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## **The Thrill of Acquisition, The Agony of Paying For It: How Law Firms Should Use “Smart Leasing” to Buy New Technology**

By  
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### **How Law Firms Can Use “Smart Leasing” as a Purchasing Tool**

Every law firm is utterly frustrated by short product life cycles and agonizing fast product obsolescence. The way you acquire new hardware and software upgrades may be a way to combat this - using a clever combination of leases and purchases.

Forget about “traditional leasing” - for example, those ads on the backs of *PC Magazine* touting “only \$90/month” for leases for on the perfect Dell or Gateway PC configuration would seem to be “sucker leases” - high interest leases that are cash/profit cows for these companies. Today, dedicated technology lessors offer interest rates that are often below prime rate--in other words, “cheaper than money.”

Most banks are equally clueless about technology leasing - they all seem to offer \$1 buyout “leases” which if audited, would likely be re-classified by the IRS as “installment purchases” and you would be penalized, not to mention having to re-do it on your books as a capitalized/depreciated fixed asset purchase

### **Finding the Right Technology Lessor**

Use leasing companies who specialize in technology and equipment leasing. The difference comes mostly from their experience in lease-end disposal of systems. They typically have connections to brokers who buy the turned-in components at the end of leases who in turn sell them to third world countries where a Pentium 166 may very well

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still be considered “hot stuff.” Because the lessor makes money at the end in sales to brokers, there is less need to make lots of money on the initial lease. The net result is a combination of a higher buyout amount offered (as much as 10-15% “fair market value” buyouts are not unusual) which translates to lower payments during the lease term. This translates to lower total cash outlays than if you were to purchase the equipment and in most cases, if you were to finance the purchase out of your cash flow or by borrowing on your business line of credit.

Another plus is that the “more than nominal” buyout amount at the end of the lease term may properly act as a barrier to purchasing lease-end components. This is a **GOOD THING** since after the lease term (if the term matched the product’s predicted obsolescence period) you **DON’T WANT THE PRODUCTS!** Why? **BECAUSE THEY’RE OBSOLETE!!** This helps law firms work their way out of a common trap. They often buy out equipment at the end of lease because it’s “so cheap”. The problem is that “cheap” is a relative term that typically has an inverse relationship to the firm’s productivity derived from using these systems. A three year old PC might be bought out for \$100. Some bargain. If the software mix has been kept current, that once-swift feeling three year old PC is a boat anchor that will slow down your busy users and require more support to deal with the inevitable problems. It’s also out of warranty so any problems requiring repair are going to be on your nickel. Again, some bargain, huh?

The key to cost-effective technology leasing is looking at the mix of hardware and software products you are acquiring and structure a “layered” acquisition . . .

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## **Law Firms Should Think: “Layered” Leasing . . .**

This means using a combination of a lease with varying terms for various “classes” of products and selective purchases. Certain PC products become obsolete to the point of being much less productive in fairly predictable time periods. For example, this is about three years for desktop PC stations and network file servers. It is about two years for most laptops.

However, other PC products have a much longer life cycle. For example, components that may have a much longer useful life can include network infrastructure items like hubs, routers, racking systems, UPSes, and laser printers - especially Hewlett-Packard laser printers which tend to run seemingly forever.

So using a cooperative and creative leasing company, think about a layered leasing acquisition approach. Under this method you can enter a lease which has a three year term on “three year products”, a two year term on “two year products” and a 5-7 year term on those products that seem to last forever before needing replacement. This means that you keep your system “fresh” and that you feel as if you maximized the value of each component since you are not replacing components prematurely. The longer term on “longer life” items also means lower monthly cash outlays for those items.

And what about software--do you ever really get rid of software? The answer, for the most part is “no”, you keep it updated so that it may change compared to the initial purchase point, but overall, you keep it indefinitely. This means it often makes more sense to purchase your software.

So what’s the end result of this “layered” approach?

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For your quickly obsoleting PC workstation, network fileserver and laptop components, it ends up being much like a car lease - you drive it for the lease term, turn it back in and get a fresh “car” that you lease all over again. This “use it, turn it in, lease a new one” approach gives a predictable monthly “use” cost (fully deductible as an expense on the books but certainly check prevailing and current tax rules with your qualified accountant). It also gives reasonable assurance that you’re never (or ALMOST never) using products that are long past their useful life cycle - which means they would be boat anchors on your firm’s productivity.

Another interesting option is to buy-out the PCs and laptops at the end of the lease term and pass them through at buy-out cost to employees - a nice employee benefit and no cost to the firm . . .

Done properly, you end up with financial resource maximization - paying only for what your firms uses, always using the “right” components with a staggered replacement scheme that always happens in a finite, predictable, budgetable period of time. Gee, that sounds like we would be running our law firms like every other kind of business . . . a wild concept! With lease interest rates often less than borrowed money today (with the right lessor), this approaches “no brainer” status!

The end result is that law firm is not strangled by three year old, behind-the-curve PC hardware technology that holds your lawyers and staff back. You always have reasonably current PC systems capable of running the latest and most productive versions of the software that drives your law practice: your document production systems, your case managers, your billing systems, your litigation support products. It’s good business!

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## **ENDNOTE: Some Thoughts on the Disposal of Old PC Systems**

Of course if you are acquiring new PCs, that means you're probably disposing of old PCs. And there are serious issues to consider in doing this-**really serious** issues. All those old PCs may have sensitive confidential client information on them--documents and other data. You likely have an ethical responsibility to "clean" these PCs and remove such information. Since many of our clients inquire about what to do with the old PCs they will no longer use it makes sense to discuss this. There are several options for you to think about as follows:

### **# Donation or Sale to Employees**

If you have relatively recent PCs that are still usable for home/college/student use, offering them to your employees may make a lot of sense and be seen as an employee benefit. You can either sell them at a very low price, or simply donate them to whoever wants them. Be sure to address irreversible removal of sensitive and confidential client/firm information (using software such as "Shredder" and/or "Sanitizer" software from Infracore (<http://www.shredder.com>)). This software removes data and/or software to Dept. of Defense security standards. Remember too that you need to be sure that whatever you do does not violate your software license agreements and land you in legal hot water.

### **# Donation to a Charitable Entity**

If you can find a donee, great! Note that many organizations have the same software needs as you do so trying to unload decade old '486-class or older PCs, or even early-generation Pentiums may not be very easy. If you cannot find donees locally (i.e. church groups, municipal agencies, homeless shelters, legal aid societies, etc.), think "national" - one group to look into is the National Christina Foundation - here's some info about them:

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National Cristina Foundation  
500 West Putnam  
Greenwich, CT  
203-863-9100  
[www.cristina.org](http://www.cristina.org)

“Matches companies and individuals interested in donating computers and related equipment with non profit organizations and schools that serve people with disabilities in the U S. and abroad. Donors send equipment directly to the beneficiary.”

Many more donation sources are available at Dale Tersey’s “Computer Recycling” resources web page which can be found at:  
[/www.wco.com/~dale/crp.html](http://www.wco.com/~dale/crp.html).

#### # **Cleaning Up Your PCs First!**

It’s amazing how many firms don’t address this critical issue--so it bears additional emphasis! It is **imperative** from a legal and ethical perspective, as well as to comply with your software license agreements, that you remove all traces of confidential client work product, confidential firm information and licensed software before selling or donating old PC systems. The only way to do this effectively (short of holding a 50 lb. magnet next to a hard drive--we call this the “Dan Coolidge Method”) is to use "shredder/sanitizer" software that removes the data to Department of Defense security standards. Merely deleting the data and even reformatting or re-partitioning the hard drive is inadequate--information can still be recovered. Products like the BCWipe software from BestCrypt Systems ([www.bcwipe.com](http://www.bcwipe.com)) - a respected maker of "PC Sanitization" software,

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do the trick. It costs around \$30 per PC with quantity discounts available for multiple sanitizations - it also requires that the PC you need to work on is bootable and usable - so do this cleanup before you disassemble and disconnect the old PCs - it's a huge waste of time to try and re-setup these PCs later, just for sanitization purposes (www.infracore.com/products/sanitizer.html). There is a good comparative review of file-shredding utilities at:

[www.fortunecity.com/skyscraper/true/882/Comparison\\_Shredders.htm](http://www.fortunecity.com/skyscraper/true/882/Comparison_Shredders.htm).

Other products that can help include:

- " Shredder from Gale Force - [www.gale-force.com/shredder](http://www.gale-force.com/shredder)
- " BC Wipe from BestCrypt - [www.bcwipe.com/](http://www.bcwipe.com/)



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