

CFO Magazine

Contingency Fans

Litigation is often considered the bane of Corporate America. But one British firm considers it an asset.
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The surplus of corporate litigation in the United States is rarely viewed as a positive, but for at least one British firm it constitutes a unique investment opportunity.

Juridica Capital Management, a UK-based investment firm, has put \$90 million into 16 U.S. business-to-business lawsuits since its January 2008 initial public offering. "We see litigation as another type of asset sitting on a company's books," says Richard Fields, the American-born CEO and co-founder of the firm. An investment from Juridica provides "a way for companies to leverage and hedge their litigation risk and finance their own legal fees."

How does it work? U.S. companies involved in litigation can apply either directly or through their law firms to have a portion of their legal fees covered by Juridica in exchange for sharing 25 to 40 percent of any proceeds with the firm. While not an entirely new concept, Juridica is the first firm of its kind to go public. With four of the UK's largest financial institutions as investors, Fields predicts the industry will grow.

The prospect of subsidized legal fees may be enticing — especially in these times — but it's not an easy source of capital to tap. Juridica invests only in business-to-business cases, like contract disputes, antitrust cases, and a limited number of non-class-action shareholder lawsuits, and it employs outside lawyers to rigorously screen for the likely winners. So far, it seems a good strategy — Juridica has seen a \$5.25 million profit on investments in two cases, both of which settled, according to Fields.

Accepting such investments may put companies at risk of losing "control over their litigation destiny," says a Chicago-based attorney who has screened some cases on behalf of a litigation investor, although Fields says that Juridica is a passive investor and does not direct legal strategy in any way. David Dreyer, chief financial officer of AMN Healthcare Services, says he would be unlikely to consider seeking such an investment. "It might make sense if a company had cash-flow or working-capital problems," he says. "But I would think you would first want to pursue attorneys who would work on a contingency-fee basis before going to this type of scenario."