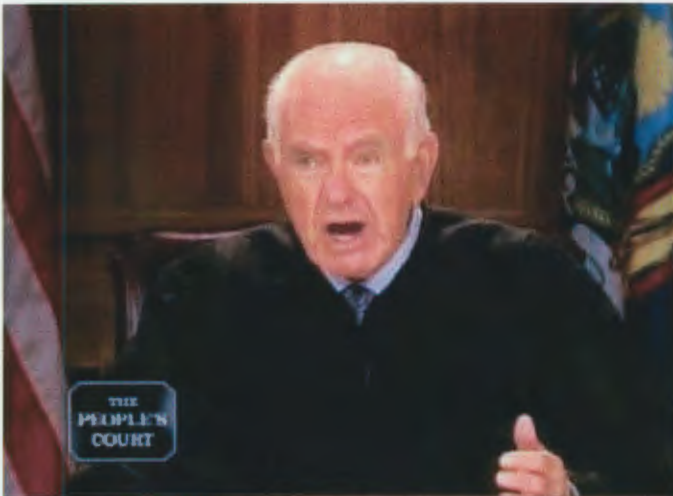




We're talking about small business success.

The Perils of Acting as Your Own Lawyer

by Lorna Collier on February 3, 2011



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Tough times call for cost-cutting, and that legal line item can be a big one. So what's wrong with acting as your own lawyer, especially when it comes to simple matters like basic contracts between friendly companies?

[John Klymshyn](#) found out the hard way that sometimes, as the saying goes, it's better to be penny-wise than pound foolish. Klymshyn is an author and sales coach who signed a high-dollar, long-term consulting contract with a large public company, without having his lawyer look it over first. He trusted the big company — only to find that the deal cost him \$137,000, plus the rights to his intellectual property.

"The first thing my attorney said when I asked her to help me

after the fact was, 'And why exactly was I not asked to read this *before* you signed it?'" says Klymshyn.

"Painful to hear, but she was right — \$600 to \$800 invested upfront could have saved me many times that."

New York attorney Jason Pickholz points to another example, popularized in the movie *The Social Network*. In the film, which is based on real-life events, Facebook co-founder Eduardo Saverin signs an agreement — apparently without his lawyer reviewing it first — that ultimately costs him about 20 percent of the company, recently valued at \$50 billion.

"If he had paid a couple of thousand to have a lawyer look over that contract, he would have made billions of dollars more," says Pickholz.

Pickholz himself hired other lawyers when he started his own law firm recently. Even though Pickholz himself knows how to draft contracts, the firm he hired found tax issues he hadn't considered.

"To set up a small business, you need to be smart, and a smart person knows a lot of things — but a wise person knows what he doesn't know," says Pickholz. "You don't need a lawyer for what you know; you need a lawyer for what you don't know."

The problem arises when people think they know things, but actually don't. The law, after all, is a complicated beast.

"We lawyers get a ton of business from 'do-it-yourselfers' who mess things up," says Patrick Hudson, an Austin, Texas, commercial real estate attorney. "Just yesterday a client came into my office with a letter from a state agency that was investigating him for making loans with interest that exceeded legal levels. Had the client come to us first, we could have counseled him on the rules... Now they have to hire us to fix these loans and work through the state investigative process."

Also, keep in mind that if you're facing a court action, many states require corporations to be represented by counsel, which means you legally can't act as your own lawyer.

There are ways to cut legal costs that don't involve eliminating lawyers. More attorneys today are willing to consider flat fees or other types of fee arrangements, as opposed to billing by the hour (which can result in higher, surprise costs). Or, you could try taking on some legal tasks yourself — copying large files or drafting boilerplate contracts — and then use your lawyer to review them.

About Lorna Collier

Lorna Collier is a business and technology writer who has contributed to the Chicago Tribune, CNN.com, Crain's Chicago Business, Smart Computing, and many other websites, newspapers and magazines.

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