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### The Scoop

Like venture capital? Wish you could join a startup? Went to law school? Never fear - just point yourself towards Venture Law Group. This tiny (under 100 lawyers) law firm has an appeal that outweighs its numbers.

### Dream firm

Craig Johnson's colleagues at Wilson, Sonsini, Goodrich & Rosati must have thought he was crazy when he left the partnership of the revered Silicon Valley firm in 1993 to open Venture Law Group. Johnson said he had a dream on a Friday night, climbed out of bed and wrote it all down, still in his pajamas. He envisioned a cross between a venture capital firm and a traditional law firm. By dawn, the attorney had filled fifteen pages of a notebook with details of a new kind of law firm, which would concentrate on "helping tech companies get started, find financing, and structure and grow their businesses," according to VLG literature. He gave his notice the next day and took 13 other attorneys from Wilson with him. Today, Venture Law Group is a tiny firm that has an influence much greater than its numbers in the VC-fevered atmosphere of California and Washington.

### Upstarts in startups

The VLG pioneers aspired to a new business model entirely different from the big law firms in the Valley at the time. Their name said as much, passing up the typical string of founder names in order to evoke the nature of the practice they envisioned in their Menlo Park office. In 1994 and 1995, two other groups of lawyers from San Francisco's Brobeck, Phleger & Harrison and Morrison & Foerster joined them. They haven't looked back since.

Describing his brainchild to *Inc.* in 1998, Johnson suggested that readers "think of [Venture Law Group] as a McKinsey or a Boston Consulting Group for start-ups, with the added value that we can actually do the deals." VLG bills itself as a law firm focused on startups, helping launch new clients, and then leading them through the legal labyrinth that follows. When VLG takes on new clients, it behaves much like a VC firm at the outset, picking and choosing start ups that promise the most potential success. VLG doesn't actually finance its proteges, but does purchase a limited amount of equity (usually less than one percent) through a venture fund called VLG Investments. The firm positions itself as a lead player in defining client companies' business plans, providing strategic advice intended to build the select clients it represents into ultimately productive investments down the road. Firm policy dictates that clients are not charged for initial strategic planning - the bills kick in later, once the client company has secured funding.

### Star Wars tactics

VLG's initial success depended heavily on Johnson's personal experience with startups and his extensive circle of contacts, built in his eighteen years at Wilson Sonsini. He developed strong relationships with the venture-capital community, which brought him recognition immediately when he embarked on his VLG journey. He says he can identify business plans that stand out from the pack, describing that moment of recognition as "target lock." Johnson made a "slightly scary analogy" in an April 2000 Fortune interview, describing his "mission as akin to that of Darth Vader trying to get target lock on Luke Skywalker as he maneuvers through the trenches of the Death Star." It's not about luck or having a great idea, he insisted in the interview. "Instead, it's all about striking the right partnerships, establishing a brand name and becoming big first. If you do those things right, you create huge barriers for potential competitors."

### eDeals

The fine-tooth-comb method of representation has resulted in some high-profile deals. In the fall of 1999, VLG represented Cerent in its \$7.0 billion acquisition by Cisco, the largest acquisition of a private firm in history. The firm also headed up Yahoo!'s January 1999 purchase of GeoCities Inc. (the fifth most popular portal on the web - Yahoo! is the third) for \$4.6 billion and Yahoo!'s April 1999 buy of Broadcast.com for \$5.7 billion. Nortel Networks' grab of Clarify for \$2.1 billion was another big M&A deal in 1999. That same year, the firm handled IPOs for Phone.com (\$891.0 million raised), eTOYS (\$166.4 million) and Drugstore.com (\$90 million). Over the course of the year, VLG worked on 18 deals valued at more than \$100 million and another 31 valued at less than \$100 million. The firm tallied \$30 million in paper profits in 1999 and expects to earn more than \$100 million this year - impressive considering that VLG's revenue from legal fees (about \$53 million in 1999) is only a fifth of the average New York firm's revenues.

### Growing pains

Despite phenomenal financial success, VLG has begun to experience some of the internal struggles that it had hoped to avoid when establishing its niche. Turnover in Silicon Valley is notoriously high; associates and even partners are hard-pressed to turn down multi-million dollar offers to become in-house counsel at some of the very startups they counsel regularly at VLG. The firm has raised its compensation again and again and offers equity in potentially lucrative investments, making its associates some of the best-compensated in the country. Still, the dot com siren song is too strong for some lawyers who relish the opportunity to get in with a new company at ground level.

More ominous, however, may be the reminders that an innovative law firm might fall victim to its own philosophy of investment. In November 1998, partners James Brock Jr. and Robert Zipp proposed a plan to their colleagues that would have diluted their partnership draws and their involvement with VLG in exchange for larger equity stakes in their clients. The firm balked, afraid that the two powerful attorneys had inside information they were keeping from VLG. Brock and Zipp were offered two choices: cut all client ties and head out on their own terms after the next partnership draw or be fired immediately. They weren't willing to walk away from their client relationships, and in an acrimonious split with the firm, quit that very day. At that time, Brock and Zipp were the first partners ever to leave Venture Law Group.

Since then, a number of other associates have left "for business development or dot.coms." Some have even headed to more traditional firms, seeking structure that VLG couldn't provide. While the base numbers of defectors might not be impressive, the impact is profound in a firm as small as this one and "the firm is a little concerned about this," ventures a corporate contact. As a result, the firm has restructured its pay plan several times, working to entice attorneys to stay with the firm without sacrificing the unique structure of Venture Law Group. VLG offers financial incentives to lawyers who start their own companies without leaving the firm. Craig Johnson has founded three: Grassroots.com, an online political action and fundraising service; garage.com, an Internet matching service for business plans and "angels" financiers which is expected to go public later this year; and Financial Engines, Inc., an online investment advisor.

### Equity for all

As part of VLG's partnership approach to its clients, the firm asks its startup clients for the opportunity to buy into their businesses, purchasing common stock first and preferred stock after a company receives financing. All senior lawyers and partners turn over a pro rata portion of their profits to VLG Investments; that fund then takes a limited equity position in the firm's startup clients. Each partner responsible for bringing in a particular client also invests in that company. As a rule, VLG partners must take from 10 to 20 percent of the equity available to VLG, with the other 80 or 90 percent held for the firm's fund.

VLG also prides itself on offering unique compensation plans to all of its employees, not just attorneys. At the end of every quarter, VLG adds up its costs and overhead, deducts the total from its receipts and splits up the leftover money among everyone at VLG, from the secretaries and file clerks to the senior directors. Partners receive the biggest slice of the profits as a nod to their greater responsibility for bringing in business.

### Outsourcing other work

As a result of the recent tech market boom, VLG has been besieged by requests for legal services that the firm doesn't have the capability to offer. Rather than shifting its focus and risking the loss of its original goals, VLG has found another solution. In March 1999, the firm teamed up with San

Francisco's Orrick, Herrington & Sutcliffe to help clients who need work in practice areas like real estate, labor or intellectual property law. Orrick jumped at the opportunity to capitalize on VLG's client base and expand its tech company experience. The relationship has been such a success that Orrick opened a Seattle branch in response to prodding from VLG's Pacific Northwest office. When VLG takes on a new client, the firm gives strategic advice on the company's business model and on teaming with other industry contacts; Orrick lawyers then generate the supporting documentation that lock in the company's decision. By March 2000, Orrick had taken on about 115 of VLG's clients.

## Getting Hired

### Prepare for your closeup

Since VLG is still such a young firm, many of its new hires are laterals, so the reputation of a candidate's previous firm carries as much weight as his or her law school pedigree and grades. Still, "grades and schools are very important," according to a Valley corporate securities attorney and "you have to be in the top five to ten percent of a non-top-tier school - it's not that much different from other top firms" in that respect. VLG interviews on-campus at Boalt Hall, Chicago, Columbia, Harvard, Hastings, NYU and Stanford, among other schools. The firm is "extremely selective, especially in Menlo Park," states a Seattle associate, and is "pretty focused on brand-name schools as well as people skills and interaction with clients. We want people who present well and inspire confidence in clients."

### JD/MBA nirvana

VLG's unique approach to law and business makes a difference in its hiring practice. The firm looks for more than the typical law school grad. "Since we view ourselves not only as a law firm but also as a consulting firm and an investment bank," explains a corporate associate, "we tend to gravitate towards business types," leading to a "disproportionate number of JD/MBAs." Also, VLG maintains "stringent standards" because the firm is so small - in 1999 14 laterals and six first-years came aboard, although in 2000 five to eight laterals and 15 first-years are expected. As a result, "people make an effort to get a sense of personality - it matters" in a firm with less than 100 attorneys in the Menlo Park office and just over 20 outside Seattle.

## Our Survey Says

Our partners are not like your partners

In keeping with efforts to design an entirely different kind of firm, Venture Law Group's partnership structure is unique to the firm. After four to five years, associates are promoted to senior attorney, then a few years later moved up to director. While it is "hard to gauge" directorship prospects "because we're still so young" (in Seattle, "all directors right now were laterals"), associates agree that "it seems making director is easier than at other firms due to demand in the Valley." As a corporate lawyer puts it, "no one really is here after seven years without making director."

The effects of redefining the hierarchy trickles down to general sentiment about directors' treatment of associates. Directors "treat us well," compliments a Menlo Park source. It's a "young firm, not a traditional, white-shoe firm - there is more parity and respect between directors and attorneys." The "concern with retaining associates" translates into a strong "open-door policy" and a "pretty egalitarian" atmosphere, suggests a Washington associate. All attorneys work for two directors. Several associates express that their directors have given them "a lot of space" and allow them to "hit the ground running - but always with a safety net." And since clients are banging down VLG's door these days, "attorneys are a more scarce resource than clients."

### Diversity: time will tell


While other law firms have been grappling with questions of diversity for years, VLG is "only beginning to encounter these issues, because it's a young firm." In terms of recruiting, "the firm makes no distinction between genders" and is "as progressive as any other firm around here," declares a California source, although the tech community is a "very male-dominated culture." A Seattle colleague adds that "one of our three directors is a female" and that "one of our senior attorneys took nine months off for maternity (three paid, six unpaid) and is venturing to director rank."

### How do we look?

How do other firms view Venture Law Group? VLG associates hazard a few guesses. "Until a few years ago, we were considered elitist, but now everyone is turning away work so that's changed," hypothesizes one who has watched the firm grow. "We were pioneers in taking equity in our clients," explains another source, and were perhaps "the most aggressive." Even if "some think we are too money-focused," VLG associates take comfort in the cliché that "imitation is the most sincere form of flattery." VLG associates may be considered "mavericks, "who" don't abide by any rules," suggests a Valley insider, who says the image is a misperception, as is the idea that VLG is "not a law firm as much as a VC shop."

Keep that in mind and "be sure you want to be a corporate lawyer," because "this is a law firm, not VC." VLG-seekers would be well-advised to "be aggressive in asking questions" and "know that you want to specialize in startup work" because it involves "a lot of hand-holding" for clients. "Don't just get the dollar signs in your eyes," warns one Washington worker. "Be sure you know what you want."


## Employment Contact

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