

What Law Firm MSOs Can Learn From Accounting Co. Model

By **Russell Shapiro** (May 5, 2026)

Outside capital has been flowing into accounting firms for years, with investors developing creative structures to work within that field's specific ownership restrictions. The framework developed by these transactions offers valuable insights for another type of professional services firm: law firms.

Historically, U.S. law firms have been off-limits for this type of investment due to rules restricting ownership and fee sharing. Those rules effectively restrict ownership to practicing attorneys, with only a very small number of states, most notably Arizona, relaxing the rules.



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All the same, the economics of investing in law firms can be compelling, as law firms offer recurring revenues, high margins and low capital requirements in a fragmented market. To seize the opportunities while complying with applicable restrictions, investors have developed workable structures that allow outside capital to flow into law firm-affiliated entities.

The managed services organization, or MSO, is the most common structure. Formed as a separate business entity, the MSO, which is owned jointly by one or more investors and the partners of the law firm, houses certain limited assets and provides, and is paid for, only nonlegal operational, administrative and business functions. The law firm itself maintains its integrity and continues to be owned by the lawyers.

Investment in law firm MSOs has grown gradually over the past couple of years and shows signs of increasing in a significant way.[1]

Lessons From Both Sides of the Deal in Accounting Firm M&A

Address partner concerns head-on, before they become obstacles.

Deals will progress more smoothly when firm leaders anticipate questions, and communicate clearly and proactively about all deal terms with their partners.

When a professional services firm is considering accepting outside investment, partners naturally raise many questions about how the transaction may affect them personally (and potentially negatively), including:

- How will the deal affect my equity stake, and how will my compensation change?
- Will I be able to sell my rollover equity, and on what terms?
- Will existing leadership be retained, and what kind of decision rights will we have with respect to how the business is run?
- How does this affect my planned retirement timeline?

Partners will also want to understand how a transaction can positively benefit them. Outside investment can provide critical capital to allow firms to recruit high-value laterals, upgrade technology and modernize operations. It can also provide a funded exit for partners.

In accounting firms, outside investment increases funds available for retiring partners to receive under an existing buyout structure. In law firms, which generally do not provide a meaningful exit event for their partners, outside capital can create one. Older partners can retire with a buyout; younger partners gain an equity interest that may become very valuable.

Traditional noncompete agreements are generally unenforceable against attorneys because they violate ethical rules designed to protect client choice and professional autonomy. Thus, deal terms will need to create incentives that hold the firm together for the deal, and this may affect how transaction consideration is allocated.

An outside investor can reduce friction by proposing a tailored MSO with a mutually beneficial governance structure, and by consistently acknowledging (in term sheets, presentations and conversations) that attorney independence is nonnegotiable.

Choose your investor carefully, and understand the timeline.

Just like not all law firms or accounting firms are the same, neither are all private equity firms. Attempting to marry a PE investor whose growth expectations or management philosophy conflict with a differently aligned law firm will create friction that no deal structure can fully mitigate. When both groups prioritize cultural fit alongside economics in their selection process, they are more likely to see post-transaction success.

At the same time, law firms must have realistic expectations as to what it means to take on outside investment. PE firms typically invest on a five-year horizon before seeking an exit, usually by selling to a larger PE platform or recapitalizing with a new fund. This is not a long-term partnership in the traditional sense. That next transaction, the so-called flip, is a feature of the model. Firms that understand and plan for this negotiate better terms and are less likely to feel blindsided.

Understand the economics, including the multiple bites at the apple.

One of the most powerful aspects of PE-backed accounting firm transactions is the liquidity structure. The initial investment typically provides firm owners with an up-front cash payment, plus rollover equity in the MSO entity. When the PE firm exits, the remaining equity can generate both second and additional substantial liquidity events.

These cash-out opportunities are virtually unheard of in traditional firm mergers, where ownership transitions generally happen slowly over years and at internally determined valuations, or no value at all in the case of most law firms, where a partner's exit often results in no payment to the partner other than a return of capital.

The catch is that each liquidity event typically comes with a new, reset time commitment horizon. Partners who remain will generally be required to recommit to the firm for another defined period. Again, because noncompete agreements may not be enforceable, law firm deals will rely on strong economic incentives.

Understand where the growth will come from.

PE platforms invest in professional services firms to build scale through acquisition. In the accounting space, the pattern is well established: A PE firm acquires a platform firm, then uses that platform to execute a series of add-on acquisitions of smaller practices. The platform gains market position and reach; the smaller firms gain capital, technology and succession options.

The capital that flows in is primarily deployed toward technology modernization (including artificial intelligence and client data platforms), talent acquisition and the acquisition of additional firms. PE investors in accounting have shown particular interest in firms with high-margin advisory and specialized service lines, where the economies of scale are most compelling.

In the law firm context, some practice areas are more scalable, with the potential to produce strong economics that create opportunities for investors.

For example, based on their strong scalability, and because they tend to have concentrated ownership and nonlegal functions at the core of their overall value, firms that focus on personal injury have attracted the greatest early PE interest. Other practices with high-volume, systematized work; a prominent nonlegal function; and concentrated ownership may also be attractive.

Complex litigation and corporate M&A practices have so far seen less activity. There, the value of the business is tied up in the individual practitioners and their relationships, and the risk that core talent could leave is a bigger factor. That said, we are seeing growing PE interest in these types of commercial law firms too, which may in part be fueled by the role of AI in bringing new systemization (and, therefore, scalability) to even the highly bespoke "product" these practices provide their clients.

Understand the debt service obligations.

PE acquisitions are typically financed with leverage, and that debt needs to be serviced. PE firms are adept at finding and using debt, but this is not something with which law firm partners typically have as much experience. Law firm management should take care to understand the debt obligations the MSO will carry as a result of the transaction, how those obligations are structured and under what circumstances they could become problematic.

Key Differences Between Accounting Firm and Law Firm Deals

The accounting firm experience offers a useful road map, but it is not an exact blueprint for law firm transactions. A few structural and regulatory differences between the professions create meaningful differences in how these deals should be structured and what risks must be managed. Two of the most critical differences relate to restrictive covenants and fee-sharing issues.

Restrictive Covenants

In accounting firms, PE investment has offered a compelling answer to succession planning by funding buyouts for retiring senior partners — a liquidity event the partnership structure itself cannot provide without taking on significant debt.

Critically, accounting firms can generally enforce restrictive covenants — noncompete and nonsolicitation agreements — that prevent departing partners from taking clients with them.

Even if a minority of partners object to a deal, they essentially have to go along with it as they are legally constrained in their ability to compete or at least to solicit former clients.

Law firms present a more complex picture. Traditional law firm partnerships carry no buyout obligations, leaving departing partners with little beyond the return of their capital contributions in most firms. Outside investment creates something new: a liquidity event that the firm itself could never provide. But unlike in accounting, this capital infusion does not fully resolve the succession question.

Professional responsibility rules may render unenforceable restrictive covenants that impair a lawyer's ability to practice, and a lawyer can leave and take clients along with them at any time.

This asymmetry is one of the most significant structural risks in law firm transactions. PE investors therefore must rely instead on economic incentives with law firms, like structured equity, earnout arrangements, and holdback and clawback provisions structured to ensure that remaining with the firm is clearly in partners' collective and individual interests. But no amount of creative deal structuring fully eliminates the risk, which is why cultural alignment and partner buy-in are not just soft considerations; they are essential risk mitigation strategies.

Fee-Sharing Issues

Fee sharing is another important distinction. Accounting firms have a long-established ability to operate in an MSO structure. It is called an alternative practice structure. There are generally recognized parameters around what the MSO can do and how it will get compensated. The fee-sharing issues with law firms are newer and precedent is still being established. Care must be taken in the management services agreement to steer clear of fee-sharing issues under Rule 5.4 of the Model Rules of Professional Conduct.

Conclusion

As capital grows more familiar with investments in the legal industry and early movers establish the benchmarks that will define market norms, firms and investors that understand the landscape will be best positioned to act when the right opportunity presents itself.

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[1] For example, see "Ariz. Personal Injury Firm Inks \$125M MSO Deal With PE Funds."