

## How To Prep As Private Equity Starts Investing In Law Firms

By **Benjamin Malerba and Emily Manning** (February 11, 2026, 4:33 PM EST)

Private equity investment in professional services has expanded significantly over the past decade, first gaining traction in healthcare and accounting, and now extending into legal services. This shift is evidenced by public discussions that took place in November involving McDermott Will & Schulte, which openly acknowledged growing interest from private equity investors.[1]

In healthcare, private equity sponsors commonly invest through management services organization, or MSO, structures that separate clinical practice from nonclinical operations.

Accounting firms have adopted similar models to support growth, technology investment and operational scale while complying with professional and ownership restrictions.

Law firms are now adapting this established playbook. In the legal context, the MSO concept is typically referred to as a legal services organization, or LSO — a structure that is designed to allow outside capital to support nonlegal business functions while preserving lawyer ownership, ethical control and professional independence.

Likewise, publicly reported transactions and industry commentary reflect increasing sponsor interest in legal services, particularly where firms have meaningful scale, recurring regulatory or compliance practices, and opportunities for operational improvement.

More broadly, private equity sponsors have executed hundreds of MSO-style transactions across healthcare and accounting, refining governance, valuation and control frameworks that are now being adapted for LSOs in the legal market.

This article lays out how law firms eyeing LSO models can prepare by balancing commercial objectives and compliance imperatives.

### Why Private Equity Is Looking at Law Firms

From an investor perspective, legal services share many of the characteristics that originally attracted private equity to healthcare and accounting, including:



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- A large and fragmented market, with the U.S. legal services market exceeding \$396.8 billion annually, and significant fragmentation among midsize and regional firms;[2]
- Durable, compliance-driven demand, marked by corporate, regulatory and advisory practices benefiting from recurring client needs that are tied to regulation, governance and risk management, rather than purely cyclical transactions;
- Operational complexity and inefficiency, with many firms operating with decentralized billing, limited data analytics, legacy technology and inconsistent pricing discipline; and
- Constrained access to growth capital, illustrated by traditional partner-funded models that can slow investment in technology, talent and geographic expansion, because they prioritize annual partner distributions, limit access to external capital and embed risk aversion into firm governance.

Private equity sponsors view LSOs as a mechanism to professionalize and scale nonlegal operations — such as billing, pricing, information technology, analytics, recruiting and vendor management — while enabling firms to grow faster than organic capital alone would allow. Structured investments can also provide partial liquidity to senior partners while preserving long-term participation in firm growth.

### **The LSO Model: Adapting the MSO Playbook to Legal Services**

Under the LSO model, the law firm, as the professional entity, remains owned and controlled by licensed attorneys and retains sole authority over legal services and professional judgment. The LSO — which is owned by nonlawyers — provides nonlegal services, such as administration, billing, accounting, leasing, vendor contracting, technology, data analytics and cybersecurity.

This structure is designed to comply with fee-sharing and nonlawyer ownership restrictions, including American Bar Association Model Rule 5.4, by clearly separating legal services from business operations.

In most states, excluding the few jurisdictions that permit alternative business structures with nonlawyer ownership, the LSO model represents the most practical path to outside investment while maintaining ethical compliance.

### **Key Commercial and Compliance Considerations**

LSO arrangements require careful structuring to balance commercial objectives with regulatory compliance.

### ***Economics and Fee Design***

There are three common LSO fee structures that can be used — the cost-plus, fixed-fee or percentage-of-revenue methods.

Under the cost-plus method, the LSO bills the firm for its projected operating expenses and adds a profit component that reflects fair market value. The fixed-fee method has the LSO charging the firm an annual fixed fee. In the percentage-of-revenue method, the LSO charges a percentage of net revenue.

These management fees must reflect fair market value for the services provided. Excessive fees can

raise fee-splitting or control concerns, while underpricing can undermine the investment rationale. Objective methodologies, benchmarking and contemporaneous documentation are critical.

### ***Governance and Control***

Agreements must clearly demonstrate that attorneys retain control over legal services, client relationships and professional judgment, with nonlegal functions contractually allocated to the LSO.

If this separation is not properly structured and documented, the arrangement risks violating the rules prohibiting nonlawyers from owning and interfering with the practice of law. This could potentially render the agreements unenforceable, exposing the parties to regulatory scrutiny and disciplinary action.

### ***Regulatory Uncertainty***

Ethics guidance remains unsettled and varies by jurisdiction, making state-by-state analysis and conservative structuring essential. The ABA Model Rules of Professional Conduct were not drafted with private equity in mind, so enforcement bodies are still grappling with how to apply them to modern investment structures.

### ***Durability of the Relationship***

LSOs are deeply integrated, long-term relationships, rather than traditional vendor arrangements, requiring thoughtful alignment of incentives and exit mechanics.

### **How Law Firms Can Prepare**

#### ***Strategic Readiness***

Identify growth initiatives that outside capital can accelerate — such as technology modernization, including artificial intelligence and analytics; practice and geographic expansion; recruiting; and acquisitions. Further, develop a multiyear strategic plan and quantify capital requirements.

By aligning these initiatives with market trends, firms can position themselves for sustainable growth. Additionally, regular reviews of strategic goals will ensure adaptability in a dynamic business environment.

#### ***Governance and Ethical Safeguards***

Ensure that governance frameworks clearly reserve legal decision-making authority to attorneys. Document reserved powers, consent rights and escalation protocols that evidence professional independence in practice, not just on paper.

This approach fosters trust and transparency among stakeholders. Furthermore, continuous training on ethical standards will reinforce the integrity of the governance structure.

#### ***LSO Economics and Documentation***

Design services agreements with clearly defined scope, service levels and pricing that is grounded in fair

market value. Incorporate benchmarking, periodic valuation updates and adjustment mechanisms to address regulatory scrutiny and changing business needs.

This ensures that agreements remain competitive and compliant over time. Moreover, clear documentation will facilitate smoother negotiations and client relations.

### ***Compliance Infrastructure***

Map ownership, fee-sharing and ethics constraints on a jurisdiction-by-jurisdiction basis. Where alternative business structures are permitted, evaluate optionality. Only three states, Arizona, Utah and Washington, D.C., have established frameworks allowing alternative business structures where nonlawyers can hold ownership interests in firms.

When not allowed, implement a compliant LSO model that is supported by training, monitoring and written compliance policies. This tailored approach helps navigate complex legal landscapes effectively. Additionally, regular audits can identify and mitigate potential compliance risks.

### ***Operational and Data Foundations***

Standardize and centralize nonlegal operations that are targeted for LSO integration — including billing, accounting, IT, security and vendor management. Additionally, establish key performance indicator dashboards, data governance and reporting capabilities that support scale, transparency and investor oversight.

This integration enhances operational efficiency and decision-making, while allowing the firm to focus on client services and professional judgment.

For example, automated billing workflows and real-time financial dashboards can reduce errors and increase cash flow, while centralized human resources and IT systems ensure consistent policies and compliance across multiple practice locations.

### ***Long-Term Contractual Alignment***

Negotiate LSO agreements with durable provisions addressing term, termination, change of control, restrictive covenants and exit rights. Model buy-out, call/put and transition scenarios that align professional obligations with investor protections.

This foresight ensures stability and clarity in business relationships. Additionally, regular contract reviews can adapt to evolving legal and market conditions.

### ***Change Management and Communications***

Develop a proactive communication strategy for partners, associates, clients and regulators. Align compensation and incentives to reinforce performance, compliance and cultural continuity.

This strategy fosters a cohesive and motivated workforce. Moreover, transparent communication builds trust and facilitates smoother transitions during organizational changes.

### **Takeaways**

Private equity's expansion into legal services reflects a familiar professional services playbook that was refined in healthcare and accounting, and is now being adapted through the LSO model.

When properly structured, LSOs can provide access to capital, operational sophistication and scalable growth, while preserving lawyer control and ethical compliance. Firms that are considering this path should begin preparing now by aligning strategy, governance, compliant economics, operational readiness and long-term contractual frameworks.

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[1] See Justin Henry, McDermott Will & Schulte Considers Outside Investment in Firm, Bloomberg Law, Nov. 12, 2025, <https://news.bloomberglaw.com/business-and-practice/mcdermott-will-schulte-considers-outside-investment-in-firm>.

[2] See Grand View Research, U.S. Legal Services Market Size, Share & Trends Analysis Report (2024) <https://www.grandviewresearch.com/industry-analysis/us-legal-services-market-report>).