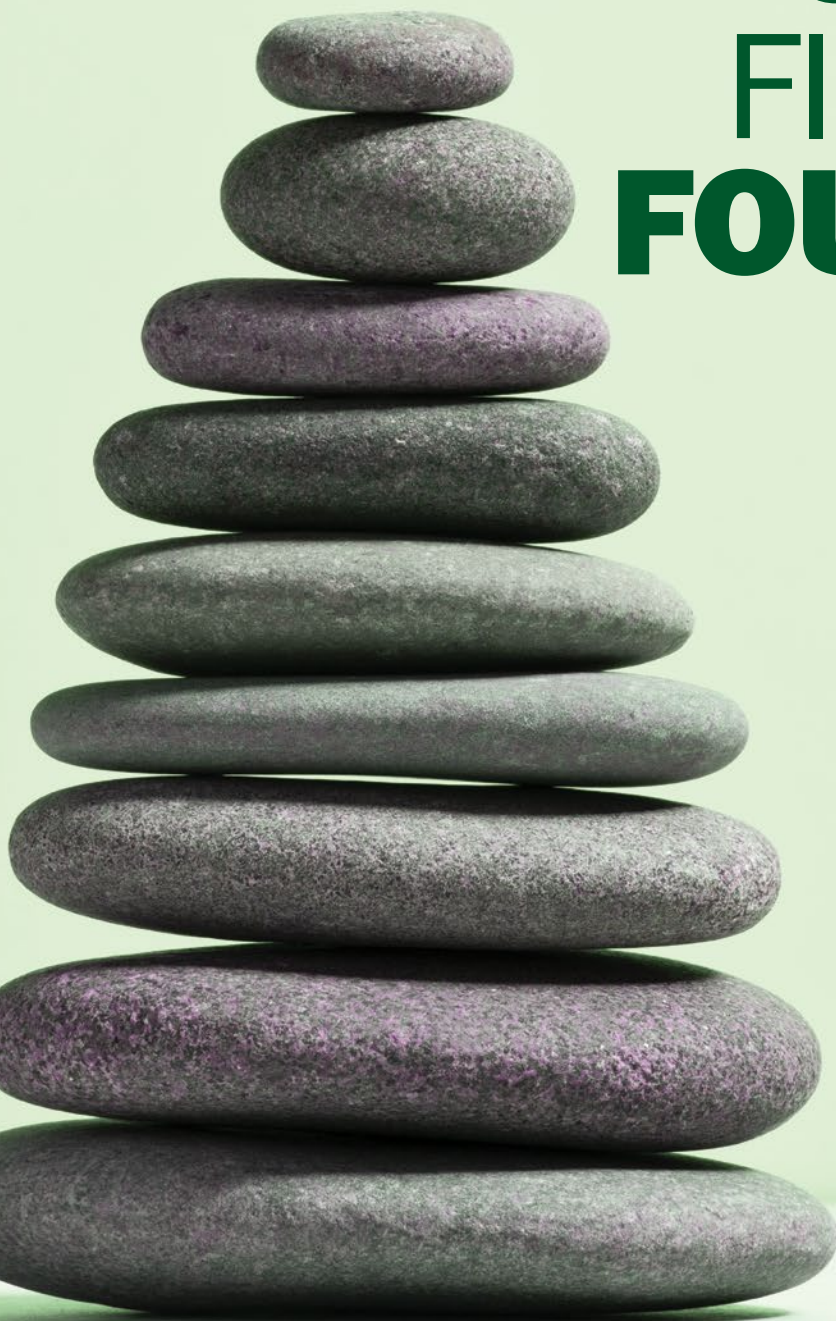


A STRONG FINANCIAL FOUNDATION



Advocate Capital's CEO and chairman discusses how firms can lay the groundwork to ensure they have the capital they need to represent their clients.

Interview With || **PAUL MYERS**

Tell us about Advocate Capital and what it does for plaintiff attorneys.

Our mission statement is to help an ever-increasing number of plaintiff lawyers get even better results for their clients. And we try to live that every day. Contingent-fee law firms are truly the keys to the civil courthouses in our country, and yet they face so many financial challenges. Access to adequate capital via case expense financing really helps even the playing field.

We only work with plaintiff firms. Right now we have about 75,000 cases under management in our tracking system, known as AdvoTrac®. That's 75,000 people who recently probably had the worst day in their life. And we're helping their legal representatives get justice for them. That feels good to me every day to know that what we do impacts individuals and helps even the playing field so they can get justice, take care of their families, and move on with their lives in some way. I love doing what I do. I believe in what our clients do.

What are the biggest missteps regarding law firm financing and business operations?

I see firms borrowing too much money relative to their historical revenues. Some companies lend a lot of money based on the potential future value of cases, but if those cases don't come through, law firms can become beholden to those lenders for quite a long time. I also see this happen with more established law firms that are growing at a very accelerated rate or those that want to get into a new type of litigation and over-leverage themselves to do it. We don't want to over-leverage our firms. It creates credit trouble for us and them, and nobody wins in that situation. We're very careful to provide what we think is an adequate amount of capital for a law firm, but not too much.

Another common mistake that I have seen over decades of working in finance is failing to maintain a net worth or cash flow cushion. For so many firms in this industry, cash doesn't usually come in smooth, even increments. You're going to have times when several months, maybe even a year, just don't go right. It's very important to have the ability to remain afloat and not get too cash-strapped when that happens—and for the most part, it's inevitable that it will happen. And it might be something really unexpected, like a global pandemic. Having a nest egg was crucial when that happened. Trials weren't moving forward, and settlements stalled. There was so much uncertainty. Plan for those events.

What are key components of a strong business operation for a law firm?

Our most successful law firm clients are made up of good attorneys—they take care of their clients, they choose the right cases, and they execute well. But to remain a law firm, you need to remember that you're also a small service business. The most successful law firms I've seen either have a partner or a managing partner who really understands the business side of the firm and wants to handle those aspects, or who realizes that they don't have the background or they don't want to do it. Hence, they hire the right person. Having good financial advice and hiring good people to run the operations and business side of your law firm is hugely important.

Building net worth—personally and in the law firm—is also fundamental. We look at both the net worth of the law firm and the personal net worth of the guarantors/partners. Since most law firm entities distribute profits to their partners, the net worth of the law firm is not usually very large, which is why we also look at personal net worth. Personal net worth is relevant in

that the guarantors/partners have the ability to infuse capital back into the firm if needed. When lenders look into that, they're looking at real estate equity, retirement accounts, stock accounts, and cash. And the main reason is to have that cushion and the ability to withstand the inevitable downturn or lost case.

I would also recommend being diligent in knowing your credit score. It sounds simple, but it's so important. A credit score usually indicates your ability and willingness to pay debt on a timely basis. And for lenders, that's key. Just like you need someone to manage your business finances, you need someone to manage your personal finances. Even if you have the money, if you don't write the check or click the button and pay on time, it will impact your credit score.

What do you think sole practitioners and small firms should focus on when building their businesses?

One of the first things you should do is control your fixed overhead. And for a law firm, that's primarily the real estate—their office space. Don't overbuy or over-lease out of the gate. Be very conservative. If you sign a 10-year lease on an office space, now you need to generate enough fee income to cover that. Be aware of what fixed overhead costs you're locking yourself into.

Getting the right insurance also is crucial—whether it be property/casualty or professional liability. Find a good financial adviser. Again, maintaining a good credit score, establishing an emergency fund, growing your net worth, and understanding the tax implications of what you're doing are all very important. If you've never owned a firm or business, remember that you are now self-employed and responsible for paying the tax on your income—set that aside ahead of time. People often forget that they're going to have to pay their

personal taxes, and they get behind on them, so make sure you get professional tax advice if you need help.

Don't wait to start your retirement planning process. If you're an attorney in your 30s and hanging out your shingle, you don't want to wake up when you're 60 and say, "I've saved nothing, I poured everything back into my business, and I've got nothing here for me." Learn to pull some of that money out, build personal net worth, and plan for your retirement.

Can you talk about case expense financing?

For almost any plaintiff law firm, the most pressing need they're going to have for cash or working capital is their case expenses. It's often several months or even years before they can recoup those expenses. During that time, they have new cases coming in, so it's a constant drain on cash. Case expense funding allows them to get that money back so they can spend it, invest it, save it, hire new attorneys, hire better experts, and grow their firm. If you're a plaintiff attorney and you're funding your own cases, you're making an interest-free loan to your law firm or to clients.

Our clients are going up against large corporations and large insurance companies that have very deep pockets. Case expense funding allows them to have access to the capital they need so they can go head-to-head with these larger companies. For Advocate Capital specifically, our AdvoTrac® Case Expense Funding Service is structured so our clients can ethically recoup the interest and fees that they pay us, just like any other case expense. For the cases that they win, the cost of capital is zero.

How does the process work?

This differs for every potential funder in this space, but Advocate Capital underwrites pretty much like a bank

does. We have an application process and gather financial information—firm tax returns, partner tax returns, and financial statements. We focus on the firm's historical ability to generate income, build net worth, and pay its bills on time. And we assume that if they've done that consistently over time, they should be able to continue doing that in the future. That helps us arrive at a decision on whether we want to put capital at risk for this law firm, and if we do, how much we want to provide.

When a case concludes, our clients can pull a report on that particular case from AdvoTrac®. They can drill down and figure out how long they've had an outstanding case, how much they've paid to date, and run a comparison in our system to show all new case expenses. It is manageable and easy to use.

What technology should firms have to help their businesses run more smoothly, especially in a more remote world?

Whatever program you use, having good case management software (CMS) is important. It should be web-based because then remote workers can log in from anywhere. AdvoTrac® is web-based and integrates with most CMS. We have a training specialist on hand who can work with firm administrators to show them how to use our product in conjunction with almost any CMS they have.

Having a good financial accounting program is also key. Again, with a potentially remote or hybrid workforce, it's great if that is web-based instead of software that you install on a hard drive.


What's on the horizon that could affect law firm business operations and finances?

Financial markets over the course of the next year or two will be turbulent. Interest rates are higher, which makes

capital more expensive. It will affect stock and real estate prices, which impact net worth. But typically, from a fee-generation standpoint, law firms tend to be relatively recession-resistant.

Data security is paramount and will become more so, especially with the prominence of technology and web-based applications to accommodate hybrid or remote work. A lot of threats are out there, and things happen to small companies too. And insurance can help if you have coverage in case something like a ransomware attack happens.

I also think law firms that have invested in commercial real estate and office space should be wary. More and more firms are allowing hybrid, if not totally remote, work. That's going to impact how much square footage they can fill, or if a firm is just starting out, how much square footage they really need.

The biggest thing is to be aware that change is inevitable and to remain nimble, flexible, and smart about what you're doing. Don't get bogged down in how you've always done things. Be open enough to say that maybe it's not the best way. Back up, look at it, and ask yourself, "Is there a better way?" Be open to change—because that's the one thing we know is inevitable. 



Paul Myers is the CEO and chairman of Advocate Capital and can be reached at PMyers@AdvocateCapital.com. The views expressed in this interview do not constitute an endorsement of any product or service by Trial or AAJ. This article has been prepared for informational purposes only and is not intended to provide and should not be relied on for tax, legal, or accounting advice. You should consult your own tax, legal, and accounting advisers before taking any action.

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What's Wrong With This Picture?

My firm is so successful
that I have \$500,000 of
my own funds tied up in
case expenses!

You think that's good?
I have \$1,000,000 tied
up in my cases!



**How many thousands of your
personal, post-tax dollars are
trapped in case expenses?**

If we put that cash on your desk,
what could you do with all that
money? With our AdvoTrac® Case
Expense Funding Service, you can
fund your cases at an annual cost
of less than 1%*, so you can take
care of your clients and **get your
cash back.**

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*In most jurisdictions, a law firm can recover finance charges related to funding case expenses from case awards, but the compliance requirements can be too expensive to implement. Only Advocate Capital, Inc. has the proprietary AdvoTrac® expense tracking system and service team that allows firms to easily comply with allocation and reporting requirements. So, for example, if a firm recovers at least 90% of its advanced case expenses, like most of our clients, the annual net cost of funds is very small-typically less than 1%. Contact us to discuss how our program can work for your firm. All loans are subject to credit approval, and terms and conditions may vary.