Private Equity and "Big Law": The Rise of MSO/ABS Structures

Introduction

Law firms are traditionally structured such that senior attorneys operate within a partnership, ensuring they "maintain independence of judgement" and protect against any conflicts of interest. This principle is codified in Model Rule 5.4 of the American Bar Association (ABA), which prohibits the sharing of legal fees with non-lawyers. However, as of late, we have seen a surge in the adoption of management services organisations (MSOs) and alternative business structures (ABSs), which circumvent the regulatory hurdle of Model Rule 5.4. These are special mechanisms that allow non-lawyers to claim economic ownership of legal firms via a dual entity, which controls the operational side of the business.

This article breaks down the drivers behind the growing trend of MSOs/ABSs utilised by private equity (PE) firms to capture market value within the highly profitable US legal market. Moreover, the article will analyse the jurisdictional evolution governing the structures, the surge of interest in MSOs by "Big Law" firms such as Cohen & Gresser, and potential setbacks, including ethical and compliance risks.

The MSO/ABS Mechanism

PE's interest in the legal sector has spurred structural innovation to bypass the prohibition on non-lawyer ownership of law firms. As investors cannot directly acquire legal firms, they have adopted MSOs or ABSs. The MSO model is a dual-entity structure: attorneys own and control the law firm, while investors own a separate entity providing operational, administrative, and financial services, ensuring compliance with non-lawyer ownership rules. The ABS model permits direct non-lawyer ownership, allowing investors to own equity and participate in management while sharing fees.

Both models facilitate PE investment in the legal sector, where recurring revenues, strong cash flows, and high margins form appealing investment opportunities. Additionally, revenue is often predictable, with low capital expenditure relative to other industries, making legal services a prime target on paper. When examining the US legal market, it is highly fragmented, creating another incentive for PE to consolidate, scale, and improve efficiency across the sector.

This interest in legal services follows a broader pattern of PE expansion into regulated and fragmented markets, such as healthcare. The MSO model was first developed to overcome hurdles in the healthcare industry, where many states prevent non-physicians from owning medical practices. The MSO thus enters into a long-term management services agreement with the medical practice, allowing for consolidation and efficiencies. The healthcare precedent demonstrates that regulatory hurdles do not prevent PE interest.

At the centre of the MSO model is the Management Services Agreement (MSA). This agreement governs the relationship between the MSO and the law firm. The MSA operationalises the dual-entity separation and ensures the structure remains in line with conduct rules. It outlines the scope of services and compensation structure for the MSO and allocates responsibilities to preserve attorney control over legal services. Most US jurisdictions prohibit fee-sharing with non-lawyers; the MSA structures compensation using fixed fees, cost-plus arrangements, or market-based service fees. If the MSO's compensation appears as a direct share of legal fees, rather than payment for services, it violates conduct rules. The MSA must demonstrate that the MSO's payments reflect fair market value for operational services. Another important function of the MSA is to ensure the law

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firm's exclusive authority over legal matters, such that the MSO never interferes. MSAs are often long-term, providing PE investors with revenue predictability and investment security. For law firms, such long-term contracts can limit their ability to exit the relationship without high cost.

The key attraction of MSOs for PE is that they provide exposure to a historically restricted and economically attractive market, with law firms having strong profit margins, recurring revenues, and low capital requirements. Additionally, there is significant untapped potential in the highly fragmented legal market, where MSO-backed platforms can consolidate firms and centralise back-office systems. However, a compliance risk persists that MSO arrangements may be deemed as improper fee-sharing, particularly where the MSO has indirect influence over legal decisions. Additionally, because the MSO and law firm are separate entities, the structure can create tax inefficiencies and cultural tension between the two contrasting cultures and priorities.

For the legal firm, the MSO model secures capital without formally granting ownership of the legal practice, enabling expansion and investment in new technology. This additional funding can also be used to acquire other firms for consolidation. Additionally, the MSO's ability to centralise administrative functions can improve efficiency and free lawyers from administrative burdens. However, this elicits a loss of practical autonomy and flexibility, as the MSO can control infrastructure and staffing. Additionally, PE investors seek planned return targets, which creates pressure on law firms to prioritise high-margin practice areas and increase billing rates. These effects potentially damage long-term client relationships, create conflicts of interest, and erode the law firm's reputation.

US Jurisdictional Developments

Given the increasing adoption of ABSs/MSOs in the US, there has been an evolution on the jurisdictional side, with much experimentation. A central piece of legislation concerning the permission of such structures is Model Rule of Professional Conduct 5.4 "Professional Independence of a Lawyer" of the American Bar Association (ABA). This rule prohibits lawyers from sharing legal fees or forming partnerships with non-lawyers. While most states still abide by the rule, some states, including Arizona and Utah, have introduced modifications to this regulatory hurdle to permit non-lawyer ownership through ABS/MSO structures.

Arizona

In 2021, Arizona eliminated its Model Rule 5.4 but still maintained a multitude of legal requirements for ABS firms, including the acquisition of a license from the Arizona Supreme Court. Following the Model Rule termination, Arizona has gathered much traction from ABS firms, such that as of April 30, 2025, its Supreme Court had approved 136 ABS entities. Moreover, the system has been exploited by non-lawyers: of the newly licensed ABS structures in 2024, 59% were solely owned by non-lawyers, including many PE and VC firms.

However, despite demand, there are still significant limitations to the scope of ABS operations within Arizona. For instance, professional ethics opinions continue to emphasise that lawyers should ensure MSOs are not paid a portion of legal fee revenues and must protect against potential conflicts of interest. However, all in all, Arizona offers the most lenient legislation regarding the adoption of ABS structures within the US. Consequently, many ABS firms have adopted mechanisms to take advantage of Arizona's legislation while operating in other states. For instance, via referral fees or staffing firms that deploy temporary lawyers, so that while the firm operates from Arizona, it can claim a portion of the legal fees without violating legal constraints.

Utah

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Utah's Supreme Court adopted a different, more provisional approach to ABSs compared to Arizona, establishing what is termed a "sandbox". The "sandbox" is a seven-year pilot programme, established in 2020, that enables non-lawyer ownership of legal firms. Its objective is to incentivise innovative legal service methods and address the severe lack of affordable legal services in Utah, particularly concerning eviction and debt. Since its inception, the Utah Supreme Court has tightened the eligibility for the pilot programme, such that many ABS firms have relocated their operations to Arizona. Notably, on December 31, 2024, the Supreme Court declared that the ABS-only portion of the "sandbox" terminated. Accordingly, ABS firms were no longer eligible, which resulted in a decline in participation from 39 firms in 2022 to 11 as of April 30, 2025.

California

In October 2025, ABS lobbyists in California secured a minor victory, as legislation governing MSO structures was eased if certain prerequisites were met, including a flat fee structure and a ban on referral fees. A previous revision of the same legislation would have prohibited all forms of MSO structures, due to concerns over competition, such as from neighbouring Arizona. This ruling and the lobbying success mark the growing influence of MSO firms within the US legal industry.

Overall, the discrepancies across different US jurisdictions highlight the difficulties of navigating the growing trend of MSOs/ABSs. Evidently, while some states (Arizona, Utah, and California) have provided means for MSOs/ABSs, exceptions are limited, and these form a minority. However, the liberalisation of Model Rule 5.4 indicates a widespread desire to integrate innovative business models and improve accessibility to justice within the US legal system. Thus, we can expect to see further developments, with states such as Washington, Indiana, and Minnesota expressing eagerness to establish their own "sandboxes" emulating that of Utah.

Personal Injury Law and Accounting: The Catalysts for PE Investment

An example of a regulated profession that has already seen PE success is accountancy. Traditionally, accountancy firms grew through organic expansion, long-term client relationships, and partner-driven governance models. However, rapid technological change, increasing competition, and the need to scale services have made external investment more attractive. In less than three years, PE firms have bought stakes in five of the top 26 accounting firms, and PE activity in the sector has increased from a modest 10–20 deals annually before 2022 to over 100 transactions in 2023 and approximately 200 in 2024. This trend can be attributed to a few key factors. These firms have stable, recurring revenue streams, which are key for a private equity firm seeking to inject leverage into the business to drive returns. Secondly, the fragmented nature of the accounting industry presents opportunities for consolidation and economies of scale, which is also attractive to PE firms. Finally, the growing complexity of global regulatory environments has driven demand for specialised accounting services, creating further growth opportunities. PE firms are now aiming to replicate this level of success with personal injury firms, another regulated profession with a very similar monetisation strategy.

Much like accountancy firms, personal injury law firms are attractive to sponsors because the industry is highly fragmented, with many regional players dominating. This sets the scene for a classic PE buy-and-build consolidation strategy. These firms are also very appealing to PE investors because, unlike a typical B2B law firm that bills based on the hour, personal injury firms are paid based on client success. This means that instead of misaligned incentives where greater efficiencies lead to a reduction in billable hours, you have a situation where both the firm and the sponsor benefit from the greater efficiency.

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To evade professional ethics rules that state that firms must be owned by lawyers to protect the integrity of client advice, PE firms have turned to managed service organisations (MSOs) for personal injury law firms. During a sponsor-backed transaction, the law firm is divided into two separate entities: the core business, 100% owned by the attorneys, and the other entity, housing technology, finance functions, and other back-office assets, is jointly owned by the lawyers and the investors. The MSO would then sell services back to the law firm in exchange for fees that are large enough to make the entity valuable. This exact structure can be seen in the deal between Baton Rouge-based Dudley DeBosier and Uplift Investors.

PE firms are also looking beyond purely personal injury firms. Two "Big Law" firms, Cohen & Gresser and McDermott Will & Schulte, are reported to be future targets. The former is exploring a sponsor-backed structure, including a $40m convertible note that could later convert into equity in a new MSO entity. In a similar fashion, McDermott Will & Schulte is considering a restructuring that would allow outside investors to take a stake in an MSO while leaving the legal practice lawyer owned.

Conclusion

Given that accounting and medical practices are already staples within PE portfolios and the considerable economic value to capture within the US legal industry, it is inevitable that legal firms will be the next target within professional services. Moreover, the attractiveness of the MSO model is unsurprising, as it provides law firms with strategic solutions to remain competitive in a fragmented industry.

However, as evidenced, the jurisdictional developments supporting MSOs are slow to evolve, and with their increasing adoption, regulatory concerns have intensified regarding the potential contamination of legal judgment by commercial interests. Thus, whether MSOs will be confined to smaller segments, such as personal injury law, or become institutionalised within "Big Law" will ultimately depend on whether regulatory concerns will outweigh the necessity for innovation.

TAGS: PE, Law, MSO, ABS, US

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