Smart Lease Your Way to a New PC

Stretch your technology dollars and do some good in the process.

By Ross L. Kodner

Every law firm inevitably becomes frustrated by short product life cycles and agonizingly fast product obsolescence. Law firms can combat this problem by looking at the way they acquire new hardware and software upgrades—using a clever combination of leases and purchases may prevent you from unnecessarily exhausting your technology budget.

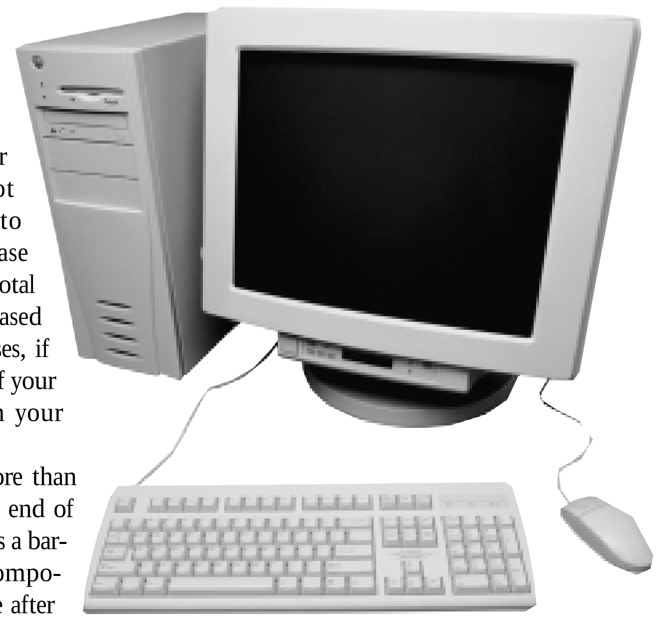
How Law Firms Can Use Smart Leasing as a Purchasing Tool

Forget about "traditional leasing." Those ads on the backs of *PC Magazine* touting "only $90/month" for leases on the perfect Dell or Gateway PC configuration 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 remain equally clueless about technology leasing—they all seem to offer $1 buyout "leases," which if audited, would likely be reclassified by the IRS as "installment purchases" and you would be penalized, not to mention having to redo 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 then sell them to third world countries, where a Pentium 166 may still be considered "hot stuff." Because the lessor makes money at the end in sales to brokers, they have less of a need to make lots of money on the initial lease. The net result equals a combination of a higher buyout amount offered (as much as 1,015 percent "fair market value" buyouts are not unusual), which translates into lower payments during the lease term. This translates into lower total cash outlays than if you purchased the equipment, and in most cases, if you financed 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 acts as 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 will have 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 acquire and structure a "layered" acquisition.

Layered Leasing—The Key to Successful Equipment Management

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 (about three years for desktop PC stations and network file servers, and about two years for most laptops).

However, other PC products have a much longer life cycle. For example, network infrastructure items like hubs, routers, racking systems, uninterrupted power supplies, and laser printers (especially Hewlett-Packard laser printers which tend to run seemingly forever) have a much longer useful life.

So think about a layered leasing acquisition approach, using a cooperative and creative leasing company. Under this method you can enter a lease that has a three-year term on "three-year products," a two-year term on "two-year products" and a 57-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?

For your quickly obsolescent PC workstation, network file server, and laptop components, it ends up looking 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 will never (or almost never) use products that are long past their useful life cycle.

Done properly, you end up with financial resource maximization—paying only for what your firm uses, and always using the "right" components with a staggered replacement scheme that happens in a finite, predictable, affordable 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 your law firm does not find itself strangled by three-year-old, behind-the-curve PC hardware technology that holds 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, and your litigation support products. It's good business!

Going Out in Style

If you choose to purchase your computers or lease them and buy out the leases, you can get rid of them as follows:

1. Donate or Sell to Employees

If you have relatively recent PCs that will remain usable for home, college, or student use, offering them to your employees may make a lot of sense and act as an employee benefit. You can either sell them at a very low price, or simply donate them to whomever wants them.

2. Donate 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 prove difficult. If you cannot find donees locally (church groups, municipal agencies, homeless shelters, legal aid societies), think ''national''—one group to look into is the National Cristina Foundation.

The National Cristina Foundation ''[m]atches 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.''

National Cristina Foundation • 500 West Putnam • Greenwich, CT
(203) 863-9100 • ncf@cristina.org • www.cristina.org / index.html

Many more donation sources are available at Dale Tersey's ''ComputerRecycling'' resources webpage, which you can find at www.wco.com / ~dale / list.html.

Disposal of Old PC Systems

Of course, if you acquire new PCs, that means you need to dispose of old PCs. You have very serious issues to consider in doing this. 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. You should also remove all licensed software except for those products that came with the computer and have no bearing on your software inventory (such as Windows 98—your replacement computer will come with its own Windows license).

It's amazing how many firms don't address this critical issue! 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. I recommend "Sanitizer" from Infraworks www.sanitizer.com. Merely deleting the data and even reformatting or repartitioning the hard drive is inadequate—information can still be recovered. Only dedicated products like Sanitizer do the job.

Sanitizer costs about $30 (one 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 clean up before you disassemble and disconnect the old PCs. It's a huge waste of time to try to re-setup these PCs later, just for sanitization purposes. (By the way, don't forget about sanitizing or destroying old floppy disks, backup tapes, etc. They all have equally sensitive client and case information!)

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