

BIG FIRM TECH BY JAKE WIDMAN

The Rise of Virtual Deal Rooms

Legal proceedings generate paper. Lots and lots of paper. And business-related matters such as mergers and IPOs can easily involve thousands of paper documents that need to be stored, shared, read, commented on, and tracked. Wouldn't it be nice if

there were a way to reduce—if not the paperwork—at least the paper?

There is. An increasingly popular technology called a virtual data room or virtual deal room (VDR) provides a collaborative online workspace that is replacing traditional conference rooms filled with cardboard boxes. VDRs give legal staffs a way to provide and manage access to necessary documents without having to wrestle with stacks of paper.

VDRs first came on the scene about ten years ago, evolving out of the extranets that banks used to exchange information while cooperating on syndicated (multibank) loans. Outside the banking industry, VDRs were first set up to serve legal teams involved in mergers and acquisitions, to replace the physical rooms used for data storage that were necessary features of such transactions.

The idea caught on and has spread. In fact, according to Kurtzman Carson Consultants, an El Segundo-based company that provides VDR services, only 5 percent of M&A-type deals were conducted in VDRs five years ago; today it's close to half. Another vendor—Merrill Corporation in St. Paul, Minnesota—reports annual growth of between 200 percent and 300 percent for both sales revenue and number of users.

THE WAY WE WERE

Anyone who participated in a merger or acquisition in the "old days"—i.e.,

Jake Widman is a San Francisco-based freelance writer.

before 1995—well remembers the process. One current VDR user, who works in the corporate development department of a California construction company, recalled with a shudder: "We'd start with the due diligence checklist of all the documents we'd need from the seller—thousands and thousands of pages containing anything and everything about the company. We'd assign each page a document number and index it against the checklist. Once all the documents were cataloged and indexed, they'd be loaded into bankers' boxes and transported to a conference room at a law firm."

Usually it worked out OK, but it was hardly efficient. Consider that:

- To maintain security, a representative of the hosting law firm had to be physically present in the room whenever anyone was handling the documents to monitor what was being looked at and make sure nobody left with or copied anything without permission.
- It was easy for documents to get lost, misplaced, or refiled in the wrong place.
- Anyone who needed to review the documents had to send a team to the data room site, spending money on airplanes, hotels, and so on.

VDR Vendors

Bowne & Co. Virtual Dataroom www.bowne.com 212/924-5500	888/463-4643; 713/355-1111	Merrill Corporation DataSite www.merrillcorp.com 800/688-4400; 651/646-4501	Searchlight Virtual Deal Room www.searchlight.ca/ virtual.dealroom.htm 604/255-4620
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FileControl Partners Deal Room www.filecontrol.com/ Solutions/Legal/ dealRoom.aspx	Kurtzman Carson Consultants KCC DealView (in partnership with Firmex) www.kccllc.com 866/381-9100	Xchange Network XC Vault www.xcnetwork.com 734/913-5810	

Apart from the terrible inconvenience of doing business this way, it also opened the door to a certain amount of skullduggery. For example, one former data room user, now with a VDR vendor, recounted how his team would purposely reschedule meetings at the last minute to disrupt their rivals' access to the documents. They'd also loiter outside the building where the data room was located to find out who their rivals were by seeing who entered.

VIRTUAL BUT REAL IMPROVEMENTS

Moving data to a virtual rather than a real data room takes care of all those drawbacks.

First, the party providing the documents can get them ready for viewing much more quickly. As one corporate development customer observes: "What took me three months and a few trees, I can now do in 48 hours."

Second, nobody has to travel. The documents are online and can be accessed from anywhere there's an Internet connection. Aside from the cost savings, this also means that when participants do travel, they don't have to worry whether they have the right documents with them. They never have to call back to the home office to get something faxed or

copied and overnighted to where the meeting is. This eliminates another common excuse: Now nobody can blame delays on not having the necessary information.

Furthermore, the documents are more secure. Participants in the transaction must sign in to the deal room with a password, and the privileges can be set up to grant or restrict access to the documents on a section-by-section or even document-by-document basis. Some visitors might be able to print a

watermarked version of a document but not save it to their local computer; others might be allowed to read online but neither print nor download; and so on. This means no one has to be assigned to monitor the documents—the software takes care of that.

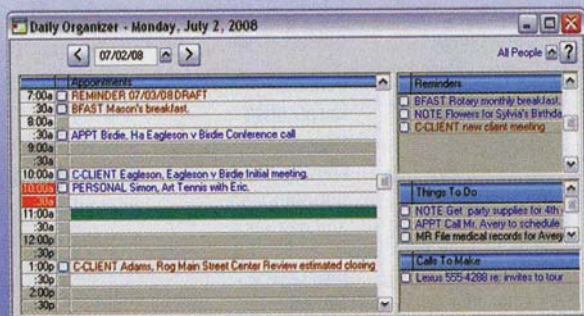
And because the documents never physically leave the room, they can't get lost or misplaced. One VDR provider estimates that its clients have reduced the time required to reach business decisions by a third to a half

MAKING A VIRTUAL CHOICE

People who've used VDRs suggest taking the following steps to determine which vendor and which approach are best for your specific needs.

1. Get a demo. See what it's like to log on to the VDR and try to find a particular document to review. Is the navigation quick and easy to learn?
2. Make sure you can intuitively understand the interface and how the VDR is organized, if only because you're likely to be training *your* clients how to use it.
3. Make sure the VDR has the particular features you need, such as watermarks on printed documents or behavior tracking.
4. Get a clear idea of how many hours of consulting time are included in the base price and what the hourly or page rate is once you have surpassed your included hours.
5. Determine how many users the VDR vendor allows you to have.
6. Find out how much control you have over who can see what, and what they'll be allowed to do with it.
7. Determine how much autonomy you have: Can you modify the site or add documents to it if you want to?
8. You should also understand what kind of service and tech support is available. Can you reach a live person 24/7 to get your questions answered or a breakdown fixed?
9. Watch out for hidden charges, and make sure your invoice will contain a complete itemization of all costs.

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just because it's so much faster to find needed documents.

VDRs also have at least one feature that physical data rooms can't match: Not only does the software grant access, it tracks usage. A VDR can generate reports on who's looked at what documents and how often. That means a company looking for a buyer can see who's really interested and who's just kicking the tires.

VDRS IN ACTION

So how do VDRs operate in the real world? Certainly, if you just want to make documents available online, you could load them all onto an extranet or FTP server. But then all you have is a directory full of documents. Who's going to establish the various levels of permissions? And how are you going to keep track of who's looking at what?

These are the kinds of value-added services a VDR vendor offers. Once you contract with one of them to establish a VDR for you, the first thing it will do is scan all your documents. Some provide the scanning service themselves, while others subcontract that part of the operation. You might send your documents to a regional scanning facility, or for security or other reasons the vendor might send a scanning team to your location. (One company boasts it flew four people with scanners to a foreign capital to scan 250,000 pieces of paper to support the sale of an airline.)

Next, the vendor uploads the documents onto the data room server, arranges them in the proper hierarchy, and prepares the document index the users will see when they log on to the data room. Most vendors can personalize the data room in some way—some will set up a welcome page with your company's name in the URL (so users will log on to something like www.yourcompanydataroom.com). Others take it further and add your company's logo to all the individual data room pages. When all that's been done, you're ready to invite visitors.

These services come at a cost, of course. One vendor estimates an average site for its clients runs \$12,000 to

\$13,000. There's almost always a per-page fee, based on the documents hosted. In some cases, the per-page fee includes all the associated services (scanning, indexing, site management, tech support). Other vendors may charge a lower per-page fee but add separate charges for the additional services. The advantage of the first approach is that it's easier to project the final cost, while the à la carte approach is more flexible and could save you money.

Some firms also offer data rooms on a subscription basis, with a fixed monthly or annual fee. That allows a client to use the deal room for all its transactions, without having to pay separately for access to each one.

Once you settle on the vendor that's right for you, you're on the way to freeing yourself from the paper burden and to achieving, if not the paperless office, at least the paperless deal room. **EL**



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Lanier Law Firm, P.C.
2029 Century Park East
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800 723-3216

www.lanierlawfirm.com