

Helping startups keep costs down

Law firms offering fixed fees, alternative payment plans for emerging businesses

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Seulki Lee was in the process of setting up his biotechnology company out of the Johns Hopkins University FastForward incubator last summer when he needed legal documents drawn up to both establish the company and for its seed-funding round.

Having started a company once before, he was familiar with the hefty legal bills that come with hiring an attorney on an hourly rate.

"It's very expensive," said Lee, who spent between \$30,000 and \$40,000 in attorneys' fees. "I was very surprised about the invoices from the lawyers."

This time, however, Lee spent closer to \$20,000 by working with Shulman Rogers NEXT, a new program from Potomac-based Shulman Rogers Gandal Pordy & Ecker P.A. that offers fixed pricing packages to startups and early-stage companies for a range of services, including company formation, raising money and employment.

"I think this addresses a very important need in the startup, emerging growth company market," said Anthony Millin, chairman of the firm's startups and venture capital practice group and a venture investor and entrepreneur himself.

Lee worked with Millin during the fundraising process for Neurally Inc., which is developing a compound for neurodegenerative diseases such as Parkinson's and Alzheimer's diseases.

"Once we identified the investors and introduced them to Anthony, he took care of the legal stuff," said Lee, who is also a faculty member in the Department of Radiology and the Center for Nanomedicine at Hopkins' Wilmer Eye Institute.

More prevalent

While Shulman Rogers designed its program in response to a "lack of alignment" in legal services needs for emerging companies, fixed fees and alternative methods to pay for legal services are becoming prevalent across the industry.

"Many firms over the last number of years have devised creative ways to bill, particularly for startups," said Randi Lewis, a recruiter with Major, Lindsey & Africa. Some firms, such as Brown, Goldstein & Levy LLP offer consulting work for a fixed amount per project. The Baltimore firm's business torts practice offers a hybrid with mix of a contingent fee and a lower hourly rate.

"Some clients find that an attractive way to work," said Sharon Krevor-Weisbaum, Brown Goldstein's managing partner. "That's the trend and being responsive to client desires is important."

Miles & Stockbridge PC has programs for startups and emerging companies that involve fixed fees and monthly budgets to make costs more predictable, said Colleen Pleasant Kline, co-chair of the firm's corporate, securities and tax practice.

"There was an increasing demand for transparency and predictability in providing legal services," she said.

But providing legal services at a predictable cost is attained in different ways, depending on the client, she added.

"It's not a one size fits all," she said.

Miles & Stockbridge has done mergers and acquisitions, contract work, entity formation and general negotiations on fixed fees by establishing a budget and "efficiently"



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Seulki Lee's startup, Neurally Inc., is developing a compound for neurodegenerative diseases such as Parkinson's and Alzheimer's diseases. It's based out of the Johns Hopkins University FastForward incubator.

staffing those programs, Kline said.

"We approach all of our projects from a project management perspective," she said. "How do we define the scope of what we're doing and how are we staffing it?"

'Ford is sufficient'

When working with startups, veteran intellectual property lawyer Francis J. Gorman has simple advice: prioritize what you need. A company needs payroll and tax paperwork, for example, but doesn't need stock options.

"Don't ask for a Cadillac when a Ford is sufficient," said Gorman of Gorman & Williams in Baltimore.

The firm has a flexible approach to fees and doesn't charge anything for initial discussions with startup clients that are used to determine if the relationship is a good fit, he said. It also gives clients cost estimates and offers monthly payment options. The most common requests Gorman gets are for corporations or LLCs and trademarks. Sometimes, startup clients make individual requests, such as for a non-disclosure agreement, based on a flat fee.

"We're trying not to dominate the process in the early stage," he said. "We let the startups have the flexibility and focus of the important things."

Overall, Gorman sees the move toward alternative fees as a win-win for clients and lawyers.

"It has been my observation that clients like flat fees for projects because it allows them the certainty of knowing what it will cost and it challenges the lawyers to be efficient about what they do," he said.

One danger of a fixed fee, however, is a lawyer could be tempted to push work down to an associate or try to cut corners.

"There are lots of other programs in the market where you work with a large firm, but because of the cost structure of the firm, you end up working with much more junior attorneys," said Millin, of Shulman Rogers. "There's a real loss there in the experience and service that can be provided."

Another potential problem for a startup is some firms offer free initial services around a specific project or for a short period of time, without addressing the long-term cost problem, he said. Once that particular project ends, "you're under the very high fee-for-service model and it's just not sustainable."

Accounting for dollars

Shulman Rogers' NEXT program tackles three issues,



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After spending more than \$30,000 on legal fees at his first startup, Seulki Lee spent closer to \$10,000 last summer on his second thanks to a new fixed-fee program from Shulman Rogers.

Millin said. It gives emerging companies the opportunity to work with partner-level attorneys on a flat fee; provides predictable legal fees; and uses a strong technical platform with an online document management system.

"As a startup, every dollar in your burn rate is accounted for and budgeted," Millin said. "When you're consuming the (legal) service and something comes in two-to-three times above what was estimated, that creates tremendous pressure on the entrepreneur and the business."

Under the NEXT program, startups and early stage companies can sign up for a variety of packages, including ones to form the company, financing, intellectual property and employment contracts among others. Clients can also sign up for committed monthly hours. The fixed fee offerings do not include more unpredictable services, such as mergers and acquisitions and litigation, which are hard to pin down to a specific number of hours.

Ultimately, getting the initial legal work done correctly and finding a firm that is a good fit is crucial for a startup, Lee said.

"It's very important to find and work with the right and trusted lawyers," he said.