

HOOPLA OVER AUTOMATED TERM SHEET MAY BE LEGIT

May 18, 2009

At first blush, we wondered what the big deal was when Wilson Sonsini Goodrich & Rosati - one of Silicon Valley's best-known law firms and a leader in start-up technology ventures - launched an automated term sheet generator on the Internet.

We followed the fervor. The comprehensive - and free - do-it-yourself sheet went up on Wilson Sonsini's site on April 22nd. Word spread fairly quickly in the financial community, with business and legal news outlets such as the Wall Street Journal, Barron's and the American Bar Association Journal posting items. Even Guy Kawasaki, a founding partner of early-stage venture capital firm Garage Technology Ventures and a columnist for Entrepreneur magazine, weighed in; soon the Twitterati, as well, began to buzz.

At a time when templates for everything from business plans to supplier agreements abound on the Internet, what was so special about this development? Mainly, we've found, because the private equity community and its watchers smell real winds of change brewing if a well-respected law firm is willing to make such an unconventional move. It speaks volumes about the future of legal services, and the likelihood of a greater shift toward putting front-end legal work into the hands of cash-strapped clients.

"Everyone is concerned about cost cutting," says Yokum Taku, the Wilson Sonsini partner who spearheaded the project, noting that the response by venture capital firms, angel groups and entrepreneurs has been "overwhelmingly positive."

"Everyone needs to move forward and innovate," Taku says, cautioning that automated tools such as this don't replace lawyers, but allow for more procedural education on the part of clients and would-be investors.

Term sheets lay out the basic elements of an investment and can be used to craft more detailed legal documents.

Anything that can reduce billable hours is perceived as a welcome change. In recent months, law firms have come under siege as companies of all sizes push back against what they see as exorbitant hourly rates. Many companies have asked their law firms to hold the line on yearly rate increases and are pushing for alternative models, such as project-based billing.

Given these recessionary pressures, it's not surprising that a savvy law firm wants to be seen as helping to relieve some

of the burden, both for current and prospective clients. Add the slowdown in deal flow and scarcer private equity dollars and the rationale behind an automated term sheet - and its ancillary marketing benefit to the firm - becomes a lot clearer.

"It is precisely the kind of tool that progressive clients in the financial services community are asking for," says Richard Susskind, author of "The End of Lawyers, Rethinking the Nature of Legal Services", by Oxford University Press. "It should enable the input of first-rate legal expertise earlier in the life cycle of deals than is ordinarily possible and the production of consistently higher quality term sheets."

Wilson Sonsini's interactive term sheet includes some 40 odd sections, ranging from dilutive financing to voting agreements and capitalization. Each section includes a tutorial that defines the term and provides contextual information from Wilson Sonsini about procedural norms for the majority of early-stage companies.

The law firm is tracking the number of hits to its Web site but it is not capturing the specifics of who is filling in the sheets, although users are free to save their own information for future reference. Taku notes that Wilson Sonsini may move toward creating customized automated term sheets for venture firms and other clients at some future point, work for which it will charge.

"I think it's part of a movement to bring technology to law," says Jason Mendelson, cofounder and managing director of the Boulder, Colorado-based Foundry Group, an early-stage venture firm with \$230 million under management.

Mendelson, an attorney, is a former co-chair of the National Venture Capital Association's general counsel group. Mendelson believes such a product, which allows start-up entrepreneurs and venture capital firms to become more familiar with the legal ramifications of preparing to sell all or part of a business, could save as much as \$10,000 in front end legal fees. That amount represents the back and forth education that would traditionally occur between attorney and client.

Emily Mendell, vice president of the National Venture Capital Association, agrees that such a product can be helpful from an educational standpoint. "To understand what is within certain norms and what they can expect, the association would be supportive," she says.

Copyright 2009 Thomson Reuters. Reprinted with permission from Thomson Reuters. Thomson Reuters content is the intellectual property of Thomson Reuters or its third party content providers. Any copying, republication or redistribution of Thomson Reuters content is expressly prohibited without the prior written consent of Thomson Reuters. Thomson Reuters shall not be liable for any errors or delays in content, or for any actions taken in reliance thereon. Thomson Reuters and its logo are registered trademarks or trademarks of the Thomson Reuters group of companies around the world. For additional information about Thomson Reuters content and services, please visit www.reuters.com.