
4. Trade up into new equipment on a new lease.

This concept gives the lessee the ultimate in choices and flexibility. If the lease is properly structured, the lessee can expense the payments over the life of the lease, which will

coincide with the useful life of the equipment. Management and purchasing professionals are poised to take advantage of whatever option allows them to stay efficient, compliant and competitive.


An Unregulated Industry

Many consumers assume, sometimes at their peril, that leasing companies are regulated like banks but indeed the industry is not regulated by any governmental body. Because of this lack of regulation, leasing is an industry where *caveat emptor* is the ruling philosophy. Many industry practices, fees and a host of end-of-lease surprises may



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Many consumers assume, sometimes at their peril, that leasing companies are regulated like banks, but indeed the industry is not regulated by any governmental body.

be technically legal but push the limits of business ethics. These practices are not limited to small, obscure leasing firms; they are conducted by many throughout the leasing industry—even the best known, highly respected national firms. Often, unsuspecting lessees—even sophisticated buyers—are caught in these costly traps.

Frequently, the lion's share of a leasing company's profits is derived from fees that the lessee does not anticipate. Some of the more common revenue enhancers for the leasing company are late charges assessed with no grace period, interim rent, automatic renewals, early termination fees, unreasonable return fees and conditions, capricious fair market value determinations and forced insurance fees.

Obviously, the choice of a leasing

company must go well beyond the quoted price per month—reputation and a history of ethical business practices are paramount. Finding and working with principled leasing firms is critical to your firm realizing the benefits that leasing offers. A reference from other lessees is one of the best ways to start your research. One must also examine their lease agreement in detail and get written answers to questions regarding fees and practices.

To avoid the many traps that may exist in a lease contract, many lessees have consulted with independent specialists. One firm, Independent Lease Review, Inc., specializes in reviewing lease agreements for clients across the country, including many major law firms (www.review-yourlease.com).

The Certified Lease Professional certification (CLP) was developed by UAEL, a leasing trade association, to raise the professional status of leasing professionals. It is a recognized credential throughout the industry, with members of the general public and with governmental agencies. The CLP designation sets the standard for professionalism in the leasing industry. This designation recognizes individuals within the industry who have demonstrated their competency through continued education, testing and conduct. Pertinent information relating to the requirements established to achieve the CLP status can be found at www.clpfoundation.org.

Many leasing firms offer state-of-the-art services for online applications, timely (if not nearly instantaneous) credit decisions, electronic banking and many Web services. A process that took two days in the not too distant past can frequently take 15 minutes.

The Future of Leasing

The Federal Accounting Standards Board (FASB) is expected to change the rules governing leasing to conform to international standards. The desire is to make lease transactions transparent on the balance sheet. The effect of this is unknown but is expected to have the

biggest impact on large ticket transactions.

Additionally, there is a trend in manufacturing to try to capture customer financing through captive, wholly owned leasing companies or through partnerships that private label the relationship. Even though this may be good for the lessor, it is advisable to consult with an independent lessor for a competitive quote.

Investigating and trusting your service suppliers is critical to a successful and ongoing business rela-

tionship. Leasing is no different. Research your supplier of choice and learn its business practices. With a reputable, trustworthy leasing firm handling your leasing needs, your company will realize financial flexibility and benefit from a financial business partner. Leasing as a form of financing offers many advantages to firms of all sizes. With your firm's specific business goals in mind, it is incumbent upon purchasing professionals to investigate the value of a lease finance plan. **IPG**

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