

Making Your Case

By ALEXA HYLAND - 7/7/2008
Los Angeles Business Journal Staff

When Herbert Dodell first came to Los Angeles 40 years ago, he was a fresh-faced Brooklyn Law School graduate with ambitions of making it big as an entertainment attorney. But he was horrified by the egos of the big Hollywood players. So he became a traditional litigator, representing individuals and small business owners in disputes.

An entrepreneurial drive inspired him in the late 1980s, and he started drawing up plans for a company that would help small business pay for legal battles against corporations. "This system isn't fair, the big guys are eating up the little guys most of the time," Dodell said.

So after more than a decade of planning, Dodell got the backing of a group of local investors and launched Beverly Hills-based LawFund Management Group LLC in 2005.

Traditional lawsuit lending companies provide loans to individuals or sole practitioners to fund ongoing litigation. But LawFund Management invests in the litigation, by turning a suit into a limited liability company.

After taking over the rights to the lawsuit, LawFund Management contracts with an outside attorney to try the case, and the company manages the litigation from beginning to end.

LawFund Management caters to small business owners who want to bring a legal claim against another company but who might not be able to keep up with the spending of a corporation. And as the hourly billing rates of top-flight litigators have skyrocketed over the past decade, it has become more difficult for business owners to fund litigation.

"We are trying to fill a niche for people who would like to have a management team on their side when working with attorneys and can't fund their lawsuit to the end," said Tim Devine, LawFund Management's chief financial officer.

Dodell designed LawFund Management's system and is a consultant for the company. Under his system, an individual presents their claim to the company via an online questionnaire, and experienced litigators evaluate the facts of the case. The evaluation helps LawFund Management determine the strength of the case and how much it could yield in settlement or verdict.

Three-step evaluation

If the case makes it through a three-step evaluation system, LawFund Management turns the suit into a limited liability company and becomes the majority member.

LawFund Management executives bring together groups of individuals who invest in the limited liability company. The investment money funds the litigation, and LawFund Management takes on the risk if a case loses. As a result, the company's executives said small business owners can be protected from unscrupulous or lazy lawyers, and don't have to spend their time overseeing an ongoing lawsuit.

"There is a greater sense of oversight, which is done by people who know more than the general public," said Perry Fredgant, a Woodland Hills sole practitioner who was contracted by LawFund Management to handle two disputes over insurance coverage. Fredgant works for the company on a negotiated rate and doesn't take shares of the suits.

LawFund Management generally accepts cases involving business, commercial, contract, real estate, insurance, entertainment and intellectual property disputes. About two-thirds of the company's clients are small businesses, and the rest are individual plaintiffs. The company does not handle personal injury, medical malpractice, product liability and class action.

LawFund's patented evaluation system puts a case through a series of hurdles – beginning with an extensive online questionnaire.

Potential plaintiffs will fill out basic information about their business, whether they have been or are involved in litigation and the history of their relationship with the party they want to sue. LawFund Management also asks the individual a series of tailored questions to determine the type of litigation. For example: whether it's a contract law case or an intellectual property dispute.

The system generates a score based on whether a legitimate legal cause of action exists, and if so, the amount of damages that can be recovered from the case. If the case doesn't meet LawFund Management's minimum requirements, a rejection letter is automatically created and sent to the individual who submitted the case to the company.

If the case passes the test, LawFund Management collects documents from the prospective client to find out more specifics about the case. An attorney evaluates these additional documents and further scores the case based on the chances of losing or winning and the amount of damages that could be recovered.

"The system is designed in a way that gives us a lot of information that is quantified by an algorithmic formula," said Dodell, who oversees the group of lawyers who decide which cases LawFund Management litigates. "We can predict with some degree of certainty what is going to happen in the case."

If the case reaches the third phase, LawFund Management requires that the prospective client consults an expert or an attorney to double check the automated evaluation. After that, an attorney interviews the prospective plaintiffs to determine if they'd be easy to work with and would serve as a credible witness. The process can take anywhere from two weeks to two months.

If LawFund doesn't take the case, the plaintiff can buy the analysis and bring it to another attorney for help preparing a case. If the company does take the case, LawFund then negotiates what percentage of the winnings or settlement the plaintiff will receive.

Eric Shaw, a court-appointed receiver who takes over companies and often manages the liquidation of the assets, works with LawFund Management to recover money that other businesses owe his fledgling companies. "If I am going to sue and spend money, I better be able to collect it," said Shaw, president of Los Angeles-based New York Credit Inc. Shaw said LawFund Management has been able to save him millions of dollars through its analysis of each potential lawsuit. That way, he only tries cases with the highest chances of recovery.

In a typical arrangement, Shaw said LawFund Management takes about 50 percent of the recovery plus out-of-pocket expenses and he receives the remaining amount. Like any investment, there is risk involved in putting money into LawFund Management's lawsuits. But executives said they have worked to perfect a system where the lawyers can garner the largest possible recovery in a case.

"Each case is its own separate LLC, and is driven to minimize legal fees and maximize the settlement," Devine said.

LawFund Management Group LLC

Headquarters: Beverly Hills

Founded: 2005

Employees 2008: 8

Core Business: Turning business lawsuits into enterprises in order to fund their litigation and management

Goal: To take the company public or merge with another company

Driving Force: The increasing cost of commercial litigation makes it more difficult for smaller businesses to fight corporations