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Atrium shuts down, laying off 100

32-40 minutes

I swung by the Atrium booth at the Startup Grind conference a few weeks ago. A former lawyer, I was curious to hear their pitch. It was basically: we get you cheap lawyers, and we help them find new clients.

I asked if all of their lawyers are based in the US, and they couldn't give me a straight answer. Eventually, when I said "well, of course they must all be US-licensed lawyers, right?" they said "oh, yeah, they must all be in the US then."

It was not a confidence-inspiring conversation, and I can't say I'm surprised that they're shutting down.

Legal is a notoriously sluggish industry, one that's almost infuriatingly incapable of adopting change and technology. Atrium's original pitch was *exactly* the opposite of what most legal teams are used to interacting with, and I can't think of a single biglaw attorney (sorry for the anecdote) who had faith in the idea or its execution.

The original concept, as a reminder: <https://techcrunch.com/2018/09/10/atrium-legal/>

Now it's easy to say that this should've been obvious in hindsight. (Should've been obvious to me, anyway; I cold-mailed Justin and Nick years ago looking to build a specific function within Atrium to address concerns I'd heard on background about the service offering; I never did hear anything back about that.) But that said, I can't help but think the original pitch by Atrium was just too bitter a pill for the most conservative industry in the United States to swallow. Shoot, lawyers are bizarrely resistant to moving to e.g. Signal to preserve attorney-client privilege; given this, I have a hard time thinking of many who would trust ML models with understanding case-law.

I believed that law was a sluggish, tech-averse industry when I signed up to join it. But I don't see it living up to its tech-resistant reputation. It's very easy to blame the customer that way, when you have something to sell. As a lawyer, a coder, and legal toolmaker, I've been there. But my lived and observed experience of practice is that lawyers adopt what makes them competitive.

As a result, they've often been early, broad adopters of general-purpose office and productivity technology. Sometimes to their eventual detriment overall, by standardizing on an early generation at the expense of later incremental improvements. But at the same time, I think US lawyers as a class are remarkably resistant to whiz-bang pitches of especially law-specific solutions. It's easy to sell a lawyer some technology that their counterparts are using to run circles around them. It's hard to sell a lawyer some technology with a change-the-world, techno-solutionist pep talk.

Anecdotally, I can't say how many times I've attended or watched pitches by tech-focused people, business managers, or technophile lawyers with very little practice experience hocking half-baked solutions held up as replacing or supplanting lawyers in some way. My reliable takeaway from those pitches is that the founders don't know what lawyers do. When I ask about tablet ownership, cloud service adoption, security standards, terms of use for professional ethics requirements, or Lexis terminals in the 60s and 70s, it's usually a big, blank stare.

I'm curious to know what firms you've practiced at that weren't tech-sluggish. Were they run by 55+ partners, or younger folks?

I'm a "transactional lawyer" who negotiates contracts, forms companies, handles regulatory issues, and advises on strategy. That's as opposed to a "litigator" who handles court cases. But I've actually seen practitioners outside my own specialty who've integrated newer technology much more deeply. Automated case assessment in some immigration practices, for example.

In my experience, there is some correlation between technology and age. But keep in mind that 55 year old lawyers were born in 1965, started coming out of law schools in the late 1980s, and became established in the early Internet era, before the bubble burst.

Part of what you're getting at might be down to how the role of older lawyers tends to change, especially in firms. I would say most older lawyers in transactional fields do far more advisory and strategic work, akin to consulting or even lobbying, than issue research, contract review, or routine drafting. If the senior partner's working pretty old school, but all the junior partners, associates, secretaries, and paralegals under them use their own tools, that's still a pretty newfangled picture, overall.

Part of it may also be certain specialties that deal routinely with government bodies, like court systems and regulators, with their own adoption curves. But don't jump to conclusions there based on standards for consumer technology. The websites may look clunky, and the interfaces may be pretty retro. But the databases involved are often functionally complete, resilient, and workable for the severely outnumbered public servants that use them most.

I made tools to automate parts of my Canadian immigration practice, (as a non-lawyer, licensed legal services provider), but that was only increasing my profit and ability to scale. What I really got paid for was perceiving what the customer wanted, and matching that with what they could endure / afford / likely become eligible to do, while reassuring them they could still be happy. This part could not be automated.

Perkins Coie.

Well known clients include msft/uber. Bitcoin/cryptocurrency practice is well regarded.

I think being close to a lot of tech clients helps. We get some flack for shunning slack/teams/gchat4business/stride/chime or wtf amazon uses/workplace by fb/etc and relying on "antiquated" email. We definitely prefer to work more in thoughtfully composed emails compared to a fluid team chat. It's also easier to organize and manage.

However, I've been pleased with my colleagues ability to ask relatively smart questions about ML. For example, people are pretty good at responding to ML hand wavey bullshit with specific questions about training data, labeling, features, model architecture, etc.

IMO, we have some younger, eg 40-50, people in leadership positions in my practice group.

One of the most impressive tech lawyers I've met is a corporate Perkins guy, so I can believe it.

I actually used to work in their Palo Alto office — back when it belonged to MWE in 2007-2009. The new lobby that Perkins built is much nicer!

"Our clients depend on our ability to receive their messages reliably and respond efficiently. We can't settle for less than decentralized, asynchronous communications over standardized open protocols."

Just be advised that if the prospect's head actually explodes, you may face capacity challenges to your engagement letter when you bill.

The other thing about the original vision is that it isn't even remotely clear what the hell they're doing. Are we really talk about having ML models understand caselaw? (In which case, thompson

reuters is going to be way ahead anyway always, and they suck, see, e.g., the horror that is the latest version of westlaw.) Or are they talking about building a bunch of efficiency tools?

I feel like the latter model could have worked as a law firm doing the latter. Like, an actual, ordinary, perfectly milquetoast, law firm, hourly billing and all, except with an R&D division that tries to build workflow efficiencies and uses them to compete on hourly rate. Which, come to think of it, isn't that just what Dentons is doing? So maybe it's just American lawyers that are hopelessly hidebound.

Several decades ago law firms were among the first to adopt PCs for word processing and then LANs for file sharing. They will absolutely adopt new technology when it actually works.

Part of the reason law firms are resistant to technological change is that they are paid hourly (for the most part) and therefore do not yearn for efficiencies. If it increases efficiency, they will literally lose money in hourly billings.

Well if you think about it, the original concept behind Atrium was to kill a business model.

Kinda difficult to effectively pay lawyers to shoot their own feet.

Also they could have hired lawyers with US law degrees who passed various US bars but who live in India. Doesn't sound like whoever was at the both had the faintest idea of what was going on.

That's how radiologists could analyze x-rays and such remotely: they were actual US-trained radiologists with licenses in US states who preferred to go home to India.

True, and I actually considered possibilities like this. But it would be pretty difficult/expensive/time-consuming for people to come to the US, go to law school, study for and pass the bar, and then go back to a low-cost-of-living place to practice law.

In most states, you have to go to an accredited law school in order to even sit for the bar, and all of such law schools are located in the US (and charge commensurately-priced tuition). I believe there are ways around this in medicine because you can go to medical school elsewhere and then sit for boards in the US. Even if you have a foreign law degree, you still have to get a 1-year LLM (\$60k) in order to sit for the bar.

The most expensive lawyer is one the one that loses. Going cheap on legal representation is not great business advice.

I'm not sure what your first sentence means, but you're absolutely right that some GCs go with expensive outside counsel precisely because they're expensive. If it's a legal matter that's critical for the company, the GC can get blamed for going with a cut-rate firm, but not for going with a firm that's 'too expensive'.

> Atrium had attempted a pivot back in January, laying off its in-house lawyers to become a more pure software startup with better margins. Some of its lawyers formed a separate standalone legal firm and took on former Atrium clients. But Kan tells me that it was tough to regain momentum coming out of that change, which some Atrium customers tell me felt chaotic and left them unsure of their legal representation.

It's hard to detect my own bias of course, but this seems like a really cynical move. I understand the need to improve margins but essentially trying the *train our processes so we can fire you* is off-putting and borderline offensive to workers. For positions closer to the furnace of automation and jobs that are generally dangerous that people don't take pride in it can be minimally destructive but law is not one of those professions.

It's preferable to get into businesses that don't screw over anyone, but if you're going to screw over someone maybe don't screw over smart highly paid professionals that are providing your core value proposition.

> Broke both elbows, lost a tooth & left a smear of my face on the road

That's an injury that will keep you in bed, giving you a moment to really look if you're collectively as a company making the best effort on solving the right product/market fit. Which he clearly couldn't find, nor roll off some of the law-firm tools they built I guess? But the actual law firm of lawyers they got together is still running which is good, so it's not a total loss, plus some money back to investors.

It's difficult to get proper perspective sometimes being a founder, you get mired in details and fantasy growth possibilities, and startup runners constantly need re-committing themselves for the tough fight going forward. It takes balls to finally admit defeat, especially with a solid track record.

So ultimately I wouldn't be surprised if this gave an opportunity to step back and take some perspective, while he's stuck in bed in recovery mode.

Legal industry is already tech-enabled. Templates, digital docs and signatures, OCR, AI/NLP/semantic processing, collaborative editing, and more are already used by modern law firms. There's no easy software-based efficiency left to find.

The major work is still done by humans because of the liability, complexity and customization of every case. The next step requires a revolution in legal process, not just more software.

One of the worst contracts I ever had was for a small company running a SaaS for divorce attorneys to help manage their cases.

The main selling point was that it would re-create state forms on the web and allow an attorney to fill them out, print them, and manage a case.

These forms would change many times a year and they were written using horrible PHP libraries that required every piece of the form to be drawn using coordinates. If one thing changed on the page (which happened often), all coordinates would shift and have to be re-written.

Aside from this, the owner had the first version written by developers overseas a few years earlier and I was hired as part of the 2.0 team that consisted of more inexperienced overseas developers and resulted in even more of a mess than version 1.

Some gems from the owner:

She once put on her LinkedIn profile that one of her accomplishments was the ability to hire developers on a volunteer basis or well below market value. It was taken down within a day.

I was finally let go and was told straight to my face that she was going to hire someone from India for 1/3 what she was paying me.

Never really seen a "pivot to tools" work (after I tried it with one company, and it failed, I started noticing when others tried it too).

In the case of Atrium, it also sounded like their "pivot to tools" was trying to take many of their existing (ex) employees on the legal side, and convert them into clients of the tools.

While the legal and tools companies were together, I'm sure the lawyers enjoyed the shiny tools. But after the "pivot", with the lawyers seemingly going it alone with some of the former clients, it seems likely to me that Atrium (the tool) just wasn't offering enough of a value proposition to make the tool company profitable.

Venture money needs massive growth. Selling a tool to lawyers will get an amount of money per month proportionate to the number of fee-earners. And from the sounds of things, their tools weren't exactly going to be irreplaceable. Anyone got any direct insight as to if the tools themselves were compelling but the pivot failed, or if the tools didn't deliver?

Good example!

It wasn't quite what I thinking as it isn't really "our game startup failed; let's sell game tools" but still it counts.

I see business services companies build tools in their vertical industry and become successful all of the time. You just can't take venture funding.

The question is over a pivot from "I'm going to provide product/service X at a profit due to my tool T" to "Well, I couldn't sell X so I'll sell T to other people who want X". If you couldn't make a go of it, is it really likely others will, or if they can that they will want your tool T to do so?

This is different from either providing a service and *successfully* using your own software to do so or providing a service and developing as well tools specifically for your customers.

Slack was suggested by another poster as a company that pulled this off, though I'm not sure the communication tool was considered crucial to the game business.

The pivot never got started, they just announced it. Atrium was continuing their existing model/had the lawyers employed until March 1st.

Kudos to shutting down instead of dredging on. It's never an easy choice, but giving everyone closure helps everyone to move on.

They shut down with 75 million in the bank a couple months after the pivot. I think there is more to the story.

Even if there was 75 million in the bank, what would they do with it? Burn it, keep trying to pivot, run out of investor goodwill when all the money is gone and nothing to give back? If Justin ever wanted to start another thing in the future, that would be a hard sell if this burn happened.

Not trying to attack -- just typing out the questions and consequences to think about.

They do not have 75 million in the bank. They returned *what's left* of their 75 million raised back to investors.

I contacted atrium in December to see if they could help me with an acquisition, but they didn't even want to take me on as a client because I wasn't big enough yet. I should have guessed there was

some trouble behind the scenes. I ended up just going with my gut, doing my own quick study on acquisitions, and went ahead with the acquisition without a lawyer on my side looking things over.

I think it turned out ok... time will tell I guess.

It didn't really seem like they were doing anything an existing firm couldn't do efficiencies wise. And maybe already has /has found where it works or doesn't.

And the customers who want legal help for cheap(er)...just don't seem like the people who you make money off of.

Any customer concerned enough to know about this service probably wants more from it.

Anyone that would be a good customer, might never find them / isn't doing much in that area anyway...

Another "AI" hammer looking for a nail to solve bites the dust. I hope those 100 employees land on their feet.

It sucks. Not even sure they should've called it so fast, why not keep going and try to figure it out till the money runs out. Investors would be OK with that.

I wonder when Justin lost his conviction? I don't believe you can lose conviction in 2 month.

If you're already rich (as Justin is) and realize how big an upside can be, why not flush the toilet and start over? For a guy like Justin, time is the most precious commodity because money is meaningless.

This is great advice for an established founder, which might be why it's simultaneously one of the most damning reasons to avoid working for one.

Working at a zombie company with very little chance of success isn't a great gig either. Shutting it down cleanly, paying decent severance, and letting the staff move on is a good move for them too.

Absolutely, but at the same time, the founder and team with nothing to lose is more likely to pull a rabbit out of that blood-equity-soaked hat.

I'd rather pitch into the latter, which I suppose is sunk cost fallacy manifest.

It can be really brutal.

One of my earlier startups had multiple acquisition offers which would have made all the shareholder employees quite happy, but since the offers wouldn't have moved the wealth needle of the already wealthy founders by an order of magnitude, they turned them all down.

Years later and \$100m+ of VC money burned the place went bankrupt and I now have some very expensive toilet paper in a folder somewhere.

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This is distressingly common, and not just in the valley.

I've seen numerous film deals fall apart because the producer didn't want to take a 10-30% discount on their standard fee (we're talking in the realm of a \$150k discount on a personal take of 500k-1.5m on a deal), films that otherwise would've actually been made ended up falling apart because someone wanted to extract just that much more value.

Kinda like overplaying the market, really.

working at a zombie company that has no traction is not fun for anyone

part of the "challenge" of being a famous founder is you can raise pre product.

\$75M seems insane for a company like that. Burn couldn't have been that high, mostly rent and salaries, no heavy computation, etc.

100 people x 150k yr = \$15M. Add insurance, office, heaaavy marketing, sales commission, non-frugal everything.. I'm guessing \$20-30M over their 2+yrs. Maybe even more on people bc hiring lawyers.

Weirdly, the investors are happier with that than 5 smaller series A's of money-making / real-IP companies with existing growth engines. Easier to bet on nothing vs improving.

I do find the flameout odd, and not isolated to Atrium. Why flameout vs spinoff a small business for folks who wanted to continue? Same difference to the investors, but meaningful to the lives of the believers. Worst case, just OSS for them..

Thinking more: A good comparison is Carta, also in legal, whose funding was more correlated to revenue and growth.

The end of the first paragraph says: "*The separate Atrium law firm will continue to operate.*" The legal talent already did spin-off with the last pivot.

Wouldn't rent and salaries (at least in the SF Bay Area) almost always be vastly more expensive than computation?

Depends on the company. If it's a marketplace like Uber then you're burning a lot of operations. If it's ML or heavy compute then AWS bills.

Honestly surprised a bunch of VCs haven't gotten together yet and built out their own compute for portfolio companies considering how much VC money gets shoveled into the AWS fire.

Think about the hundreds of engineers they'd need to hire, purchases for hardware and software, security approvals, etc. that would all need to be spent up front with no guarantee that it'd actually be cheaper. Beating the major cloud providers requires some combination of large scale and/or cutting corners and most companies are not at the point where the infrastructure costs beat the staff time needed.

This sort of thing actually does happen, right? Isn't that basically what WeWork was, but for all the VC money companies are spending on office space?

They noted in the article they didn't spend all \$75M and that they are returning some to investors. That was probably part of the decision to shut down quickly to get some money back to them.

Sort of related, genuine q for the founders who've raised money and lost it (had to shutdown): how did you feel about losing investor money? Did it make you gun shy about raising again from investors? Did you retain good relationships with them? Does credibility take a hit?

Would you retain better rapport with the investors if you returned money and started something fresh rather than persisted when you were lacking conviction?

I don't think a guy like Justin lacks conviction. Justin.tv required huge conviction. If you don't recall, it was founded in 2007 -- just prior to the financial crisis -- with the unique idea of allowing people to live stream on the internet. Today, live streaming is just a feature of Instagram, Facebook, and other major services. But in 2007, it was revolutionary. Twitch was the breakthrough, but it took four years of grinding to get there [1].

In the case of Atrium, I'm sure that the investors would have had plenty of board-level conversations about the potential trajectory of the company. The decision to shut down and return funds was likely endorsed by the investors, if not proposed by them, who would doubtless remain extremely keen to invest in whatever Justin comes up with next.

[1] <https://techcrunch.com/2014/08/05/justin-tv-shuts-down-to-le...>

I meant conviction with regard to Atrium. Was responding to the idea that he could've stuck it out and burnt through the money persisting as opposed to something new.

Well, I guess only Justin knows and maybe their board. Chances are they figured there was no viable path to wild returns.

what if a startup charged \$300 per month for all you can eat email legal advice backed by a rich library of templates? they would instantly dominate and there are 6M small businesses in the USA alone

Cookie cutter legal advice is a landmine/footgun for a business. Even Stripe Atlas will lead you down a dangerous path if you don't check with a lawyer when incorporating. Don't fuck around with business legalities, it ain't worth it.

Unfortunately, if you even *think* about your attorney, you'll be charged for it but the peace of mind is worth it.

Having a lawyer you trust, is timely to questions, and works fast is just a layer of stability you need so you can focus on the important parts of a startup. Legalzoom is garbage in this regard.

It sounds like you have a story here about Stripe Atlas, although I'd understand if you're not eager to share.

It's not a bad service at all and the staff are lovely and have fantastic events! However, if you incorporate with them have a lawyer review your docs and ensure you hit all timelines around filing correctly: buying your equity, submitting 83bs, state and federal stuff.

The product makes you feel like it's a one click thing but you need to check in with a lawyer to not forget anything. Most ppl who used Atlas have told me the same. I do recommend Atlas since you will save some money and you get some nice fringe benefits.

More like an hour of a good lawyer time. Mine charges \$350/hr. But your point stands. I don't see how his work could be done with "templates". Most of the time I pay him for contract reviews.

High end firms can easily be \$800+/hr for attorneys. I believe Wilson Sonsini was \$1200/hr for an attorney I was recommended.

That's high-end. Most of the time, all you need is a mid-level/independent lawyer that charges less than \$400/hr or even bills on per-project basis.

Cost also doesn't guarantee quality. You're paying for resources, specialization, general counsel that can delegate, and insurance against mistakes. Useful but only when you really need it.

That's true. But for a big enough deal, you want partners to be reviewing — at least at a conceptual level — the way the deal is structured.

I've seen agreements that were 99% good, but a problem in the other 1% made the whole thing worthless.

You don't have to use \$800+ attorneys. Most people use no lawyers at all, and sign shit without reading. You aren't getting three times the lawyering for three times the price.

templates for common cases make a lot of sense, but \$300/mo isn't going to get anywhere for "all you can eat".

\$300 might cover a simple contract review, maybe by volume you can cut that in half - so if you are talking 1-2 "tickets" a month, maybe you are covered. Sounds risky to me in a back-of-envelope way.

Of course, a bunch of people are trying variations of this idea.

Let's wait for the full autopsy but perhaps a better strategy would have been supplying tools and

software to lawfirms, aggregating data and knowhow and then pivoting to an “automated” law firm as a service.

But hindsight is always 20/20

> a better strategy would have been supplying tools and software to lawfirms,

tools and software for patent law are abundant and low value. you can't just say "tools and software for [INDUSTRY]" and assume a business model exists there. you need some insight into how firms operate.

> aggregating data and knowhow

law firms are not going to give a startup access to client data. especially in any format that could be aggregated. 0% chance. confidentiality, privilege, and patentability, are essential. it goes against our business model and professional obligations.

> and then pivoting to an “automated” law firm as a service.

the portion that could be automated is 10% of the value. experience, both with the practice area and the client's industry, are 90% of the value.

think of stackoverflow, yes an applicable code snippet exists on there, but understanding how it works, what its going to do, and the larger implications is the valuable bit. you can't automate that.

Plenty of software companies make a lot of money selling to lawyers. Clio (<https://www.clio.com/>), for instance, is a SaaS that helps lawyers run their practices better. It doesn't try to replace lawyers; it just saves them time on the bullshit of running a firm. Kira (<https://kirasystems.com/>) automates due diligence, which is a labor-intensive (and hence costly) process that nobody loves doing, but which does generate a lot of billable hours for paralegals and support staff.

Indeed, Clio is absolutely crushing it. They closed a monster \$250M round last September - and this is a company headquartered in Vancouver, not San Francisco, so the bar for raising that kind of money is truly up there.

I saw some reviews online here and there and it sounded like the biggest complaint was that it was expensive for what it was and it was never clear who would respond to a request and when (e.g. fungible lawyers taking random requests)

Most startups will want to build a relationship with an actual lawyer, and having something like a LegalZoom for startups didn't make sense for most.

This. With every 'failure' of a company there come those who don't know the full picture and begin with 'guesses', 'maybe's' and other 'reasons' why it failed. The sensible thing to do is to wait for the details.

Because at the end of the war or a death of a startup, everyone is a field marshal analysing the failure afterwards.

The hybrid model made little sense in VC-land anyways. Gross margins were not as high as a full SaaS model. The transition to a full software model was never clearly laid out and seemed more wishful than anything.

I always wondered if the hybrid model was an experiment at ways around regulatory barriers to lawyers sharing fees/profits, a la a global multinational leasing the very expensive brand, logo,

and internal software from tax-haven incorporated HQ... It's not sending away profits, it's just licensing some incredibly valuable IP, honest!

If the legal services arm was able to license the name and technology in a permitted way (like how a law firm can of course get their website and IT done by experts), it would seem to present an experiment at whether such a structure could act as a conduit to channel fees back into an investment vehicle.

May be his tweets were a reflection of his inner journey and struggle with where the company was headed? Let's be kind. This is not easy.

I have been following Atrium almost since its inception after being flagged by Andreessen and Justin was from the beginning tweeting pseudo-inspirational thoughts. In interviews he seemed more concerned with the story (serial entrepreneur / Twitch founder aims to disrupt legal field) than the content of the company (why the hybrid model? how is this going to move forward?).

I'm sure the amount of attention he dedicated to his tweets was vanishingly small compared to his startup. Why did his tweets trigger you?