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Glassman's Catalyst Sues West Face, Veritas Over Report

SCOTT DEVEAU

A feud between two Bay Street titans continues with Newton Glassman's private equity firm Catalyst Capital Group Inc. launching another lawsuit against Greg Boland's hedge fund West Face Capital Inc.

Catalyst, Canada's second-biggest private equity firm, and its subsidiary Callidus Capital Corp. are seeking C\$50 million (\$41 million) in damages for "defamation, conspiracy and intentional interference with economic relations." The lawsuit names West Face and equity research firm ***Veritas Investment Research Corp.*** as defendants.

Catalyst alleges West Face and ***Veritas*** conspired to drag down the share price of the publicly traded Callidus as part of a short-selling strategy. Short-sellers profit from price declines by selling borrowed securities and repurchasing them at cheaper levels.

"The defendants intended to create the impression that they had separately and independently published negative reports about Callidus for the purpose of deceiving market participants into believing that a negative consensus was building," according to the statement of claim. "In fact, unbeknownst to the public, including market participants, the defendants were acting jointly and in concert."

None of the allegations in the suit has been proven in court. Representatives from Catalyst, Callidus and West Face declined to comment.

"The allegations in the lawsuit concerning ***Veritas*** are without merit," said ***Veritas*** Chief Executive Officer ***Anthony Scilipoti***, in an interview. "We pride ourselves in producing independent and carefully researched reports, which we will continue to do."

Second Case

This is the second case involving Catalyst and West Face in the past year. In June 2014, Catalyst launched a suit against West Face after the latter hired one of its former employees. Catalyst alleges the employee transmitted confidential information related to the potential acquisition of wireless carrier Globalive Wireless Management Corp., which operates the Wind Mobile brand. West Face ultimately prevailed in the auction, and denied any wrongdoing in the original suit.

In the new statement of claim filed in the Ontario Superior Court on June 18, Catalyst alleges that West Face targeted Callidus with the short-selling strategy after the original suit was launched.

Callidus, which provides loans to companies that don't qualify for traditional credit, was taken public in March 2014. Its shares have fallen more than 35 percent since Dec. 1, to close at C\$13.87 in Toronto Tuesday, 13 cents below its IPO price.

Glassman said in a March interview he would consider taking Callidus private if short-sellers didn't stop driving down the stock.

Negative Report

Catalyst alleges in the suit that on or around Dec. 17, three West Face partners, including Boland, met with executives from **Veritas** and informed them that West Face had produced a negative report about Callidus and had engaged in a short-selling strategy. Boland allegedly arranged for West Face to share its report with **Veritas**, the lawsuit claims.

On April 16, **Veritas** produced its own report raising concerns about Callidus that took issue with the quality of some of the loans it had given out and the guarantees provided by Catalyst. Glassman has disputed the claims contained in the reports.

Short positions in Callidus spiked to their highest point in April after the report was published, according to Markit data.

"Callidus has suffered significant damages, full particulars of which will be provided prior to trial," the claim states.