



USI AFFINITY LEGAL ADVISORY

Private Equity and Law Firm MSOs: Managing the Risks



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Private equity investment in the business infrastructure surrounding law firms has moved quickly from speculation to an active deal market. By late September 2026, Holland & Knight's Legal Services Transactions Team reported closing its 35th law firm management services organization (MSO) deal of the year, with many more in the pipeline. The earliest publicly announced transactions involved large personal injury practices. Reported activity now extends to estate planning, family law, general practice, and technology-driven firms. These deals are reaching firms of every size, and for the owner of a small or midsize firm, the pitch often arrives framed as something familiar: a succession plan, or a path to retirement that does not require selling to another lawyer or winding the practice down.

Outside capital can solve real problems, including technology costs that can be difficult to fund without reducing annual partner distributions. But these arrangements concentrate risk in ways that most firms have not previously had to analyze, and regulatory guidance has not kept pace with the deal flow. This article

explains the structure, identifies the risks, and outlines the safeguards a firm should have in place before taking the call. It does not recommend for or against any particular transaction.

Why Investors Are Calling

The legal market shares many of the features that drew private equity into healthcare and accounting over the past decade: a large, fragmented industry; recurring demand; aging ownership with limited exit options; and chronic underinvestment in technology. Artificial intelligence has sharpened the last point, as firms face significant capital needs that the traditional partnership model may be poorly equipped to absorb.

Consolidation was already underway. Industry trackers counted 59 completed law firm mergers in 2025, and approximately three-quarters involved at least one firm with between five and twenty lawyers. Private equity offers a second route into the same market, and small and midsize firms are squarely within it.

The Structure

Rule 5.4 of the [*New York Rules of Professional Conduct*](#) generally prohibits non-lawyer ownership of a law practice and the sharing of legal fees with non-lawyers. The MSO is the market's principal answer.

The lawyers retain ownership of the firm, and the firm retains exclusive control over the practice of law. A separate entity, owned by outside investors and often by the law firm's partners as well, acquires some or all of the business infrastructure: technology, marketing, intake, human resources, billing, finance, intellectual property, and administrative staff. The MSO then provides those services to the firm under a long-term management services agreement.

The management fee is commonly structured as a fixed amount or by reference to non-revenue measures such as headcount or services provided. A fee that rises and falls

with legal revenue, profits, settlements, or case outcomes may constitute impermissible fee sharing regardless of the label placed on it.

The published ethics guidance remains limited. In February 2025, Texas issued the first ethics opinion to address an MSO-like arrangement directly. Opinion 706 concluded that a lawyer may invest in a non-lawyer-owned support business that does not practice law, but may not compensate that business based on a percentage of the lawyer's or firm's revenue. The opinion also warned of conflicts arising from the lawyer's ownership interest. It supplies a useful framework, but it does not constitute blanket approval of the broader private-equity-backed MSO model.

No published New York ethics opinion appears to address a private-equity-backed MSO directly, although New York committees have addressed related relationships between New York lawyers and alternative business structures operating in other jurisdictions. Reported case law testing where permissible management services end and impermissible control begins also remains sparse.

Legislatures have begun to fill the gap. Colorado and Illinois enacted restrictions addressing MSO compensation and non-lawyer influence in 2026, and a California statute that took effect the same year bars contingency-fee sharing with out-of-state alternative business structures. The Colorado statute also creates a private right of action through which clients may seek recovery of legal fees paid in connection with a prohibited arrangement. Other states have considered similar measures.

The Risks

Most small and midsize firms already live with pieces of this model. They outsource intake and answering services, marketing and lead generation, practice-management platforms, and sometimes billing and collections. Rules 5.3, 5.4, 7.1 through 7.3, and 1.6 already govern those relationships. The MSO concentrates the entire vendor stack in a single counterparty, and that counterparty has an investor, a board, and growth targets. The familiar obligations remain; the stakes change.

- **Pressure on professional judgment.** An MSO exists to grow the platform, and it will track case volume, resolution speed, staffing levels, and revenue per lawyer. Under Rule 5.4(c), a lawyer may not permit a person who pays for or recommends the lawyer's services to direct or regulate the lawyer's professional judgment. When a former client later alleges that a matter was settled early, rejected improperly, or staffed too thinly, the MSO's reports, communications, and board materials may become discovery targets, and its performance metrics may become the claimant's theory of the case. Firms should assume that anything reported to the MSO may one day be read to a jury.

- **The management fee.** A management fee tied directly or indirectly to legal revenue, firm profits, settlements, or case outcomes may constitute prohibited fee sharing. A non-compliant fee creates multiple exposures, including disciplinary risk and potential restitution, forfeiture, or contract-enforceability arguments.

Nor is a fee necessarily permissible merely because it is labeled "fixed." True-ups, minimum-payment provisions, sweeps, bonuses, and termination payments must be considered together to determine whether the arrangement accomplishes indirectly what Rule 5.4 prohibits directly. The fee should reflect fair market value, and the benchmarking and economic analysis should be documented and revisited when the services change.

- **Conflicts.** The investor has a portfolio, and the MSO may serve several firms at once. A conflicts system designed to identify clients and adverse parties may not capture the investor's affiliates, portfolio companies, business relationships, or other firms on the platform. The firm must map those relationships, determine which require screening or disclosure, and document how business-interest and client conflicts will be handled. The MSO may help administer the process, but conflict determinations and waivers must remain with the firm.

- **Intake, advertising, and supervision.** Marketing and intake are usually among the first functions to

move, and they are also the functions where Rules 5.3, 7.1 through 7.3, and 1.18 operate. The firm remains responsible for the conduct of non-lawyers performing that work, the content and placement of its advertising, the handling of information received from prospective clients, and the decision that a caller becomes a client. The engagement letter, the intake criteria, and the ultimate decision to accept or reject a matter should remain the firm's.

- **Confidentiality.** The MSO may own or administer the platform where client files are stored, its personnel may have administrative access, and its investors may request information during diligence or ongoing financial reporting. Each presents a Rule 1.6 issue and requires a separate privilege analysis. Client information should be anonymized or aggregated wherever possible, access should be restricted and logged, and client consent should be obtained when required. Written confidentiality obligations, data-segregation protocols, and restrictions on secondary use of client information are the minimum.
- **Trust accounts.** Escrow and IOLA accounts must remain with the firm, and signatory authority must remain with lawyers. Billing and collections are natural MSO functions, but the obligations imposed by Rule 1.15 do not transfer with the back office. The firm must retain control over the receipt, safeguarding, disbursement, and reconciliation of client funds.
- **Operational dependence.** The firm may remain legally independent while becoming operationally dependent on the MSO. The MSO may own or control the website, telephone numbers, intake system, practice-management platform, administrative workforce, and other infrastructure through which the firm serves its clients. The services agreement should address data ownership and portability, continued access during a dispute, transition assistance, disaster recovery, and the consequences of the MSO's insolvency or termination of the relationship. A firm should not discover during a separation that it owns the client relationships but lacks the systems necessary to serve them.

- **Departures.** Services agreements commonly run five to ten years; partners may leave sooner. Restrictions affecting lawyer mobility, client files, pending matters, or the ability to continue representing clients may implicate Rule 5.6 and the client's right to choose counsel. The agreement must distinguish legitimate protections for MSO property from provisions that interfere with legal practice or client choice. No firm should want to become the test case.

Essential Risk Management Considerations

For a firm fielding investor interest, or simply expanding its outsourced operations, several steps should come before any signature:

- **Retain independent ethics counsel.** The sponsor's counsel has structured these deals before and represents the sponsor. The firm needs its own advice on the services agreement, fee design, governance provisions, and regulatory risks from counsel answering only to the firm.
- **Document the boundary.** Reserved powers, consent rights, and escalation protocols should establish on paper, and in practice, that lawyers control legal judgment, client relationships, conflicts, matter acceptance, staffing of legal work, fees, and settlement recommendations. Budgetary or personnel provisions should not give the MSO indirect control over decisions it could not make directly.
- **Benchmark the fee.** Obtain and retain contemporaneous fair-market-value support for the management fee. Analyze the entire economic arrangement, including adjustments, bonuses, advances, termination payments, and affiliated transactions, and revisit that analysis when the services change.
- **Rebuild the conflicts system.** Map the investor, its affiliates and portfolio companies, the MSO's other firms, and other material relationships before closing. Establish which relationships require screening, disclosure, or consent, and assign responsibility for keeping the information current.

- **Control the data.** Determine who owns and can access client information, restrict and log administrative access, establish diligence protocols, and obtain written confidentiality and cybersecurity commitments from the MSO and its personnel.
- **Plan for separation before closing.** The agreement should provide for data portability, transition assistance, continued access to critical systems, control of telephone numbers and web domains, and continuity of client service following termination, insolvency, or a dispute.
- **Call your broker and carrier before closing.** A pending MSO transaction is a material change in the firm's risk. The firm should determine in advance whether the MSO or its personnel qualify as insureds under the professional liability policy, whose coverage responds if MSO intake staff mishandle a deadline, what must be disclosed on the application, how prior-acts coverage is affected if the firm restructures, and whether the MSO carries adequate errors and omissions, cyber, employment-practices, and crime coverage.

Any contractual indemnity from the MSO is only as valuable as the MSO's balance sheet and insurance. The firm should therefore verify applicable limits and exclusions, additional-insured status where appropriate, and the interaction between the MSO's policies and the firm's professional liability coverage. Many carriers are still developing their underwriting approaches to these structures, and the firm that asks before closing will get better answers than the firm that asks after a claim.

CONCLUSION: Prepare Like You Would Advise a Client to Prepare

Private equity's arrival does not require any firm to take outside money, and nothing here suggests that a well-structured transaction cannot be done. But the market is moving faster than the regulators, the deal documents are being drafted by the investors' side of the table, and the risks fall on the lawyers' licenses, not the fund.

A firm considering an MSO should approach it the way it would counsel a client to approach a transaction with a sophisticated counterparty: independent advice, documented boundaries, rebuilt compliance systems, a workable exit plan, and insurance questions answered before the money moves.

A firm with no interest in outside capital can still take something from the moment, because the same rules that govern an MSO govern the intake vendor, marketing company, technology platform, and billing service it already uses. Reviewing those arrangements now costs little. Reviewing them after a claim costs more. ■

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