ABA JOURNAL

The New Normal: 5 Years of Legal Rebels

Why Silicon Valley's biggest investors are betting on alternative legal companies

By Rachel Zahorsky

Updated: U.S. lawyers know **ABA Model Rule 5.4** prohibits them from sharing profits or forming partnerships with those who aren't licensed to practice. In theory, this rule keeps the lawyering safely in the hands of the lawyers (and revenue from the practice of law safely ensconced at traditional law firms).

But does it really? And do outsiders looking to invest huge sums of money in the legal profession—in hopes of huge gains—even have their sights set on traditional law firm profits?

Not really. Instead, in the last five years we've seen nontraditional legal service provider Axiom Law negotiate M&A deals, alternative legal service provider Novus Law challenge the accuracy and efficiency of contract lawyers and BigLaw junior associates in trial prep, and hybrid company Clearspire create a model that allows a law firm and a business outsourcing company to work under the same umbrella. All three are disrupting the status quo of law practice, all three are taking work from traditional law firms, and all three are funded by nonlawyer investors.

The U.K.'s legal services act of 2007 (which took five years to set up the necessary regulatory infrastructure) gave a green light for firms across the pond to take outside investment and combine with other professional services. And while closed-door discussions included big investors and bigger valuations among law firms, a lot of those deals never materialized.

"The investment community has woken up to the fragility of many traditional firms," says Andy Daws, vice president for North America of Riverview Law, a U.K.-based legal services firm whose institutional funders include AdviserPlus Business Solutions and DLA Piper. "The recent collapse of several high-profile firms has understandably impacted the views of people who would put money into what's seen as a lucrative profession. Financially, a lot of firms are like the proverbial swan—graceful on the surface but paddling frantically underneath."

In contrast, legal tech companies and alternative legal companies (some who perform services for law firms and others in direct competition with law firms) are being injected with millions of dollars in funding from angel investors and venture capitalists.

Rachel Zahorsky.
Photo by Marc Hauser.

"From an investor perspective, a law firm isn't a positive thing as opposed to something that threatens the current model, because the latent consumer market is potentially billions of dollars," says legal technologist Ron Dolin, who teaches at Stanford Law School and holds a stake in the legal software company MyCase (among others) through its acquisition by AppFolio. "We are in a transition point where legal systems are coming into the 21st century for real. Barriers are coming down, and efficiency is pouring in." That efficiency—or the power to address unmet needs—doesn't seem to lie with traditional law firms.

Silicon Valley venture capital giants Peter Thiel and Keith Rabois, both lawyers and members of the famous “PayPal Mafia” and leaders of other large investment funds, are funneling cash into innovative legal start-ups like Ravel Law and Judicata—which both offer unprecedented platforms for legal research (thanks to recent movements toward broader access to public case law and cheaper technology from design-oriented legal techies)—and Lex Machina, which specializes in IP litigation and analytics. Lex Machina tracks the identities, decisions and track records of plaintiffs, defendants, districts, judges and lawyers in intellectual property cases and drills into that data so clients (both in-house lawyers and outside counsel) can easily use it to their own advantage.

“Generally, when markets are in flux, there are opportunities to build new tech start-ups and radically transform that market,” says Rabois, an investor in the venture capital firm Khosla Ventures. “Mass transformation driven and accelerated by external events [such as the Great Recession], opens up wonderful opportunities for entrepreneurs to take advantage of.”

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For traditional law firms, “playing ball” with these new companies can be profitable despite being counterintuitive to billable hour models.

Akin Gump Strauss Hauer & Feld is one firm that is using its partnership with Novus Law—which reviews, manages and analyzes documents for large-scale litigation—to woo and serve clients. Novus’ procedures and real-time portal allows the firm’s attorneys and clients to track the discovery process and drives “end-game thinking” early on in a matter, says Akin Gump senior counsel Ashley Vinson.

“We recently did a large competitive pitch under very tight time circumstances which we were successful in, and Novus was an arrow in that quiver,” Akin Gump litigation partner Shawn Hanson said. “Interestingly, the client, which was a relatively new opportunity for us, had already heard of Novus.”

Deanna Johnston, vice president of litigation at Fireman’s Fund Insurance Co., also made a case for Novus to an initially skeptical Hanson.

“I told Shawn, ‘If you are willing to partner well with Novus and can reduce your legal fees by 25 percent, I can start to use Akin not just on top cases, but deeper into [our docket] because we know we’ll get high-quality legal service for the same amount we’d pay smaller or less expensive firms,” Johnston said. “That’s more value for me.”

And Hanson says: “If you run your business fearing things will change, that’s not good long-term strategic thinking. If law firms won’t drive change, it will be client-driven.”

Rachel M. Zahorsky, a former legal affairs writer for the ABA Journal, has moved to the nontraditional legal services field herself. After this article was reported, she joined Novus Law as director of marketing.