LEGAL ASSET CAPITAL

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Law Firm Capital Readiness

A practical framework for contingency-fee firms

Objectives. Uses of proceeds.
Cash timing. Financing structure.

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Law Firms. Legal Assets. Private Capital.

INTRODUCTION / PURPOSE AND SCOPE

The questions before a financing decision

A preliminary capital-planning guide for contingency-fee law firms.

This guide helps a firm explain why capital is needed, what it would fund, when the firm expects to receive cash, and what existing obligations affect its options. It organizes the information needed for a useful financing conversation.

The framework prepares a firm for further assessment. Financing eligibility depends on the proposed transaction, the relevant assets and cash flows, and provider requirements. Readiness does not establish financing approval.

Illustrative financing discussions

Example	What remains to be assessed
Portfolio funding	Which matters or fee interests would support the arrangement, their risks and availability, and the rights the provider would receive.
Working-capital facility	The proposed repayment source, credit support, existing obligations, borrowing capacity, and facility terms.

These examples are not exhaustive or mutually exclusive. Portfolio financing may support working-capital or expansion needs; the permitted use and economic structure depend on the transaction.

A management services organization (MSO) partnership is a separate strategic path. This guide does not assess partnership suitability, services, governance, or the legal and economic structure of such a relationship.

What readiness means here

The firm can explain its objective, spending plan, cash timing, potential financing support, and existing obligations, with clear assumptions and specific questions for further assessment.

01 / BUSINESS OBJECTIVE

What is the firm trying to accomplish?

The business purpose gives the capital request its context.

A request for outside capital begins with a business decision. A firm may need to bridge the period before fees are collected, complete work on existing matters, or invest in a larger practice. The same requested amount can serve very different purposes.

The objective explains why capital is being considered now and what would change if it were unavailable. A spending list alone cannot show whether the request addresses a temporary delay, a recurring cash deficit, or an elective investment.

Objective	The underlying question
Bridge a collection gap	Which expected receipts would close the gap, and what happens if they arrive later or are smaller?
Develop existing matters	What work remains, how much must be spent, and when might that work lead to collected fees?
Expand the practice	What additional capability would the investment create, and how long could it take to generate cash?

A firm may have more than one objective

For example, a firm may need to carry existing matters while adding an intake team. Separating the immediate need from the expansion plan makes it easier to understand priorities and evaluate what could be staged or deferred.

A recurring deficit also deserves an explanation. Additional capital may extend the time available to execute a plan, but the assessment still needs to show how the underlying cash position is expected to improve.

> **The question to carry forward**
>
> What outcome would the capital make possible, and which parts of the plan are essential, time-sensitive, or discretionary?

02 / USES OF PROCEEDS

What would the capital fund?

The spending schedule translates the objective into actual payments.

Uses of proceeds means the expenditures the proposed capital would pay for. Useful descriptions are concrete: case expenses, existing payroll and overhead, marketing, additional staff, or technology. Amounts and payment dates make these descriptions actionable.

Why the labels can overlap

Case expenses describe a type of expenditure. Operating or working-capital needs describe broader liquidity needs. Growth describes a business objective. They are useful perspectives, but they are not three mutually exclusive financing products.

An additional intake employee is a payroll expense and may support growth. Case expenses may be part of the firm's wider working-capital need. The question is what each payment funds and when it occurs, rather than which single label must contain it.

Example expenditure	Purpose and treatment
Expert or deposition costs	Advance a matter. Identify the amount and timing without counting it again in a separate growth allocation.
Existing payroll and rent	Maintain operations. Capital allocated here supports costs already in the budget.
New intake staff or marketing	Expand capacity or attract matters. Identify incremental costs and the assumptions about future receipts.

The spending label alone does not establish the financing structure or the provider's permitted uses. Those are separate transaction questions. Dedicated case-expense facilities and broader working-capital facilities can both address case spending. The latter may also fund payroll or marketing.

> **One expenditure, one entry**
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> Each payment appears once in the cash forecast. Its business purpose is recorded separately, with a clear distinction between existing budgeted costs and additional spending.

03 / CASH TIMING

When does the firm need cash?

Positive annual cash movement can conceal a shortfall within the year.

Cash available to the firm

A settlement amount is not the same as cash available to the law firm. Expected receipts depend on the firm's fee entitlement, amounts payable to other counsel, and reimbursement of expenses it previously advanced. The relevant amount is the cash the firm expects to retain and when it may receive it.

Unresolved contingent fees depend on future outcomes. Resolved-but-unpaid fees require separate review of entitlement, payment conditions, and collection timing. Expense recoveries are separate cash-forecast entries, not new fees. This is not accounting or tax guidance. Opening cash excludes client funds and unavailable balances.

Payments on the same timeline

The forecast brings receipts together with operating payments, case expenses, existing debt service, tax payments, owner distributions, and other commitments. It shows whether cash available at each point is sufficient to meet the payments due. An annual total can conceal a shortfall several months earlier.

The assumptions that change the result

A delay or reduction in a major receipt may deepen the shortfall. Several matters may also depend on the same defendant, insurer, or event. Alternative scenarios help explain the effect of these dependencies and whether spending can be deferred while obligations remain due.

A monthly forecast is a starting point. Where cash is tight, payment dates within the month may matter. Any minimum cash reserve should be identified as an explicit planning assumption, rather than an unexplained addition to the request.

Evidence and judgment remain distinct

A well-documented forecast does not make future receipts certain. Missing records call for further evidence; weak economics call for reassessment of the plan. The distinction should be explicit.

04 / POTENTIAL FINANCING SUPPORT

What might support the arrangement?

The spending need and the source of a provider's return are separate questions.

A firm-wide forecast describes expected receipts and payments. A financing proposal must also identify what assets, rights, or cash flows would support the provider's repayment or return. Those may involve specified matters, fee interests, or other agreed sources; the guide assumes no particular structure.

An existing case inventory is a starting point

For a portfolio discussion, the relevant questions include which matters would be included, the firm's economic interest in them, their stage and expected timing, remaining expenditures, and the assumptions behind expected collections. Historical collections and common risks across matters help test those assumptions. A larger case count alone does not establish diversification.

That information does not itself establish that the interests are available or acceptable for financing. Existing commitments, rights of other parties, proposed security or payment rights, and transaction-specific requirements remain to be examined.

Part of the analysis	Question it answers
Uses of proceeds	What would the firm spend the money on?
Firm cash forecast	When might the firm need additional liquidity?
Proposed financing support	What would support the provider's repayment or return?
Transaction terms	How would the arrangement affect future cash and obligations?

Economic interests and legal constraints

An economic interest does not establish that a proposed financing arrangement is permissible. Counsel should assess applicable restrictions on fee sharing, professional independence, confidentiality, and the proposed rights and obligations. ABA Model Rules 5.4 and 1.6 identify relevant principles; the governing jurisdiction's rules and law control.

05 / TRANSACTION TERMS

How would the terms affect the firm?

The practical test is the arrangement's effect on future cash and obligations.

A clear funding need is only part of the decision. The proposed arrangement also determines when money is available, what it costs, when the provider receives payments, and what the firm retains. These features belong in the cash analysis before a facility amount can be evaluated.

Feature	What needs to be understood
Recipient and permitted use	Which entity receives the capital, and which expenditures are allowed?
Repayment or return source	Which fees, recoveries, or other cash flows support the provider's entitlement?
Timing and economics	When can funds be drawn? What fees, payments, returns, and maturity provisions apply?
Risk allocation	Who bears loss or delay? What recourse, guarantees, security, and exceptions apply?
Existing commitments	Are the same receipts already supporting debt or another arrangement? What restrictions need review?
Cash retained by the firm	After payments to the provider and other obligations, can the firm continue funding operations and cases?

Different structures may address the same spending need while producing different cash consequences. A stated interest rate and a contingent return cannot be assumed to be equivalent measures of cost. The comparison needs consistent assumptions about amounts, timing, outcomes, and payments.

The forecast can then be recalculated using proposed draw dates and payment obligations. A shortfall calculated before financing costs is a planning result, not a final facility recommendation.

05 / TRANSACTION TERMS CONTINUED

What cash does the firm retain?

Repayment mechanics connect today's capital to tomorrow's collections.

Payment priority: the repayment waterfall

A waterfall is the agreed order in which receipts are allocated. An agreement may direct cash first toward the provider's capital and specified return before the firm receives its remaining share. Other arrangements may split receipts along the way. The forecast needs the actual payment sequence, not just a headline cost.

Cross-collateralization: how matters are connected

In a cross-collateralized portfolio, proceeds from successful matters may satisfy funding and return obligations associated with the wider pool, including matters that underperform. A successful case therefore does not necessarily release all of its fee to the firm. The agreement determines which receipts are included and when interests are released.

Recourse: what happens if receipts disappoint

Some arrangements limit recovery to specified proceeds; others involve broader repayment obligations or guarantees. A nonrecourse label does not identify the relevant pool, payment priorities, or contractual exceptions. These require review even when the product is described as portfolio funding.

The amount available and the amount needed

The cash shortfall measures a planning need. Available financing depends separately on eligible assets or receipts, valuation, existing claims, provider criteria, and draw conditions. The largest available facility may also commit more future receipts than the firm wishes to allocate.

The question to carry forward

After applying the proposed terms under delayed or reduced collections, how much cash remains for operations, case work, existing obligations, and an appropriate reserve?

ILLUSTRATION / CASH FORECAST

Exhibit 1. Timing changes the liquidity need

Hypothetical pre-financing cash forecast. All amounts are in $000.

The firm requests $600: $250 for additional case expenses, $200 toward existing overhead, $90 for marketing, and $60 for incremental intake staffing. The $200 supports budgeted costs; it is not an additional expense. Opening business cash is $150. The full input schedule and scenario assumptions appear on page 12.

Month	Cash receipts[1]	Cash outflows[2]	Closing cash[3]
Oct	90	260	-20
Nov	110	260	-170
Dec	130	260	-300
Jan	110	250	-440
Feb	110	240	-570
Mar	680	240	-130
Apr	115	185	-200
May	115	185	-270
Jun	140	185	-315
Jul	140	185	-360
Aug	740	185	195
Sep	220	185	230
Total / final	2,700	2,620	230

[1] Own fees plus expense reimbursements. [2] Existing operations and debt service, ordinary and additional case costs, and growth spending. [3] Before new financing. Negative balances represent unmet funding needs. October 2026-September 2027.

From cash shortfall to additional liquidity

Separate scenario	Peak shortfall	Reserve[4]	Additional liquidity[5]
Original plan	570	75	645
Growth deferred[6]	445	75	520
Major fee delayed[7]	770	75	845

[4] Management's assumed minimum month-end cash, not a lender requirement. [5] Shortfall + reserve; excludes new financing costs, repayments, draw restrictions, and intramonth effects. Not recommended borrowing amounts or available limits. [6] Defer $150 of growth spending beyond the year. [7] Shift one $500 fee from March to June, retaining original spending.

ILLUSTRATION / INTERPRETATION

What the example shows and leaves unresolved

The calculation explains a liquidity need; it does not establish financing eligibility.

The original request and the calculated need differ

The firm requests $600,000, but its lowest projected cash balance before financing is negative $570,000. Adding management's assumed $75,000 reserve produces a $645,000 additional liquidity requirement under the original scenario. A $600,000 injection would leave only $30,000 at the low point, before financing costs or payments, assuming the full amount is available before the first shortfall.

The scenarios reveal which assumptions matter

Deferring the $150,000 expansion spending beyond the forecast year reduces the peak shortfall to $445,000 and the requirement including the reserve to $520,000. Delaying one $500,000 fee from March to June, with original spending unchanged, increases those figures to $770,000 and $845,000. These are separate scenarios, not cumulative adjustments.

The example assumes receipts, not a financeable portfolio

The forecast assumes existing matters generate the stated fees and expense reimbursements. It does not establish the quality of those matters, the availability of their fee interests, or their acceptability to a provider. It also does not assume that every forecast receipt would support the same transaction.

The next assessment connects the cash need to a proposal

A transaction assessment must test delayed and reduced collections, identify available supporting interests, and apply actual draw and repayment terms. Extend the forecast through the relevant financing and case-realization period; a positive year-end balance does not establish repayment capacity.

A reasoned preliminary finding

The projected timing gap depends on collection dates and discretionary spending. The next step is to test those assumptions and assess proposed financing support and terms.

06 / NEXT INFORMATION

What is needed for the next conversation?

Information should resolve an identified question at the appropriate stage.

The first conversation needs enough context to understand the request. More detailed information becomes useful as the questions narrow. A complete document package does not itself establish approval, and information should not be collected merely to fill a checklist.

Introduction: explain the request

Bring the objective, approximate amount, intended spending, timing, and broad cash position. Identify estimates and unknowns. This resolves what the firm is seeking and why; detailed document uploads are not needed for this guide's introductory step.

Preliminary assessment: support the explanation

Prepare financial summaries, a spending schedule, cash forecast, and obligations summary. Case-level estimates should reconcile to forecast receipts. Where relevant, prepare a case inventory for appropriate review before sharing; removing names alone may not protect confidentiality. Firm and case analysis serve distinct purposes.

Provider diligence: examine the proposed transaction

Agree on the information needed for the specific arrangement and how it will be shared. Detailed financial, case, and contractual records may be needed to assess the proposed support and terms. Sensitive disclosures require appropriate review before circulation.

A useful next step identifies the open question, the information that could answer it, who will provide it, and when it will be revisited. Some requests need better evidence; others need a revised spending plan or a different proposed structure.

About Legal Asset Capital

Legal Asset Capital developed this framework to organize preliminary law-firm financing conversations around objectives, cash flows, information quality, and potential structure.

Do not send client names, privileged materials, or confidential case narratives through an initial inquiry. An introduction does not authorize circulation to providers. This educational guide is not underwriting, legal advice, financing approval, or a capital commitment.

METHODOLOGY / HYPOTHETICAL ASSUMPTIONS

Reproducing the cash analysis

All table amounts are in $000. Period: October 2026-September 2027.

Opening available business cash is $150,000. Each month includes $150,000 of existing operating payments, $10,000 of existing debt service, and $25,000 of ordinary case expenses: $185,000 in total. Additional expenditures and receipts are shown below.

Month	Own fees	Expense recoveries	Additional case costs	Expansion spending
Oct	80	10	50	25
Nov	100	10	50	25
Dec	120	10	50	25
Jan	100	10	40	25
Feb	100	10	30	25
Mar	600	80	30	25
Apr	100	15	0	0
May	100	15	0	0
Jun	120	20	0	0
Jul	120	20	0	0
Aug	660	80	0	0
Sep	200	20	0	0
Total	2400	300	250	150

Expansion spending is $15,000 of marketing and $10,000 of intake staffing each month from October through March. The $200,000 request allocation for overhead funds part of existing operating payments; it is not added to spending again.

Month-end cash = prior month-end cash + own fees + expense recoveries - $185,000 base payments - additional case costs - expansion spending. For this example, additional liquidity = $75,000 reserve minus the lowest projected cash balance. This assumes cash is available before each shortfall and excludes new financing payments.

Growth deferred removes $25,000 per month for October-March, with no replacement spending in the year. Receipts remain unchanged solely to isolate the spending effect; actual deferral could affect collections. Fee delayed moves $500,000 of March fees to June. Reimbursements and spending stay fixed to isolate fee timing; an actual delay could change both.

Simplifications: no taxes or owner distributions are modeled; no other cash flows or obligations are assumed beyond the listed inputs. New financing costs, provider payments, draw restrictions, and intramonth movements are excluded. These items must be included where applicable in a real assessment. This is a cash illustration, not an accounting-profit or tax model.