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Legal experts help bring ‘next big idea’ to market

by Maria Kantzavelos

Mich Hein dates his first entrepreneurial endeavor back to the fifth grade, when he and two classmates came up with a way to protect against cooties.

“There was no proof that you ever had your cootie shot,” Hein said. “We wanted something that certified that you were protected. So, we sold cootie insurance.”

For a buck, a boy or girl could purchase a mimeographed copy of a hand-written certificate from the threesome’s make-believe firm of Cooper, Nagy & Hein. With that, he said, “you were covered for the grade period.”

Hein — now a grown-up scientist-entrepreneur who serves as chief of staff of the Illinois Medical District and its Chicago Technology Park — said the boys’ enterprise managed to survive until the end of the school year, when the principal caught wind of it and forced the operation to “cease and desist.”

Hein’s story serves as a simple example of how an entrepreneur aims to commercialize a newfound solution to an old problem — albeit a fictitious one involving an imaginary disease that could only be spread to the opposite sex.

While anyone today could market cooties insurance on his own website, it takes greater expertise to turn an idea into a profitable business. That’s where lawyers come in.

Along with venture capitalists, investors, accountants, and consultants, lawyers with expertise in such disciplines as corporate and finance



Joseph J. Berghammer

law and intellectual property are among the players technology entrepreneurs turn to for support in shepherding the “next big idea” to fruition.

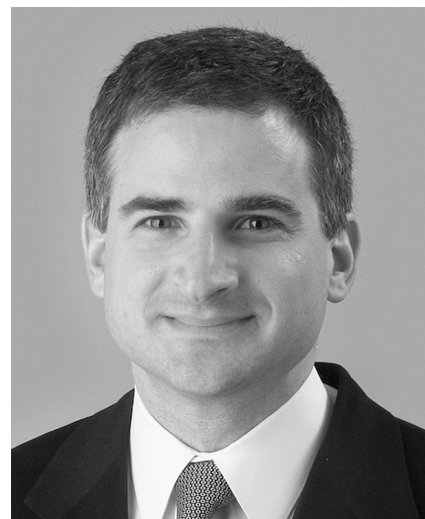
“The thing — oftentimes — that entrepreneurs have that you don’t have in the established companies is this explosive energy,” said Joseph J. Berghammer, a partner in Banner & Witcoff whose practice focuses on patent, trademark, and copyright matters.

“Entrepreneurs will literally work 20 hours a day, every day,” he said. “It is because they are giving birth. The problem is the labor lasts for a year.”

Many hats

A sharpened set of legal skills is only one of the tools a lawyer brings to the table as an advisor to an entrepreneur.

Michael B. Gray was an investor



Michael B. Gray

before joining the law firm of Schwartz Cooper, where he focuses on corporate and securities work. He said he taps into that experience when advising entrepreneurs in starting up a business based on a new technology.

“I help them find employees, find financing sources, get to potential customers. I spend a lot of time with my clients talking about business strategy,” Gray said. “I really blend my business experience with my legal skills to help them far beyond just being somebody who helps them document a deal.”

Some lawyers, like Misty S. Gruber, said it helps to have a basic understanding of the technology involved in the startup enterprise. She is a longtime corporate finance lawyer with a master’s degree in physiology, and expertise in early-stage financing for high technology companies and biotech firms.

"You can get into the nitty-gritty, and understand the technology and who their competitors are," said Gruber, of counsel with Dykema, who serves as co-leader of the firm's biotechnology and life sciences team.

Many lawyers said they find it thrilling to have a hand in transforming an innovation into a thriving business.

"It's amazing because you see these things start in someone's kitchen and before you know it, it can become this incredible business," said Matthew S. Brown, who represents entrepreneurs as well as investors in the venture capital concentration of his corporate law practice at Katten Muchin Rosenman.

Such an endeavor, he acknowledged, can be a daunting challenge for the first-time entrepreneur.

"They're investing everything they have and they're working for peanuts," Brown said. "These can be very stressful and difficult situations [for entrepreneurs]. You often become a really valued counselor to these people."

When it comes to the initial steps of helping an entrepreneur launch a technology-based company, many lawyers stress the importance of understanding, maintaining and protecting the company's core asset: its intellectual property.

"Technology companies, when they start, have nothing but their technology. That is what people invest in; that's what allows you to keep the others out and keep you competitive," Dykema's Gruber said. "You have to make sure you maintain and protect your intellectual property because that is what excludes others from what you're doing."

Lawyers enter the picture to help determine which intellectual property needs protection — and how to get it.

"You need to understand and secure the intellectual property," said Christopher A. Bloom, who concentrates in biotechnology and information technology at Bell, Boyd & Lloyd. "You need to figure out what intellectual property is going to



Scott L. Glickson

be the key driver of this new business and how you're going to protect it."

Patent or trade secret?

A classic issue for a startup is whether to obtain a patent on an idea or to keep the idea as a trade secret — a protection with the potential for lasting much longer

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than the 20-year lifespan of most patents, said Berghammer, the partner in Banner & Witcoff, who is also an adjunct professor in intellectual property litigation at Northwestern University School of Law.

Take the example of Coca-Cola. The decision made many decades ago to obtain trade-secret status on the formula for the popular American soda made all the difference to the company's success, Berghammer pointed out. The secret formula, which is known by only a handful of



Jeffrey A. Schumacher

people, is said to be tucked away in a bank vault in Atlanta, Ga.

"Coca-Cola is essentially a marketing company. If people were able to get the exact Coke formula, it would tremendously devalue the ability for Coke to market itself," Berghammer said.

The trade secret, he said, is "valued at over a billion dollars. That's how much the formula is worth to Coca-Cola because of the fact that nobody knows what it is."

For many companies in the rapidly changing technology arena, protecting the intellectual property for more than 20 years is not as significant, Berghammer continued.

For example, "IBM has a great idea for a new computer. They can file a patent application on it today, get a monopoly on it for up to 20 years, and [after 20 years] anyone can copy it. This makes sense for IBM to do because computers become obsolete in two to five years."

Depending on many variables — including the type of innovation and the stage in its development process — lawyers said they help entrepreneurs determine whether the technology is something that needs or qualifies for a patent, which could take several years to obtain and could be expensive depending on the nature of the patent.

"If it's something in the very early stages, unfortunately, those ideas may not get that far. I don't

want to spend their entire nest egg on protecting their intellectual property,” said Berghammer, noting that the initial costs involved in the filing and analysis of a patent application alone could amount to thousands of dollars. “That’s a lot of money if you’re a husband-and-wife team and you’ve got 20,000 bucks to launch your dream.”

What’s the plan?

A fundamental question for entrepreneurs — and the lawyers who advise them — is whether their newfound technology has the right stuff to build a company around, said Scott L. Glickson. Glickson is a partner in McGuireWoods who advises emerging and established technology companies in business organization, corporate finance and commercial matters.

Sometimes, Glickson said, he’ll first refer the client to an analyst who can evaluate the market for the idea the entrepreneur is presenting.

“We’re not necessarily in the business of evaluating the marketplace, but we always talk to the new client about whether what they have is a narrow product that they should produce, sell, and license to someone else,” he said. “Sometimes, it’s a really good product, but there’s not enough of a market to justify building a company around it.”

If the entrepreneur decides to set up a company to finish the development and begin marketing the product, lawyers like Glickson advise the client on the legal structure of the prospective company.

“Almost always they will pick a corporation or a limited liability company, because that protects the shareholders from personal liability,” Glickson said.

Entrepreneurs come to lawyers with different intentions for their ideas. Many of them intend to sell the company within a few years. For others, Berghammer said, “this is their idea of a lifetime; they want to live and even be buried with this idea.”

In any case, it’s a good idea for the entrepreneur to come up with a

business plan — a plan for commercializing the idea, said Jeffrey A. Schumacher, a corporate and securities partner with Sachnoff & Weaver. “If it’s in the early stage,” he said, “it might include projections on how much it will cost to develop, what type of revenue the company expects it could generate and what it would cost to get those revenues.”

Money matters

For most entrepreneurs, it takes a chunk of capital to get an idea off the ground and rounds of funding to bring it to fruition. It also takes

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much more than just a good idea to succeed.

“You can have the best mousetrap, but it’s not the mousetrap by itself that will make you successful,” Gruber said. “The numbers tell the story, the patents tell the story, the business people tell the story. You have to weave it all together to make a compelling argument to get it funded, and that’s what we try to do.”

A lawyer who is creative can be of great value to an entrepreneur, said Gray, the former investor who is a principal in Schwartz Cooper.

“You need to think differently than just turning a crank to work with them,” Gray said. “They’re seeing something new that no one else has seen before. They’re not selling masking tape to Home Depot; they’re not selling plywood to a construction company.”

“They’re typically doing something that hasn’t been done before, which is why there’s — hopefully — a lot of value being created in these

opportunities,” Gray said.

Lawyers who work with entrepreneurs who are building a technology-driven company also need to develop a wide network of all sorts of expertise, Gray said, “whether it’s other service providers, employees, partners, customers or investors.”

Seeking financing

Many lawyers said they open those networks to entrepreneurs, particularly when they’re seeking to finance the development of their innovation, and other costs involved in building the new company.

“Depending on the stage of the company, we try to introduce them to the appropriate investors. We make introductions, and people find more people and more money,” Glickson said. “From there, the lawyer’s job is to help the client evaluate the deal, negotiate it, document it and go through licensing agreements for the sale of the product in the marketplace.”

Berghammer has worked with investors in analyzing intellectual property. Those connections, he said, sometimes come into play when he’s representing an entrepreneur who is seeking investors.

“I can, if it seems appropriate, connect an investment group with a startup company so they can see if they want to dance,” he said.

There are several other areas in which lawyers said they can use their connections to help an entrepreneur on the road to a profitable business.

For example, Glickson said, an entrepreneur starting a software company may have expertise in the technology, but isn’t very business-savvy. “They may need someone to be their CEO, accounting services, or they may want someone in public relations. We make introductions to people we know,” Glickson said.

When it comes to acquiring capital, Glickson noted, it’s more difficult for a very early-stage startup without a final product and a customer to attract investors.

“They need to figure out a way to find money. They need to be able to

fund it themselves or beat the bushes looking for money until they've got a really solid product and customers," Glickson said. "The best evidence to an investor that there is a market for the product and that the product satisfies some need in the market is for somebody to buy it."

Unlike the "irrational exuberance" of the Internet boom of the late 1990s, when it was possible to get funding on a mere idea, today's technology entrepreneur needs to be further along in an endeavor, Schumacher acknowledged. "The really early developmental work is often done based upon savings and funds the entrepreneur has, and family and friends putting up some money," he said. "Most venture capitalists don't want to

invest just in an idea, unless the person had an incredible pedigree and had done several ventures in the past. Even then, it could be difficult."

Climate change

Now, six years after the Internet bubble burst, lawyers said they are seeing a more sober climate among investors in technology startups.

"The late '90s was the aberration; that should never be our benchmark. We are back into what I would consider to be a very normal, sensible investment environment," Glickson said. "Not everybody is getting investors these days, but good management teams with a good product in a strong market will attract investors."

For Glickson, working alongside the cutting edge of technology keeps his job interesting.

"I find myself constantly dealing with very bright, very energetic, very creative people who challenge me," Glickson said. "There's just lots of neat technology out there. It's a lot like Disneyland. People demonstrate this technology to you and I sometimes sit there with my mouth open."

And although it can be a roller coaster ride of successes and challenges for entrepreneurs and the lawyers who advise them along the way, the rewards can be lasting.

"You're helping people realize their dreams," Schumacher said. "It's both intellectually challenging and emotionally rewarding."★