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# 'E-discovery' legal software business soars

**The fragmented, competitive market is worth almost \$3B with more than 1,500 players**

**Premium content from Sacramento Business Journal - by Kathy Robertson, Staff writer**

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Unify Corp.'s dramatic decision last week to change its name illustrates the power of a booming new market for software that archives, searches and tags legal documents for lawyers.

The fast-growing Roseville technology company acquired San Francisco-based Daegis Inc. in June 2010. Unify specializes in converting documents from old formats, like Lotus Notes, and making them searchable. Daegis is an "e-discovery" company that provides technology and services to lawyers to help them access the documents they need in court.

Combined, the merged company — now known as Daegis — will focus on e-discovery, which is now the largest and fastest growing segment of the company, chief executive officer **Todd Wille** said.

E-discovery requires pulling together documents — emails, letters stored on hard drives, legal forms, handwritten notes and even text messages — and converting them to a common format. Those on paper must be scanned and

added to the database. Then software allows documents to be searched for key words or phrases.

For lawyers, "e-discovery is the latest frontier," said **David Melton**, a shareholder at the Sacramento litigation firm Porter Scott APC , in an email.

"The difficult part is managing large amounts of data and finding what you are looking for in a cost-effective way. The days of printed-out documents in three-ring binders are over."

It's a fragmented and competitive market worth almost \$3 billion with more than 1,500 players striving to meet niche needs or be the first to come out with something that does it all at a price law firms and their clients are willing to pay.

"Competition is intense and there are a huge number of providers," said **George Socha Jr.**, a lawyer and consultant in St. Paul, Minn., who teamed up with **Tom Gelbmann** to conduct what was considered the definitive annual survey of the electronic discovery market. "It's very fragmented and not very well understood. Decisions are made (on the basis of) whom you know."

### **Trust plays a role**

Daegis is poised along with many others to make a strong go of it in the market, Socha said.

"In essence, Daegis has taken over Unify ... if the company is going to grow, that's how," he added. "But so much is a guessing game. All Microsoft has to do is come out with a better way to manage Outlook and information governance policies for email and the market would change dramatically."

There's local competition eyeing the market, too.

iDiscover Global Inc. and Capital Digital Document Solutions are a booming local business pair that complement each other as they search for a way to do it all.

A public company traded on the Nasdaq under the ticker DAEG, effective at the close of business July 6, Daegis has 100 employees in San Francisco, 50 in Rose-ville, 25 in other countries and 35 elsewhere in the U.S.

Simultaneous with the name change, the company reported a \$16.7 million loss on revenue of \$47 million in the fiscal year ended April 30. That compares to a small profit of \$124,000 on revenue of \$28.6 million the year before.

The difficult part of the transition is over and revenue is expected to ramp up quickly, Wille said in an investor conference call July 6. The company also announced a \$24 million credit facility with Wells Fargo Capital Finance.

E-discovery is a fragmented market in part because companies must adapt to different state laws and build local relationships with lawyers, said **Rudy Rouhana**, the company's director of marketing.

"It's human nature to trust people close to (you)," Rouhana said. "It's not just a law firm who is a customer, but a specific partner. That makes it even more challenging as a service company."

Some companies just sell technology; some are pure service providers. Others want to do it all.

Daegis offers information processing, search and document review. The Unify side of the company offers archiving and document management.

"The goal one day is to merge into an end-to-end application," Rouhana said.

### **The race to end-to-end**

iDiscover Global and Capitol Digital are riding the market, too. Both were founded by local entrepreneur **Lucas Mageno**.

Capitol Digital offers litigation support services that include online review tools, imaging and photocopying services, digital color printing and e-discovery processing and coding.

Mageno grew the company from a document copying service in 1999 to an all-electronic imaging company in 2006, when he sold the business to branch managers but kept the intellectual property. The company, with about 30 employees, is located on the second floor at 555 Capitol Mall.

Capitol Digital serves several local law firms and lawyers that include DLA Piper US LLP, Boutin Jones Inc, Orrick Herrington & Sutcliffe LLP and the U.S. Attorneys Office, according to president **Dave Wilkinson**.

The company expects to generate \$2.8 million in revenue in 2011.

iDiscover Global headquarters are upstairs on the fifth floor at 555 Capitol Mall.

The company has about 40 employees and generated revenue of \$5.6 million in 2010, said Mageno, who is the chief executive officer. It helps law firms and corporations tackle high-volume, complex e-discovery challenges. It uses a blend of proprietary technology and partnerships with other players to serve clients in boutique law firms to Fortune 500 companies.

For example, in 2009 iDiscover Global announced a partnership with kCura Corp. to bring the Chicago company's web-based litigation support platform Relativity to its clients.

The local company is developing products of its own, too. A new Early Case Assessment program — which gives lawyers a quick sense of what they might find in a stack of documents — shows promise, according to local lawyers who have tried it.

A government employee in the litigation support field said it looks easy to use and he likes the fact he's in control of the software and does the searches.

"There's a lot of business out there to be had," Mageno said. "But the end-to-end piece is where the race is."

### **Lawyers still have work**

Demand for the developing e-discovery industry is up because litigation has increased during the recession.

Federal rules require companies to preserve evidence once they know there might be a lawsuit, and judges have come down hard on lawyers who fail to produce documents.

Complicating the issue is the economic downturn and fact that lawyers and their clients have less money to spend on support staff.

"There's quite a bit of debate and consternation among attorneys regarding what is required," said **Treven Tilbury**, a partner at Downey Brand LLP who specialized in construction litigation. "A lot of lawyers and firms are not even tracking regulations, but for big firms, it's a big, big deal."

Yet when it comes down to vendors to manage e-discovery, Downey Brand lawyers pick their own, "the ones we feel comfortable with," Tilbury said.

Finding documents that prove or disprove a case has never been easy. It was a big job when attorneys had to read boxes of documents in a warehouse. It's a big job now, even though a computer can help, because there are more documents, he said.

For that reason, Tilbury said, the technology has not put many lawyers out of work. "Nothing truly replaces a human being putting eyes on a document," he said.

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