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Foley and Lardner invests in, offers space to tech startups

BY ROY STROM

Law Bulletin staff writer

Tyler Spalding maintains a rather unusual relationship with his law firm, Foley & Lardner LLP.

He works in an office initially reserved for one of its partners. He pays his legal fees only when the firm thinks he raised enough money for them. And on top of that, an investment arm of Foley & Lardner put \$50,000 into his company.

"It's more about support rather than trying to make money off of us, so that messaging was also very different," said Spalding, CEO of StyleSeek Inc., an online shopping tool for men that predicts individual tastes.

All of that came about for Spalding through Catapult Chicago, a technology accelerator co-founded by Foley attorneys. They said they believe Catapult positions the firm to boom alongside a Chicago tech scene poised to take off.

Catapult, partially funded by the law firm but a separate legal entity, houses about 15 startup companies on a floor that the firm rents but remained unused after the recession, said Christopher C. Cain, a Foley partner and a co-founder of Catapult.

The various companies select any new members and the law firm's lawyers donate time to keep regular office hours for advising the startups, Cain said.

"There's no quid pro quo or direct tie between Foley and the residents here," he said.

But some of Catapult's blooming companies — StyleSeek, for example — receive an investment from the firm in addition to legal counsel.

Foley Ventures, a \$4 million investment fund launched by the firm last year, can invest in any round of fundraising that a Catapult company receives, Cain said. Two conditions exist: The company must call Foley & Lardner their law firm, and, of course, they must want the money, he said.

In StyleSeek's case, Foley Ventures invested \$50,000 in a total fundraising round of \$750,000 for the company, Spalding said. The money comes at whatever terms Spalding made with other investors, he said.

"It was surprisingly painless," Spalding said.

And even after StyleSeek's successful round of fundraising, it continues to hold off on paying its legal fees through a deferred fee program offered to legal startup clients, Cain said.

Couple Foley's investment of its lawyers' time, office space and, in the case of StyleSeek, \$50,000 in startup money, and the firm seems poised to prosper alongside a flourishing Chicago tech scene, said Galen R. Mason, senior counsel at the firm and a co-founder of Catapult.

"What all of this entails is (the firm) recognizing that there's a new market in Chicago," Mason said. "It's a growth market. It's going to be a major part of our economic livelihood now and for decades to come."

But questions exist. For example, how many Catapult companies need to be successful for Foley to win the bet it placed on fostering their growth? And, does a law firm investing in its clients pose any conflicts of interest?

If one or two "runaway successes" come out of the 15 companies at Catapult, Mason



(From left to right) Ethan Linkner, co-founder of VLinks Media, talked with Christopher C. Cain, a Foley & Lardner LLP partner, and Vishal Shah, a co-founder of VLinks Media, in an office, which the law firm provides. *Roy Strom*

said that will prove the business case for Catapult.

"Given the model, I think you'll see more than that," he said, adding that could lead to iterations of Catapult in other offices.

Mason said he thinks the program also provides nonfinancial benefits: The firm's transactional associates can cut their teeth representing Catapult companies, the bet represents an actual example of "excellent client service" and it helps brand the firm as a go-to legal source for startups.

Gabor Garai, the Boston-based chairman of Foley's private equity and venture capital practice, said Foley Ventures could create "at least a technical conflict of interest."

"You could argue that if you just cave and let the (investor) walk all over your client, that your investment is going to be a better deal," he said.

But in reality, Garai said a partner's financial incentives remain in-line with serving the client.

The size of the investment in each company remains relatively small compared to the \$4 million fund and the large number of Foley partners (about 70) who invested in it, he said.

So, an individual partner stands to gain much more through legal fees resulting from continued representation of a client as opposed to piggybacking with a predatory lender, he said.

The investment "indicates a level of confidence and enthusiasm about the client," Garai said.

StyleSeek's Spalding, who hopes to launch the company's product within the month, said that message came through to him.

"And if we can make them some money, great," he said.