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Private Equity Has Entered the Chat: Can Investors Strengthen the Business of Law Without Eroding the Practice of Law?

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And

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Private equity (PE) has moved from observing the legal profession to engaging firm leadership on concrete structures that separate legal practice from the business functions that support it. The appeal is straightforward: resilient cash flows, fragmented markets, and clear opportunities to modernize shared infrastructure. For law firm leaders, the task is to evaluate these options against settled duties of independence, loyalty, and confidentiality. The aim is to determine whether disciplined capital and professionalized operations can strengthen the business of law without eroding the practice of law.

1. Private Equity's Professional Services Template Reaches the Legal Industry

Momentum increased when McDermott Will & Schulte publicly acknowledged it is fielding interest from PE investors and examining ways to restructure the business side of the firm.¹ The statement did not announce a deal; it placed outside capital among mainstream strategic alternatives and signaled openness to further exploration.² Around the same time, midsize firm Cohen & Gresser said it is in discussions with multiple PE investors to support its strategy, and industry advisors predicted a small number of first movers would pilot compliant structures while peers watch for evidence on risk, returns, and client reactions. Rising talent and technology costs, together with a preference for stronger cash reserves, are practical reasons

¹ See Jon Campisi, *Law Firm Leaders Signal Openness to PE Investment Moving into 2026*, LAW.COM (Dec. 29, 2025), https://www.law.com/americanlawyer/2025/12/29/law-firm-leaders-signal-openness-to-pe-investment-moving-into-2026?kw=Law+Firm+Leaders+Signal+Openness+to+PE+Investment+Moving+into+2026&utm_position=1&utm_source=email&utm_medium=enl&utm_campaign=morningupdate&utm_content=20251229&utm_term=tal&oly_enc_id=

² See Emily Sawicki and Alison Knezevich, *McDermott Exploring Selling Stake to Private Equity*, LAW360 (Nov. 12, 2025), https://www.law360.com/pulse/modern-lawyer/articles/2409986?nl_pk=2f1dbb7b-fd7a-4b98-baca-2e52ebd925ff&utm_source=newsletter&utm_medium=email&utm_campaign=pulse/modern-lawyer&utm_content=2025-11-12&read_main=1&nlsidx=0&nlaidx=0.

these conversations have intensified.³ Observers expect other large firms to study the concept once the initial data emerges.

The strategy resembles what investors have already done in the accounting space. Sponsors have consolidated fragmented accounting practices, centralized noncore functions, and deployed technology to standardize workflows that partnerships rarely fund at scale. The sector also developed an “alternative practice structure” that separates licensed professional work from the revenue-generating business components investors can own. Those moves, including major stakes in top accounting firms and at least one multibillion-dollar valuation, demonstrate why PE views professional services as suitable for disciplined operating improvements.⁴ In the United Kingdom (UK), capital has flowed into law firms by acquiring regional platforms and specialisms, and aggregate PE investment in UK law firms has climbed sharply in recent years.⁵ Succession pressures magnify the appeal on both sides of the Atlantic: many owners are nearing retirement without internal financing solutions that match modern valuations, and professional management can modernize intake, case management, billing, and reporting while capital supports orderly transitions.

2. Ethical Rules at Issue: Ownership, Fees, and Independence

Any U.S. engagement with PE begins with ethics. Model Rule 5.4 of the American Bar Association (ABA) Model Rules of Professional Conduct is designed to preserve professional independence. In brief, it prohibits sharing legal fees with nonlawyers (with limited exceptions), forming a partnership with a nonlawyer if any activities include the practice of law, allowing anyone who recommends, employs, or pays the lawyer to direct or regulate the lawyer’s professional judgment, and practicing in a for-profit professional corporation or association if a nonlawyer owns an interest, holds an officer role, or has the right to control professional judgment.⁶ Those requirements exist to protect clients from outside influence, avoid conflicts, and safeguard confidentiality obligations.

A handful of U.S. regimes depart from the traditional approach. Arizona licenses Alternative Business Structures (ABS) that permit nonlawyer ownership of law firms under rigorous oversight; as of April 30, 2025, the state had approved 136 ABS entities, and among those newly licensed in 2024 with known ownership, a majority were wholly owned by nonlawyers.⁷ Utah created a pilot “regulatory sandbox” in 2020 that allows entities to seek waivers from certain rules to deliver legal services; the program has since narrowed eligibility,

³ See Campisi, *supra* note 1.

⁴ See James Courser, *The Last Frontier: Why Private Equity Wants a Piece of Law Firms*, UC BERKELEY LAW (March 24, 2025), <https://sites.law.berkeley.edu/thenetwork/2025/03/24/the-last-frontier-why-private-equity-wants-a-piece-of-law-firms/>.

⁵ See Sawicki and Knezevich, *supra* note 2.

⁶ See MODEL RULES OF PROF’L. CONDUCT R. 5.4 (2025) [hereinafter MODEL RULES].

⁷ See *Private Equity Investment in Law Firms: Current Models and Recent Development*, SIDLEY AUSTIN (Nov. 25, 2025), <https://www.sidley.com/en/insights/newsupdates/2025/11/private-equity-investment-in-us-law-firms-current-models-and-recent-developments> [hereinafter *Private Equity Investment in Law Firms*].

and participation declined from dozens of entrants to a smaller group, while the pilot continues under court supervision.⁸ Washington, D.C., has long permitted limited nonlawyer ownership if the firm’s sole purpose is to provide legal services and the nonlawyer owner is bound by the jurisdiction’s rules.⁹ Puerto Rico now allows up to 49% nonlawyer ownership subject to lawyer control and periodic review.¹⁰ California recently reaffirmed restrictions on sharing fees with out-of-state ABS lawyers but expressly permitted Management Services Organizations (MSOs) if they meet specific safeguards, including flat-fee compensation, no payment for referrals, and no scaling of payments based on recoveries.¹¹ Finally, Tennessee has likewise initiated a review of its lawyer-regulation framework, with the Tennessee Supreme Court soliciting public comment on whether to “modify, reduce, or eliminate” existing prohibitions on nonlawyer ownership of law firms and fee sharing with nonlawyers as part of a broader access-to-justice reform effort.¹²

Because the rules vary from state to state, firms exploring PE have identified compliant ways to serve matters beyond permissive jurisdictions. Such methods include referral hubs that send cases to local lawyers and receive allowable payments, pro hac vice appearances with court approval for specific matters, temporary practice within permitted categories, and staffing companies that provide temporary lawyers supervised by an independent attorney for the same client.¹³ Each route demands careful attention to licensure, supervision, and fee arrangements to avoid unauthorized practice or impermissible sharing.

3. Operating Models Under Consideration

Two structures dominate current discussions. A Management Services Organization (MSO) separates legal practice from business operations: lawyers own and control the law firm entity, while an investor-owned services company acquires and runs nonlegal functions—finance, human resources, marketing, information technology, and other back-office services—under a master services agreement with fixed compensation.¹⁴ Ethics authorities have begun

⁸ See *id.*

⁹ See *id.*

¹⁰ See *id.*

¹¹ See *Private Equity Investment in Law Firms*, *supra* note 7.

¹² See Order, In Re: Public Comments on Potential Regulatory Reforms to Increase Access to Quality Legal Representation, No. ADM20255-01403 (Tenn. 2025), <https://www.tncourts.gov/sites/default/files/ProposedRulesPdf/ORDER%20SOLICITING%20PUBLIC%20COMMENTS%20ON%20POTENTIAL%20REGULATORY%20REFORMS%20TO%20INCREASE%20ACCESS%20TO%20QUALITY%20LEGAL%20REPRESENTATION.pdf>; see also *Legal Access & Regulatory Reform*, TENNESSEE BAR ASSOCIATION, https://www.tba.org/?pg=regulatory_reform.

¹³ See *id.*

¹⁴ See Roy S. Ginsburg, *Private Equity Comes Knocking: The New Frontier of Law Firm Ownership*, attorney at work (Nov. 6, 2025), <https://www.attorneyatwork.com/law-firm-consolidation-the-new-frontier-of-law-firm-ownership/>.

sketching guardrails for MSOs, including prohibitions on compensation tied to legal fees and warnings against any influence over professional judgment or unauthorized practice of law.¹⁵

Where permitted, an ABS places nonlawyer owners inside a licensed entity that practices law under regulatory supervision, audits, and compliance obligations. ABS entities face geographic limits; they must design governance that protects professional decision-making across offices and comply with jurisdiction-specific rules. As ABSs and MSOs develop, legal-sector finance providers have described minority-ownership investments as passive capital intended to fund long-term capabilities—technology, talent, and expansion—while leaving control of legal work with lawyers.

4. Potential Benefits to the Business and Practice of Law

PE can fund long-range investments that partnership cash and bank lines struggle to support. Strategic hires and lateral teams become easier to finance and integrate across offices and practices.¹⁶ Technology programs—automation, matter budgeting, customer-relationship systems, data security—can be implemented uniformly, replacing uneven local efforts with measured, auditable processes.¹⁷ A professionally run services platform enables rigorous performance tracking, giving management the data to adjust pricing, staffing, and workflow in real time.¹⁸ Some firm leaders also point to liquidity: stronger reserves allow investment through economic cycles and create flexibility to offer pricing alternatives where appropriate.¹⁹ In the UK, investors have backed process-heavy specialties and boutiques with strong regional brands, illustrating how capital can scale operations while preserving market focus.²⁰

When administrative load shifts to a centralized platform, lawyers spend more time on analysis, advocacy, and strategy. Capital-backed firms abroad have experimented with client-relationship managers who oversee expectations and logistics while lawyers focus on legal judgment—an approach that tightens communication without diluting quality.²¹ Standardized workflows reduce repetitive drafting, allowing supervised teams to handle routine tasks so senior time is reserved for complex advisory work. Talent strategies can benefit as well: stronger infrastructure supports training, mentorship, and smoother integration of laterals, which stabilizes teams and improves responsiveness. Some investors and firm leaders also view outside

¹⁵ See *Private Equity Investment in Law Firms*, *supra* note 7.

¹⁶ See Jonathan Molot, *Outside Equity Investments Are the Future of Legal Innovation*, BURFORD CAPITAL (May 5, 2025), <https://www.burfordcapital.com/insights-news-events/insights-research/lawcom-equity-investments/>.

¹⁷ See *id.*; Joanne Ellis, *Private Equity Investment in Law Firms Presents Opportunities and Challenges*, PINSent MASONS (October 20, 2025), <https://www.pinsentmasons.com/out-law/analysis/private-equity-investment-law-firms-opportunities-challenges>.

¹⁸ See Campisi, *supra* note 1; Sawicki and Knezevich, *supra* note 2; *Private Equity Investment in Law Firms*, *supra* note 6.

¹⁹ See Molot, *supra* note 16.

²⁰ See Ellis, *supra* note 17.

²¹ See *Private Equity Eyes Law Firms*, MIDDLE MARKET GROWTH (Jan. 24, 2025), <https://middlemarketgrowth.org/conversations-private-equity-eyes-law-firms/>.

capital as a way to broaden offerings and consider alternative fee arrangements, which general counsel increasingly say they expect to use over the coming years.²²

5. Potential Ethical Violations and Frictions in Law Firm Business and Culture

The legal profession's duties set the boundaries. Independence means advice and strategy cannot be shaped by investor preferences; conflicts rules require loyalty to the client; confidentiality demands governance and systems that keep nonlawyer owners away from protected information. Skeptics worry that sophisticated sponsors will engineer agreements that tilt control toward investors, even if fee sharing remains off-limits.²³ Law firm leaders have also questioned whether complex arrangements deliver balanced outcomes for both investors and partners, noting mixed performance in accounting deals.²⁴ Those concerns are addressed by design, not slogans: documents must fence professional judgment from business operations, bar interference with legal work, and embed oversight—audits, reporting lines, and consequences—that makes those commitments real in day-to-day practice.

Control and culture present practical hurdles. Some partners view ceding any stake—even indirectly in business functions—as unacceptable, concerned that financial engineers often capture the better end of complex arrangements.²⁵ Experience from other professional sectors is mixed; poor acquisitions or misaligned incentives can undermine even well-capitalized strategies.²⁶ Client portability complicates consolidation; relationships may follow trusted partners, so restrictive covenants, deferred consideration, and vesting tied to integration outcomes matter.²⁷ Junior lawyers may question progression under capital-backed structures, prompting firms to modernize compensation and staff protections. Model specifics also deserve attention: MSO returns are limited to fixed-fee arrangements, ABS entities face jurisdictional limits and compliance burdens, and participation in experimental programs has fluctuated as courts refine eligibility. As the landscape evolves, consultants have noted that first movers could gain advantages, but recruiters and ethics specialists caution that firms will want a robust data set before adopting any model broadly.²⁸

6. What Comes Next and How to Prepare

If PE's role expands, expect measured but meaningful change. Consolidation will likely increase in consumer-facing and process-intensive practices where standardized workflows deliver immediate gains.²⁹ A handful of large first movers may capture compounding advantages in brand, talent, and operations if they build governance that keeps professional decisions walled

²² See Molot, *supra* note 16; Campisi, *supra* note 1.

²³ See Campisi, *supra* note 1.

²⁴ See *id.*

²⁵ See *id.*

²⁶ See *id.*; Molot, *supra* note 16.

²⁷ See Ellis, *supra* note 17.

²⁸ See Campisi, *supra* note 1.

²⁹ See Ellis, *supra* note 17.

off from investor influence.³⁰ More boutiques could attract capital that values niche strength coupled with disciplined back-office operations.³¹ Regulators will focus not only on ownership and fee structures, but also on client responses—including complaints, outcomes, and transparency—and will likely refine guardrails accordingly.

Preparation should start now. Embed independence, conflicts, and confidentiality in charters and contracts; define decision rights with specificity; avoid compensation tied to legal fees for any services entity; and use contractual tools to align incentives after combinations. When evaluating buy-and-build strategies, prioritize culture and client-relationship dynamics during diligence. Benchmark remuneration at all levels so recruitment and retention keep pace with structural change. Stress-test liquidity and resilience to ensure the capital stack supports long-term investment rather than short-term extraction. Firms considering an MSO should involve experienced ethics counsel early to calibrate fee structures, governance, and supervision against jurisdiction-specific requirements.

Those same firms should treat insurance placement as part of the deal structure and involve insurance professionals early to map professional liability and cyber exposures across the firm and the MSO. For professional liability, whose coverage governs turns on the policy Declarations and the definition of “insured,” because coverage for people tied to a related entity is not automatic.³² For MSOs with paralegals, a substantive error may not be picked up by the firm’s LPL absent clear insured-status language or an endorsement that fits the arrangement. That risk is easy to miss because professional liability policies rarely provide blanket additional-insured coverage for contracting partners, so the MSO contract alone does not solve the coverage question.³³ On cyber, firms should not assume the LPL policy is the first line of defense; stand-alone cyber coverage is designed to handle breach response and related costs.³⁴ If the breach occurs within the MSO, whether the firm’s cyber policy responds will hinge on coordinated policy terms and specific MSO contract provisions that allocate cybersecurity duties, notice, cooperation, and indemnity.³⁵

7. In Any Case: Keep Client Loyalty at the Center

PE is neither a cure-all nor a threat to be immediately dismissed. It is disciplined capital paired with management techniques that can help firms standardize operations, invest through

³⁰ See Campisi, *supra* note 1; *Private Equity Investment in Law Firms*, *supra* note 7.

³¹ See Molot, *supra* note 16.

³² Sara Nau, *Who (Else) is Covered Under Your Professional Liability Policy?*, PHELPS (March 31, 2021), <https://www.phelps.com/insights/who-else-is-covered-under-your-professional-liability-policy.html>.

³³ See *id.*

³⁴ See Greg Wagner, et al., *Coordinating Cyber & Lawyers Professional Liability Policies for Maximum Benefit*, CRCGROUP (June 5, 2023), <https://www.crcgroup.com/Tools-Intel/Specialty-Tools-Intel/coordinating-cyber-lawyers-professional-liability-policies-for-maximum-benefit-8>.

³⁵ See Veronica P. Adams, et al., *The Hidden Risk Factor: Vendor Contracts in the Cyber Insurance Era*, NATIONAL LAW REVIEW (June 26, 2025), <https://natlawreview.com/article/hidden-risk-factor-vendor-contracts-cyber-insurance-era>.

cycles, and redeploy lawyer time to higher-value work. Those benefits only matter, however, if the legal profession's core duties remain intact. The path forward is architectural: structures that separate business from judgment, agreements that prevent interference, and oversight that turns promises into practice. Firms that move deliberately with caution—testing models, building guardrails, and keeping fidelity to clients at the center—will be positioned to decide if, when, and how outside capital should play a role in the business of law.

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