SENATE JUDICIARY COMMITTEE
Senator Thomas Umberg, Chair
2025-2026 Regular Session

AB 2039 (Zbur)
Version: March 25, 2026
Hearing Date: June 23, 2026
Fiscal: Yes
Urgency: No
AM

SUBJECT

Attorneys

DIGEST

This bill seeks to enact several protections against fraud in the legal profession, including enhanced civil penalties for making unlawful solicitations of clients, regulating loans offered to clients by their attorneys, and whistleblower protections and anti-retaliation provisions for clients and employees of attorneys and law firms.

EXECUTIVE SUMMARY

Recent allegations against Downtown LA Law Group of illegal solicitation of clients in the $4 billion Los Angeles County childhood sexual abuse settlement have placed a spotlight on the legal profession. This bill seeks to strengthen consumer protection and bolster ethical accountability within California's legal profession. The bill strengthens disciplinary consequences by the State Bar for unlawful solicitations of clients, protect whistleblowers seeking to report attorney misconduct, and safeguards clients from financial exploitation be regulating loan agreements between clients and attorneys. The author and sponsor argue the bill promotes transparency, accountability, and fairness in the legal system.

The bill is sponsored by the Consumer Attorneys of California and is supported by the Civil Justice Association of California. No timely opposition was received by the Committee.

PROPOSED CHANGES TO THE LAW

Existing law:

1) Establishes the State Bar Act and requires all attorneys who practice law in California to be licensed by the State Bar of California (State Bar). (Bus. & Prof. Code §§ 6000 et seq.)
   a) The State Bar is established within the judicial branch of state government for the purpose of regulating the legal profession. (Cal. const., art. VI.)

2) Makes it unlawful for any person, in an individual capacity or in a capacity as a public or private employee, or for any firm, corporation, partnership or association to act as a runner or capper for any attorneys or to solicit any business for any attorneys in and about the state prisons, county jails, city jails, city prisons, or other places of detention of persons, city receiving hospitals, city and county receiving hospitals, county hospitals, superior courts, or in any public institution or in any public place or upon any public street or highway or in and about private hospitals, sanitariums or in and about any private institution or upon private property of any character whatsoever. Makes it unlawful for any person to solicit another person to commit or join in the commission of a violation of any of these aforementioned things. (Bus. & Prof. Code § 6152(a).)
   a) Any person, firm, partnership, association, or corporation violating 4), above, is punishable, upon a first conviction, by imprisonment in a county jail for not more than one year or by a fine not exceeding $15,000, or by both that imprisonment and fine. Upon a second or subsequent conviction, a person, firm, partnership, association, or corporation is punishable by imprisonment in a county jail for not more than one year, or by imprisonment pursuant to subdivision (h) of Section 1170 of the Penal Code for two, three, or four years, or by a fine not exceeding $15,000, or by both that imprisonment and fine. (Bus. & Prof. Code § 6153.)
   b) Any person employed as an officer, director, trustee, clerk, servant or agent of this state or of any county or other municipal corporation or subdivision thereof, who is found guilty of violating any of these provisions must forfeit the right to their office and employment in addition to any other penalty provided. (*Ibid*.)

3) Prohibits an individual, partnership, corporation, association, or any other nongovernmental entity from operating for the direct or indirect purpose, in whole or in part, of referring potential clients to attorneys, and no attorney can accept a referral of such potential clients, unless all of the following requirements are met:
   a) The service is certified by the State Bar of California and is operated in conformity with minimum standards for a lawyer referral service established by the State Bar and approved by the Supreme Court; and

   b) The combined charges to the potential client by the referral service and the attorney to whom the potential client is referred do not exceed the total cost that the client would normally pay if no referral service were involved. (Bus. & Prof. Code § 6155.)

4) Provides that a written fee agreement is subject to the attorney-client privilege. (Bus. & Prof. Code § 6149.)

5) Requires all contracts for a consumer legal funding transaction to disclose material terms to the consumer, including, but not limited to, all of the following:
   a) The funded amount to be paid to the consumer by the consumer legal funding company upon the completion of litigation;
   b) An itemization of any one-time charges;
   c) The maximum total amount to be assigned by the consumer to the consumer litigation funding company, including the funded amount and all charges;
   d) A repayment schedule, including the dates in which all payments are due to the consumer litigation funding company;
   e) A disclosure stating, "Consumer's right to cancellation: You may cancel this contract without penalty or further obligation within five business days after the funding date if you return to the consumer legal funding company the full amount of the disbursed funds;" and
   f) A disclosure stating that the consumer legal funding company shall have no role in deciding whether, when, or for what dollar amount a legal claim may be settled. (Bus. & Prof. Code § 6252(a).)

6) Prohibits an employer, or any person acting on behalf of the employer, from making, adopting, or enforcing any rule, regulation, or policy preventing an employee from disclosing information to a government or law enforcement agency, to a person with authority over the employee, or to another employee who has authority to investigate, discover, or correct the violation or noncompliance, or from providing information to, or testifying before, any public body conducting an investigation, hearing, or inquiry, if the employee has reasonable cause to believe that the information discloses a violation of state or federal statute, or a violation of or noncompliance with a local, state, or federal rule or regulation, regardless of whether disclosing the information is part of the employee's job duties. (Lab. Code § 1102.5(a).)

7) Prohibits an employer, or any person acting on behalf of the employer, from retaliating against an employee for disclosing information, or because the employer believes that the employee disclosed or may disclose information, to a government or law enforcement agency, to a person with authority over the employee or another employee who has the authority to investigate, discover, or correct the violation or noncompliance, or for providing information to, or testifying before, any public body conducting an investigation, hearing, or inquiry, if the employee has

reasonable cause to believe that the information discloses a violation of state or federal statute, or a violation of or noncompliance with a local, state, or federal rule or regulation, regardless of whether disclosing the information is part of the employee's job duties. (Lab. Code § 1102.5(b).)

This bill:

1) Prohibits an attorney from entering into a loan or financial assistance arrangement with a client unless all the agreement is in a separate written contract distinct from the retainer agreement and it contains all of the following:
   a) the total amount financed;
   b) repayment terms and contingencies;
   c) all fees, costs, and charges; and
   d) potential conflicts of interest arising from the arrangement.

2) Prohibits an attorney from charging the client interest on any loan or any funds that are advanced for any purpose, whether for case expenses or any other purpose, and prohibits all loan terms that materially impair a client's autonomy or litigation decisions.

3) Requires an attorney loaning a client funds, before the execution of such agreement, to advise the client in writing that the client may seek independent legal or financial advice, and to provide the client a cooling-off period of not less than five business days unless waived in writing after disclosure, as specified.

4) Prohibits an attorney from doing any of the following:
   a) conditioning legal strategy, settlement decisions, or continued representation on acceptance or repayment of a loan;
   b) using a loan to acquire ownership, control, or leverage over the client's cause of action beyond lawful attorney liens; and
   c) structuring financial assistance in a manner that interferes with independent professional judgment.

5) Provides that a violation of 1) through 4) may result in an attorney being liable for any of the following:
   a) restitution, rescission or reformation of the agreement;
   b) civil penalties in the amount of $15,000 per offense;
   c) injunctive relief; and
   d) disciplinary action by the State Bar of California, as specified.

6) Provides that any contractual term that violates 1) through 4) is void as contrary to public policy.

7) Provides that the provisions of 1) through 4) supplement and do not supersede existing ethical obligations governing business transactions with clients and shall be interpreted consistently with guidance from the American Bar Association and the California Rules of Professional Conduct.

8) Requires the State Bar of California to utilize summary disbarment procedures for any licensee upon the occurrence of either of the following:
   a) a felony conviction for violating the prohibition on capping or running; or
   b) a misdemeanor conviction for capping or running where the court finds, or the record establishes, that the licensee acted knowingly and for financial gain.

9) Prohibits, in any action commenced pursuant to 8), the State Bar of California from negotiating, recommending, or imposing an alternative form of discipline, including but not limited to reproval, suspension, diversion, or probation, in lieu of revocation.

10) Provides that the pendency of an appeal of a conviction of an offense specified in 8) does not prevent interim suspension pursuant to existing Rules of Procedure of the State Bar of California.

11) Provides that, notwithstanding existing civil and criminal sanctions for capping, a person, firm, partnership, association, or corporation violating the state's anti-capping statute is liable for a civil penalty of $25,00) per violation.

12) Provides that, for the purpose of assessing penalties pursuant to 11), every client retained and claim filed while engaging in the conduct of unlawful capping constitutes an individual violation.

13) Authorizes the Attorney General, a city attorney, or a county counsel to file an action for 11).

14) Prohibits an employer, law firm, attorney, or any person acting on their behalf from retaliating against an individual for disclosing information in good faith, or because the employer law firm or attorney believes the individual disclosed or may disclose information in good faith, where the individual has reasonable cause to believe that the information reveals a violation of the State Bar Act, the California Rules of Professional Conduct, or any state or federal statute, rule, or regulation governing the conduct of attorneys.

15) Specifies, for the purpose of 14), a protected disclosure includes reports made to the State Bar of California, a court, a public prosecutor, or a person with authority to investigate or correct the violation, but that nothing in 14) relieves any attorney of their duty to maintain attorney-client privilege, as specified.

16) Clarifies that the attorney-client privilege does not prohibit any disclosure made pursuant to 14) if made by the client.

17) Provides that the protections of 14) applies to employees, former employees, applicants, independent contractors, vendors, clients, and any person with a professional relationship to an attorney or law firm provided that the information is disclosed in good faith.

18) Provides that for the purpose of 14) retaliation includes termination, demotion, discipline, threats, harassment, blacklisting, adverse contract actions, or any conduct that would deter a reasonable person from reporting misconduct, consistent with standards applied under the Labor Code, and that retaliation committed by an attorney or any person acting on their behalf shall constitute grounds for discipline by the State Bar of California.

19) Requires, when feasible, reporting mechanisms administered by the State Bar of California or authorized agencies to permit confidential or anonymous submissions consistent with existing whistleblower statutes.

20) Makes various findings and declarations.

COMMENTS

1. Author statement

The author writes:

> Attorneys are expected to meet the highest standards of ethics and professional conduct. Their role is to advocate for their clients and ensure they receive due process, but unfortunately some attorneys have chosen to instead use their position for personal gain. Recent reporting has highlighted a wave of inappropriate attorney conduct including allegations that attorneys paid recruiters to find them clients, paid individuals to be their clients, and then instructed clients not to speak with members of the press about their representation. Unethical conduct results in claims being brought that are false or fraudulent which not only undermines our justice system, it also denies real victims their day in court by wasting the time and resources that should go to real cases.
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> AB 2039 will increase accountability within the legal profession and ensure consistent enforcement of existing laws governing attorney misconduct. The bill does three key things: strengthens mandatory disbarment proceedings for attorneys who are guilty of paying or receiving compensation for client referrals, creates whistleblower protections for those who report attorney misconduct, and regulates attorney-client loans and financial advances. Together, these reforms will make sure

attorneys are held accountable for misconduct and will reduce the number of fraudulent cases that take up time and resources in California courts.

2. <u>Allegations against Downtown LA Law Group of illegal solicitation of clients</u>

The practice known as capping or running, using nonattorneys to solicit business for an attorney, is unlawful and subject to punishment by imprisonment in a county jail for not more than one year or by a fine not exceeding $15,000, or by both that imprisonment and fine for a first conviction. Upon any subsequent convictions, a person, firm, partnership, association, or corporation is punishable by imprisonment in a county jail for not more than one year, or by imprisonment pursuant to subdivision (h) of Section 1170 of the Penal Code for two, three, or four years, or by a fine not exceeding $15,000, or by both that imprisonment and fine. (Bus. & Prof. Code § 6152 & 6153.) Any contract for professional services secured by any licensee or law firm in this state through the services of a runner or capper is void and any judgement for a violation of these statutes is to include an order divesting the attorney or law firm of any fees and other compensation received pursuant to any such void contract. (Bus. & Prof. Code § 6154.) Last year, the Legislature enacted SB 37 (Umberg, Ch. 645, Stats. 2025), which among other things enacted a private right of action to enforce the existing prohibition on capping and running.

AB 218 (Gonzalez, Ch. 861, Stats. 2020) was enacted by the Legislature in 2020 to extend the time for commencement of actions for childhood sexual assault to 40 years of age or five years from discovery of the injury, provided enhanced damages for a cover up of the assault, and provides a three-year window in which expired claims are revived. In 2025, Los Angeles County entered a $4 billion settlement with more than 6,800 of plaintiffs for childhood sexual abuse claims the majority of which were alleged to have happened at juvenile detention facilities across the county.[1] Similar allegations of sexual abuse by government employees or volunteers have been levied against cities and school districts across the state.

Following a year-long investigation, a Los Angeles Times article exposed claims that a least one Los Angeles-area law firm engaged in capping in an attempt to seek clients to sue Los Angeles County.[2] The article presented evidence that a law firm representing almost 25 percent of plaintiffs in the Los Angeles County sex abuse settlement paid persons outside of a county social services office to sign up as clients alleging sexual abuse at the hands of county employees. (*Ibid.*) The firm denied the allegations to the Los Angeles Times. However, the State Bar of California recently charged one of the

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[1] Los Angeles County, *LA County Reaches $4 Billion Tentative Settlement in Thousands of Sexual Abuse Cases*, (Apr. 4, 2025), available at https://lacounty.gov/2025/04/04/la-county-reaches-4-billion-tentative-settlement-in-thousands-of-sexual-abuse-cases/.

[2] Rebecca Ellis, Los Angeles Times, *In the biggest sex abuse settlement in U.S. history, some claim they were paid to sue*, (Oct. 2, 2025), available at: https://www.latimes.com/california/story/2025-10-02/settlement-story-ab218-sex-abuse.

first founding partners with the unlicensed practice of law for recruiting out-of-state clients, with the promise of apparently unrealistic case valuations, in jurisdictions for which they did not hold a valid license.[3]

In light if the above allegations, this bill seeks to add an additional enforcement mechanism to combat the issue of capping and running by providing a person, firm, partnership, association, or corporation violating the state's anti-capping statute is liable for a civil penalty $25,000 per violation. Every client retained and claim filed while engaging in capping would constitute an individual violation. The Attorney General, a city attorney or county counsel is authorized to bring an action to enforce this civil penalty. A prevailing plaintiff in an is entitled to an award of reasonable attorney's fees and costs.

3. Whistleblower protections

This bill enacts whistleblower and anti-retaliation protections for law firm employees and clients that disclose unlawful conduct by attorneys. This provision seeks to ensure that consumer protections and antifraud statutes cannot be undermined by an overly broad claim of attorney-client privilege. The bill enacts specific provisions for handling privileged communications to ensure the protection of the client, the employees of a law firm, and the public.

The whistleblower protections in the bill are intended to be as at least as strong as those under existing Section 1102.5 of the Labor Code and are in addition to those Labor Code protections. Specifically the bill prohibits an employer, law firm, attorney, or any person acting on their behalf from retaliating against an individual for disclosing information in good faith, or because the employer, law firm, or attorney believes the individual disclosed or may disclose information in good faith, where the individual has reasonable cause to believe that the information reveals a violation of the State Bar Act, the California Rules of Professional Conduct, or any state or federal statute, rule, or regulation governing the conduct of attorneys.

Under the bill, a violation of these provisions constitutes unlawful conduct. Remedies may include restitution, rescission or reformation of the agreement, civil penalties in the amount of $15,000 per offense, or injunctive relief. These provisions do not limit the disciplinary authority of the State Bar or any other remedies provided by law. Any contractual provision that waives these protections is void as contrary to public policy. Failure by an attorney to comply with these provisions constitutes grounds for discipline by the State Bar of California.

[3] The Daily Journal, *DTLA Law Group founder charged with multistate unauthorized practice*, (Mar. 10, 2026), available at: https://www.dailyjournal.com/article/390220-dtla-law-group-founder-charged-with-multistate-unauthorized-practice.

4. State Bar Discipline

This bill requires the State Bar of California to enact summarily disbarment procedures for any licensee convicted of a felony for capping or a misdemeanor conviction for capping where the court finds, or the record establishes, that the licensee acted knowingly and for financial gain. The bill requires the California Supreme Court to order disbarment upon receipt of a certified record of conviction. Under the bill, the State Bar is prohibited from offering settlements to such a licensee or imposing an alternative form of discipline.

5. Regulating loans offered to clients by attorneys

Last year, the Legislature enacted AB 931(Kalra, Ch. 565, Stats. 2025) to prohibit attorneys from directly or indirectly sharing legal fees with an out-of-state alternative business structure (ABS) based on the concerns that an out-of-state ABS may have owners who are not licensed attorneys. This bill seeks to regulate loans offered to clients by their attorneys. Under existing law, there are few limitations on these loans and few consumer protections or disclosures to clients. The bill requires specific disclosures to clients before a loan agreement can be entered. The client is required to be provided a "cooling off" period to revoke a loan agreement and no interest can be charged on the loan or any funds advanced to the client or use a loan to acquire ownership, control, or leverage over the client's cause of action beyond lawful attorney liens.
Under the bill, a violation of these provisions constitutes unlawful conduct. Remedies may include restitution, rescission or reformation of the agreement, civil penalties in the amount of $15,000 per offense, or injunctive relief. These provisions do not limit the disciplinary authority of the State Bar or any other remedies provided by law. Any contractual provision that waives these protections is void as contrary to public policy. Failure by an attorney to comply with these provisions constitutes grounds for discipline by the State Bar of California.

6. Amendment

The civil penalty enforcement for capping and running that is authorized to be enforced by the AG and other public prosecutors is intended to be in addition to other existing remedies. The author has agreed to make a clarifying amendment to ensure that the intent is clear.

The specific amendment is:

On page 8, in line 8, strike out "Notwithstanding" and insert:

In addition to

7. Stakeholder Statements

The Consumer Attorneys of California, the sponsor of the bill, write in support stating:

> […] First, AB 2039 establishes clear and consistent disciplinary consequences for attorneys convicted of illegal client solicitation practices, commonly known as "capping." California law already prohibits the payment or receipt of compensation in exchange for soliciting legal clients because such arrangements compromise the integrity of the attorney-client relationship. When client solicitations are driven by financial incentives rather than the needs and interests of the client, consumers may be directed to attorneys based on payment arrangements instead of the quality or suitability of legal representation.
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> Although capping is already a criminal offense under California law, disciplinary outcomes following criminal convictions have been inconsistent. AB 2039 corrects this problem by establishing mandatory disbarment for attorneys convicted of felony illegal capping and for misdemeanor capping violations committed knowingly for financial gain. The bill also prohibits alternative discipline—such as probation, suspension, or diversion—in place of disbarment. These provisions ensure that attorneys who engage in such illegal schemes cannot continue practicing law and eroding public trust.
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> Second, AB 2039 provides meaningful protections for individuals who report attorney misconduct. Employees, colleagues, and others who expose unethical practices often face retaliation, including termination, harassment, or professional blacklisting. The bill prohibits these retaliatory actions and provides legal protections for individuals who report misconduct in good faith. These safeguards are essential to encouraging transparency and ensuring that unethical conduct can be identified and addressed.
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> Third, the bill protects consumers by regulating attorney-client loans and financial advances. Clients seeking legal representation are frequently in financially vulnerable situations, particularly in cases involving injuries, lost income, or other hardships. While financial advances can provide short-term support, allowing attorneys to charge interest or fees on those advances creates the potential for exploitation and conflicts of interest.[…]

SUPPORT

Consumer Attorneys of California (sponsor)
Civil Justice Association of California

OPPOSITION

None received

RELATED LEGISLATION

Pending Legislation: AB 2305 (Kalra) prohibits a corporate lender, or an entity it controls, from entering into any contract, agreement, or arrangement with a litigation practice if the contract would constitute the unauthorized practice of law; specifies what types of actions by a corporate lender constitute the unauthorized practice of law; and provides that these provisions are not to be construed to prohibit the practice of nonrecourse litigation finance and that the practice of nonrecourse litigation finance is not considered impermissible fee sharing if certain conditions are met. AB 2305 is pending on the Senate Floor.

Prior Legislation:

SB 37 (Umberg, Ch. 645, Stats. 2025) among other things, enacted a private right of action to enforce violations of the capping prohibitions under the State Bar Act.

AB 931 (Kalra, Ch. 565, Stats. 2025) creates a regulatory framework for the litigation financing industry, and prohibited attorneys from directly or indirectly sharing legal fees with an out-of-state alternative business structure, except as specified.

PRIOR VOTES

Assembly Floor (Ayes 73, Noes 0)
Assembly Appropriations Committee (Ayes 15, Noes 0)
Assembly Judiciary Committee (Ayes 12, Noes 0)
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