

Private Capital in Law Firms: Strategic Entry via ABSs



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Executive summary

Capital from nonlawyers — including private equity and other institutional players — has historically been barred from being deployed into law firms under American Bar Association (ABA) Rule 5.4, which prohibited fee-sharing and nonlawyer equity. Recent regulatory shifts, led by Arizona's Alternative Business Structure (ABS) framework and Utah's sandbox program, now allow equity ownership by nonlawyers, creating a clear pathway for direct investment in legal services. This opening has drawn early interest in segments such as personal injury, mass tort, class action and estate planning (among others) — all offering distinct growth drivers, from high lead volume and contingency fees to underserved consumer demand and demographic tailwinds.

At the same time, much of the legal industry remains fragmented, underdigitized and operationally inefficient — particularly among small firms. This creates opportunities to consolidate practices, introduce shared infrastructure and scale with technology. The resulting dynamics mirror early-stage consolidation trends seen in sectors like healthcare and accounting, where institutional capital was able to build national platforms by professionalizing services, modernizing operations and capturing economies of scale.

While regulatory and reputational risks persist, legal services now represent a credible margin-expansion opportunity with strong potential for technology-led transformation.

Historical investments in legal services

Rule 5.4 of the ABA Model Rules of Professional Conduct, introduced in 1935, prohibits nonlawyers from owning equity in law firms or sharing in legal fees. This restriction, with the intent of preserving professional independence and avoiding conflicts of interest, has effectively blocked traditional equity investment in law firms, diverting institutional investment in the legal industry to adjacent areas such as litigation finance, alternative legal service providers (ALSPs) and legal technology vendors. Although the ABA is a voluntary national organization, enforcement of Rule 5.4 occurs at the state level, where each state determines whether to adopt, modify or reject the rule.

Litigation finance emerged as a viable asset class in the late 2000s, enabling investors to fund legal claims in exchange for a portion of the recovery. Structured as nonrecourse capital, these investments function similarly to high-risk credit or structured equity: If the case is lost, the investor absorbs the full loss; if the case is won, returns can be substantial. The market evolved from single-case funding to portfolio-based financing, offering more-diversified exposure and improved risk-adjusted returns. Players such as Burford Capital developed scalable platforms managing billions in legal assets. This model gave private capital access to litigation economics without requiring direct ownership of law firms.

ALSPs deliver legal process services that support, but do not replace, traditional legal advice. ALSPs specialize in areas such as e-discovery, document review, contract life cycle management, compliance and legal research — functions that can be standardized, scaled and optimized through technology.¹ Because they do not provide legal advice directly, ALSPs operate outside Rule 5.4 restrictions and have attracted significant private capital. Their focus on process efficiency and technology-driven delivery has allowed them to scale faster and more profitably than many traditional firms.

Legal tech has become the third and fastest-scaling category, enabling law firms and legal departments to improve operational efficiency without regulatory hurdles. These companies deliver software as a service to enable functions such as billing, customer relationship management, document automation, spend management and case management to a customer base that includes law firms as well as in-house counsel.

Taken together, these adjacent investment channels demonstrate both the demand for modernization in legal services and the interest of institutional capital in the sector. The advent of ABS structures marks a pivotal shift — transforming law firms themselves into investable platforms and enabling capital to move from the periphery to the core of the legal value chain.

Regulatory reform and expansion of ABS permissions

For nearly a century, ABA Rule 5.4 acted as the central barrier to institutional investment in U.S. law firms. That began to change in earnest in the 2010s and accelerated post-2020, as states began revisiting their legal regulatory frameworks. Motivated by concerns around access to justice, legal innovation and consumer affordability, several jurisdictions launched experimental or structural reforms to enable new business models that permit nonlawyers to own and operate law firms under regulated conditions.

Washington, D.C. (1991)

Washington, D.C., was the earliest adopter of nontraditional law firm ownership. Since 1991, the district has permitted nonlawyers to hold equity in law firms only if they provide essential professional services (such as chief financial officer, chief operating officer or technology roles).² Passive investment is still prohibited. This narrow allowance has resulted in only a handful of law firms using the structure, mostly in the public-interest sector. While the D.C. bar revisited the possibility of expanding ABS permissions in 2020, no formal reforms have yet been implemented.

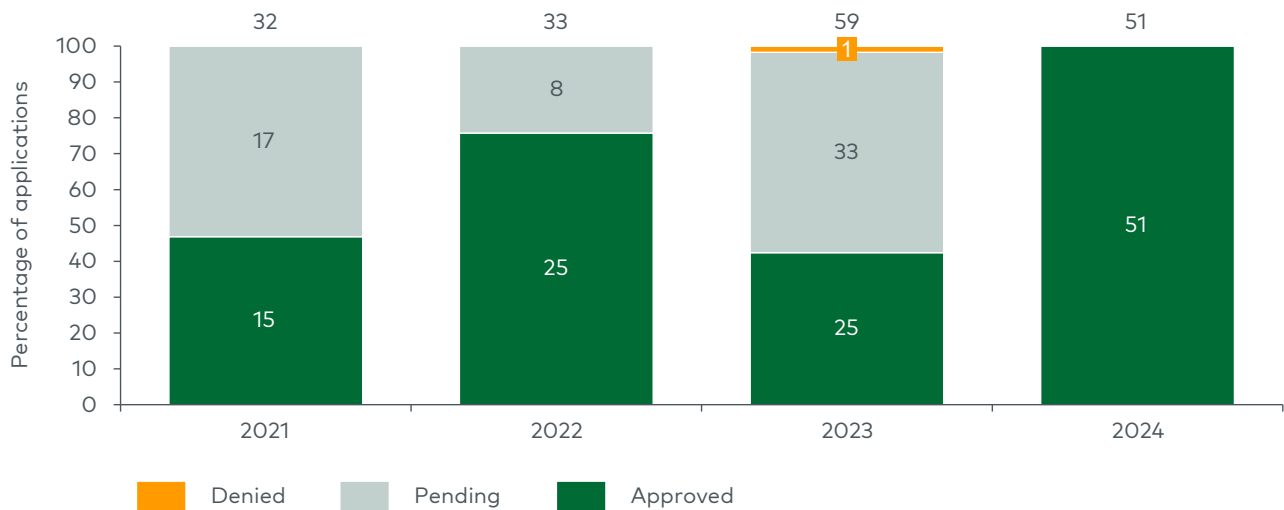
California (2019)

California's state bar convened a high-profile task force in 2019 to explore regulatory reform, ultimately recommending a pilot program to allow nonlawyer ownership in limited, tightly monitored cases. Despite initial momentum, the proposal was met with resistance from the organized bar and judiciary,³ and by 2022, the reforms were effectively stalled.⁴ In May 2025, California's State Assembly approved AB 931, a bill aimed at further barring the expansion of ABSs within the state. Now under Senate review, the legislation would prevent California attorneys from fee-sharing or partnering with law firms that include nonlawyer ownership, effectively limiting the cross-border expansion of ABS entities licensed in Arizona and similar jurisdictions.⁵

Arizona (2020)

Arizona became the first U.S. state to fully eliminate Arizona Professional Ethics Rule 5.4, effective January 2021, following a 2020 Arizona Supreme Court ruling. This move created a formal ABS licensing regime that allows nonlawyers to fully own law firms, provided they meet ethical and operational criteria (e.g., must appoint a designated principal attorney who is a licensed Arizona lawyer and a compliance attorney who does not have to be a licensed Arizona lawyer; all owners, directors and key personnel must pass a “fit and proper” assessment).⁶ Following this rule change, the number of ABS licenses has increased rapidly to 114 as of Q4 2024, with approximately 59% majority nonlawyer owned.⁷ These firms span a mix of personal injury, business law, family law and mass tort practices (see Figure 1).

Figure 1
Total Arizona ABS program applicants, by status (2021-24)



Note: ABS=Alternative Business Structure
Source: L.E.K. research and analysis

Utah (2020)

Utah launched a regulatory sandbox in 2020 under the supervision of the state’s Office of Legal Services Innovation.⁸ The sandbox allowed approved legal service providers — including those with nonlawyer ownership — to operate under modified ethics rules while reporting data on client outcomes, access and satisfaction. In Phase 1 (2020-24), a broad range of consumer-facing legal platforms and hybrid tech-law firms were permitted (to encourage experimentation and innovation) and grew to 30 entities by the end of 2024.⁹ Phase 2 began in 2024; it mandated that

entities demonstrate measurable benefits to underserved in-state residents (as opposed to supporting diffuse or out-of-state clients). As a result, the number of active entities dropped to 16 by early 2025, driven by voluntary withdrawals (e.g., Rocket Lawyer¹⁰) and terminations for noncompliance with the new criteria.¹¹ The sandbox remains active and has been extended through 2027.

Florida (2022 — rejected)

Florida’s Supreme Court considered similar reforms but ultimately rejected a pilot proposal in 2022,¹² citing concerns about maintaining public trust in the legal profession. The decision emphasized the risk that profit-driven models could compromise the quality of legal advice to clients, particularly in vulnerable practice areas. As of now, Florida has explicitly chosen to uphold traditional Rule 5.4 restrictions (see Table 1).

Table 1
Summary of ABS status today, by state

Year of original ABS update	Jurisdiction	Status of ABSs today
1991	Washington, D.C.	Allows nonlawyer ownership if also providing services
2019	California	ABS pilot rejected; bill passed in State Assembly in 2025 to bar lawyers from sharing fees with a cross-border ABS firm
2020	Arizona	ABSs allowed and Rule 5.4 repealed 114+ ABS entities as of Q4 2024
2020	Utah	Launched regulatory ABS sandbox through 2027 16 ABS entities as of Q1 2025
2022	Florida	ABS pilot rejected

Note: ABS=alternative business structure

Co-counseling as a structural workaround

To operate beyond their licensing state, some ABS entities have pursued co-counseling arrangements with attorneys in other jurisdictions. This model allows for national reach — particularly in federally governed practice areas such as mass torts and immigration — but it operates within a regulatory gray area. The distinction between legitimate co-counseling and functioning as a referral-only model becomes increasingly ambiguous when the ABS firm lacks meaningful legal operations in its home state. Under Arizona's ABS rules, for example, firms are required to maintain a substantive legal presence in the state, including the active employment of Arizona-licensed attorneys who are directly involved in client matters. Failure to meet this standard can trigger regulatory scrutiny or disciplinary action.

Strategic industry case studies

The opening of the legal industry to outside ownership marks a structural change — but it is not unprecedented. Other regulated professional services sectors have experienced similar evolutions, where long-standing ownership restrictions were gradually relaxed or navigated around, giving rise to scaled platforms, new investor models and entirely new categories of firms. Reviewing these precedents offers insight into how legal services might evolve in the years ahead.

Healthcare services

In the 1990s and 2000s, private equity entered fragmented segments of healthcare — including dentistry, dermatology and urgent care — but faced legal restrictions on nonphysician ownership under corporate practice of medicine doctrines. To navigate this, these firms developed management services organizations (MSOs) — entities that provided administrative support (billing, marketing, human resources) and captured economics without violating ownership rules.

These MSO-based platforms enabled rapid consolidation of highly fragmented physician practices. Investors achieved scale by centralizing operations, improving cost efficiency and introducing performance management infrastructure. Over time, these platforms — such as Aspen Dental Management Inc.¹³ and U.S. Dermatology Partners¹⁴ — became attractive assets for strategic buyers, hospital systems and secondary sponsors.

Implication for legal:

ABS structures in legal represent a formal relaxation of historical rules — explicitly allowing nonlawyer ownership under defined ethical and regulatory frameworks. The healthcare analogy underscores that professional services consolidation can succeed, even in reputation-sensitive, highly regulated environments.

CPAs and RIAs

The **certified public accounting (CPA) and financial advisory/registered investment advisor (RIA)** sectors offer another parallel. Historically, these professions were also limited by state-level restrictions on nonlicensee ownership. But through carveouts, spinouts and corporate structuring — often via holding companies or unlicensed parent entities — private equity firms were able to enter and scale platforms across geographies.

In the CPA world, firms like EisnerAmper¹⁵ and platforms such as Ascend and Cherry Bekaert¹⁶ built multifirm networks with centralized compliance, marketing and finance. In financial advisory, the RIA roll-up boom — led by firms such as Focus Financial Partners (initial public offering in 2018, later sold for \$7 billion) — demonstrated that even fiduciary-centric, highly personalized services could be scaled with capital and process.¹⁷

Implication for legal:

Legal shares many structural similarities with CPA and RIA models: Both are license-dependent, reputationally sensitive and traditionally partner-owned. The success of private equity-backed roll-ups in these sectors shows that platform formation is not only possible but can also be strategically valuable — especially when enhanced by tech integration, standardization and geographic scale.

Risks

While the opening of the legal industry to institutional capital introduces new strategic possibilities, it also presents meaningful risks that must be carefully navigated. These risks span regulatory, reputational and ethical, and operational dimensions.

Regulatory risk remains foundational. ABS structures are permitted only in a handful of jurisdictions and are still under active review in many others. Utah's sandbox, for example, is currently set to run through 2027, but there is no guarantee that its findings will lead to permanent reforms. Meanwhile, other influential states such as California and Florida have either stalled or rejected reform efforts. A change in judicial leadership or political climate could lead to the reversal of ABS authorizations, creating material uncertainty for long-term investment horizons — especially for firms planning to scale nationally.

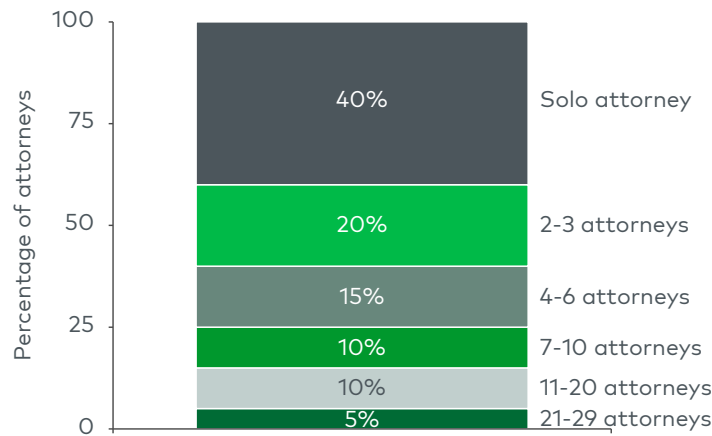
While no federal law currently permits or prohibits ABSs, recent legislative efforts have focused on litigation finance and third-party litigation funding (TPLF). Republican lawmakers, including Rep. Darrell Issa and Sen. Chuck Grassley, have proposed bills such as the Litigation Transparency Funding Act (introduced in February 2025),¹⁸ which would require disclosure of TPLF arrangements in civil cases, especially class actions and multidistrict litigations (MDLs). Additionally, early senate drafts of the One Big Beautiful Bill (H.R.1) in June 2025 attempted to levy a 40.8% federal excise tax on "qualified litigation proceeds" from third-party litigation finance agreements, with a mandatory 20.4% withholding applied by law firms. Although the provision was stripped in conference after a parliamentarian ruling, its appearance signals that taxing litigation finance profits remains on the policy radar.¹⁹ These proposals do not target ABSs directly but signal increased federal scrutiny of private capital in the legal system, which could have broader implications for investor-backed legal models.

Reputational and ethical risks are also acute. The legal profession is governed not just by regulation but also by norms of client trust, public duty and professional independence. The notion of profit-motivated ownership can trigger skepticism from clients, from bar associations and even within the firms themselves. This is especially true in consumer-facing practice areas such as family law or bankruptcy, where the stakes are personal and the clients often vulnerable. Any perception that

financial return is being prioritized over client service could harm the firm’s brand and undermine the value of the platform being built.

Operational risk is significant, particularly when attempting to scale across firms or practices. The market is highly fragmented, with more than 85% of U.S. law firms comprising fewer than 10 lawyers.²⁰ Many of these firms rely on legacy systems, unstandardized billing and compliance processes, and informal, partner-led governance. Efforts to unify or expand across such organizations — whether through shared infrastructure, multioffice models or technology implementation — face inherent complexity. Misalignment around metrics, resistance to centralized decision-making or a lack of consistent service standards can introduce friction and limit the realization of expected efficiencies (see Figure 2).

Figure 2
Average number of attorneys in firm



Source: L.E.K. research and analysis

Lessons from early ABS participants

While many firms have received ABS licenses with limited public attention, three early examples — Trajan Estate, KPMG and Axiom — have drawn interest due to their visibility and differing approaches. These cases represent a range of strategies: financial and legal service integration (Trajan), multidisciplinary expansion (KPMG) and ALSP-to-law-firm conversion (Axiom). Each highlights specific operational, regulatory or structural challenges that can arise when building or expanding a law firm under the ABS model.

- **Trajan Estate** was among the earliest ABS firms approved in Arizona, receiving its license in March 2021.²¹ The firm was founded alongside its sister company, Trajan Wealth, with the goal of integrating estate planning and financial advisory services under a common ownership structure. This vertical alignment allowed for a streamlined client experience and more efficient service delivery in a segment traditionally marked by fragmentation and low technology adoption. In April 2022, Trajan expanded into Utah through the state's regulatory sandbox, becoming one of the early firms to test multistate ABS expansion.²² However, following Utah's Phase 2 policy changes in late 2024, Trajan's ABS authorization was terminated. The firm was granted a partial Rule 5.4 waiver, which allows Utah-licensed attorneys to continue practicing under the Trajan structure through August 2027.²³ Trajan's experience reflects both the potential and fragility of cross-jurisdictional ABS strategies. While the model demonstrates how ABSs can enable targeted service integration and consumer-facing innovation, it also underscores the importance of regulatory alignment and continuity for platform strategies that pursue multistate expansion.
- **KPMG**, the Big Four accounting firm, launched a U.S. law firm under Arizona's ABS regime.²⁴ This represented a significant expansion of its global legal presence, which already included regulated law firms in the U.K., EU and parts of Asia. The Arizona ABS committee initially delayed approval, reportedly seeking additional information before ultimately granting the license, reflecting the heightened scrutiny applied to large complex applicants. While KPMG's entry highlights the strategic appeal of the ABS model to major global players, it also raises familiar concerns about independence, conflicts of interest and the potential blurring of lines between audit and legal services. Similar concerns have surfaced in other

jurisdictions and countries, particularly the U.K., where the Big Four's legal growth has been met with regulatory pushback. KPMG's move underscores both the opportunity and complexity of integrating legal services into multidisciplinary platforms.

- **Axiom** began as a flexible legal staffing and ALSP platform providing on-demand legal professionals to corporate legal departments. In 2023, it experimented with launching an ABS-style law firm in Arizona called Axiom Advice & Counsel, moving from talent augmentation toward full-service legal delivery. That effort was ultimately shuttered in March 2025, a decision described in regulatory committee meetings as business-driven. While no detailed explanation was provided, the closure likely reflects the operational and strategic complexities of building a regulated law firm within a nontraditional legal brand. Axiom has since refocused on its core ALSP offerings.

Investment strategy and segment dynamics

With ABS structures now enabling nonlawyer ownership of law firms in select jurisdictions, institutional investors are beginning to assess how — and where — value can be created within legal services. Opportunities exist across multiple legal subsegments, each with distinct client profiles, revenue models and operational characteristics. At the same time, several value creation levers — common across industries — can be applied to improve efficiency, scalability and margin in the legal context. The ability to execute against these opportunities will likely require a mix of organic build and inorganic acquisition, enabled by fit-for-purpose legal, operational and capital structures.

Subsegment profiles

Mass torts and MDLs offer high-reward potential but require substantial up-front capital and long investment horizons. These cases typically involve large groups of plaintiffs, complex litigation coordination and multiyear resolution timelines. Revenue is generally contingent on successful settlement or judgment of the MDL, creating delayed but sometimes significant payoffs. This sector tends to be national in scope and highly dependent on robust marketing, intake and financing capabilities.

Class actions share similarities with mass torts in terms of procedural complexity and the need for centralized case management. However, they typically involve a single lawsuit representing a group of individuals and often require navigating a class certification process. This procedural hurdle can extend timelines, sometimes adding years before a case can proceed on the merits. In contrast, mass torts, while also complex, often allow for earlier resolution through rolling settlements of individual claims. As a result, class actions can be slower to monetize and more resource intensive. That said, they frequently involve large-scale claims against corporate or institutional defendants, offering investor-backed firms the opportunity to build credibility in high-stakes, complex litigation — potentially enhancing their reputation among clients, partners and other market participants.

Personal injury (PI) practices are among the most operationally standardized and volume-driven areas of legal work. Many PI firms generate consistent revenue through a high volume of small-to-midsize cases, often settled outside of court. The space is also geographically fragmented, with a large base of independent firms and solo practitioners. This makes it particularly receptive to modernization efforts — such as improving digital marketing, automating intake and upgrading case tracking — that can yield immediate operational improvements.

General consumer legal services — including estate planning, family law and bankruptcy — are stable, often underserved markets with consistent local demand. These firms typically bill on a flat-fee or hourly basis and operate with low case values but high volume. Technology adoption remains limited in much of this segment, presenting opportunities to drive efficiency through scheduling automation, e-signatures, document generation and other workflow tools. Moreover, the aging population of solo practitioners in these fields presents a natural succession opportunity for external investors seeking to scale regionally.

Value creation levers

While the legal market has historically been fragmented and partner-led, opportunities now exist to create operational leverage, improve margins and position firms for scalable growth. Key areas include:

- **Branding and positioning:** Many small firms operate with minimal brand equity or digital presence. Building a recognizable, client-facing brand can enhance marketing efficiency and support multilocation growth.
- **Sales and marketing:** Scalable lead generation — through digital, television and referral channels — is critical in volume-based practices like personal injury or mass torts. Centralized marketing infrastructure can improve targeting and reduce acquisition costs.
- **Client intake:** Streamlining intake through workflow automation, centralized call centers and tracking systems increases conversion rates and improves case quality, particularly in contingency-based models.
- **Operations and technology:** Upgrading practice management, billing and document systems enables standardization, reduces administrative burden and supports data-driven decision-making.

- **Compliance and governance:** ABS firms must maintain clear separation between legal services and nonlawyer operations. Strong governance ensures alignment with regulatory requirements and builds institutional credibility.
- **Access to capital:** With equity investment now permitted in ABS structures, firms can deploy growth capital toward infrastructure, hiring or case financing — and use tools like earn-outs or equity rollovers to align incentives across acquisitions.

These levers are not mutually exclusive and in aggregate highlight the opportunity to bring more scalable infrastructure and operational discipline to legal services.

Enabling mechanisms

The execution model to capture these opportunities will likely include a combination of organic build and acquisition-led growth.

New firm creation (build) allows for full control over systems, brand and staffing. It is best suited for national practices or high-capital-intensity verticals like mass torts and class actions, where bespoke infrastructure and process standardization offer a clear advantage. However, the capital requirements and time to revenue are significant — particularly in contingency-based practices — and demand well-designed working capital solutions, potentially including litigation finance and revenue milestone-based debt.

Acquisition and integration of existing firms (buy) offers a faster path to cash flow, especially in consumer-facing and regionally concentrated segments such as personal injury or estate planning. These firms often have strong local reputations but lack scale, technology or succession planning. Integration efforts require careful structuring: Earn-outs, equity rollovers and postclose alignment mechanisms are critical to retaining key partners while implementing shared services.

In practice, most successful strategies are likely to be hybrid — building centralized operational infrastructure while layering on acquisitions to achieve geographic density or segment breadth. The right mix will depend on the investor's capital base, operational capabilities, sector focus and time horizon.

Conclusion

The emergence of ABS frameworks has opened a structurally investable path into the legal sector — one that, until recently, was closed to nonlawyer capital. For the first time, institutional investors can deploy equity into law firms not just into the services and infrastructure around them. This shift has the potential to introduce greater transparency, operational consistency and client-centered performance across a historically fragmented and opaque industry.

As seen in analogous sectors like healthcare and financial advisory, platform formation in a regulated services environment can drive meaningful value, but success depends on more than capital. It requires a deep understanding of professional norms, regulatory nuance and the operational mechanics of delivering services at scale. For legal, that means balancing growth with ethics, modernization with trust and standardization with local expertise.

ABS ownership models, when executed thoughtfully, can bring discipline to pricing, structure to outcomes and much-needed visibility to the economics of legal service delivery. While public debate often focuses on the risks of commercialization, the opportunity is broader: to build firms that are better funded, more accountable and more accessible — especially for individuals and small businesses navigating high-stakes legal issues.

As these models evolve, the most successful investors will be those that approach this space with strategic intent, operational rigor and long-term alignment. L.E.K. Consulting has worked closely with clients across regulated services industries — including healthcare, accounting and financial advisory — to navigate similar transitions. If you are exploring opportunities in the legal sector or seeking to better understand the landscape, we welcome the conversation.

For more information, please [contact us](#).

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