South Carolina Association *for* Justice
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September 28, 2026

The Honorable Justices
Supreme Court of South Carolina
1231 Gervais Street
Columbia, SC 29201

To the Honorable Chief Justice and Associate Justices:

The South Carolina Association for Justice on behalf of its members writes in strong support of prohibiting private equity and other nonlawyer investment in the practice of law. Our members appreciate the Court's initiative and willingness to proactively address the increasingly problematic expansion of private equity into the practice of law. This issue is not a theoretical concern— it is happening right now across the entire country.

Rule 5.4 of the Rules of Professional Conduct specifically prohibits fee-sharing with nonlawyers, forbids nonlawyers from owning or managing law firms, and requires a lawyer's professional judgment to remain independent. These foundational protections exist to safeguard the sanctity of the attorney-client relationship, ensure that legal advice is rendered free from undue influence, and protect our clients from the harms that arise when nonlawyers control the practice of law, and, ultimately, case outcomes. Comment 1 to Rule 5.4 provides: "These limitations are to protect the lawyer's professional independence of judgment." Comment 2 further clarifies: "This Rule also expresses traditional limitations on permitting a third party to direct or regulate the lawyer's professional judgment in rendering legal services to another."

Financial arrangements that provide nonlawyers with an economic interest in law firms and their fees, revenues, or case outcomes, however structured, threaten a lawyer's duties of loyalty to their client, confidentiality, and professional independence. Even minimal nonlawyer ownership or profit participation in law firms or the delivery of legal services compromises public trust in the legal profession.

Despite the current protections and prohibitions of Rule 5.4, private-equity-backed groups and other nonlawyer financial interests are actively infiltrating the practice of law in South Carolina. They claim to have discovered a loophole within Rule 5.4 that allows nonlawyers to invest in law firms through Alternative Business Structures ("ABS"), Management Services Organizations (MSOs), equity-like debt instruments, revenue participation, and other financial and management agreements. These arrangements have been increasingly used to circumvent longstanding prohibitions on nonlawyer ownership and sharing of legal fees. At their core, they are nothing more than workarounds designed to transfer material control over lawyers and legal revenue to private equity shareholders whose only concern is return on investment.

Law firms across the country have entered into such arrangements with private equity firms. We are aware of several South Carolina law firms that have entered private-equity-backed deals, and many others who are considering the same. In June 2026, Reuters reported that Morgan & Morgan hired J.P. Morgan to explore selling a minority stake for around $1 billion to outside investors, particularly private equity firms.[1] Wood Smith Henning & Berman, a national firm with a Charleston office, reportedly signed a letter of intent to sell a portion of their law firm to a private equity firm for an estimated $700 million.[2] Investor groups host and attend conferences across the country with the aim of convincing lawyers to quickly partner with private equity firms or otherwise risk being rendered obsolete in the consolidation and transformational changes occurring in the marketplace for legal services.[3]

Private equity's infiltration of law firms poses a real and present danger of nonlawyers exercising substantial financial and practical control over South Carolina lawyers. We strongly believe an amendment is urgently needed to strengthen and clarify Rule 5.4 to protect the public from interference into the attorney-client relationship, to protect the independent professional judgment of lawyers, and to clarify and more explicitly restrict lawyers and law firms from entering into arrangements that attempt to evade Rule 5.4's prohibitions and requirements. We support enhancing Rule 5.4 to make clear that law firms practicing in South Carolina must remain owned, managed, and controlled by lawyers—not private equity firms, nonlawyer investors, lenders, or management entities that have been financially engineered to circumvent Rule 5.4.

In particular, the MSO model, a concept borrowed from the medical industry, is currently private equity's primary investment vehicle to evade Rule 5.4. A law firm "MSO" is an entity, other than a lawyer or law firm, that provides administrative, operational, financial, marketing, management or other "nonlegal" business services to a lawyer or law firm. Private equity firms claim that under their MSO model, a law firm can be separated into two entities. One entity owns the legal practice (the lawyers) while the other entity owns the "nonlawyer" functions (which they say includes paralegals, administrative staff, marketing, client intake, software, IT, bookkeeping, the brand

[1] https://www.reuters.com/legal/government/law-firm-morgan-morgan-explores-stake-sale-eyes-long-term-ipo-sources-say-2026-06-05/

[2] Luz, E. (2026, August 18) "Wood Smith agrees to be acquired by PE as level fever takes hold." PitchBook. https://pitchbook.com/news/articles/wood-smith-agrees-to-be-acquired-by-pe-as-legal-fever-takes-hold

[3] Henry, J. (2026, May 26) "Private Equity Woos Personal Injury Law Firms with Profits, Tech." Bloomberg Law. https://news.bloomberglaw.com/business-and-practice/private-equity-woos-personal-injury-law-firms-with-profits-tech

name, good will, etc.). Private equity purchases the law firm MSO, which often is comprised of 70% or more of the original law firm, and leases it back to the legal practice for a recurring and fluctuating fee.

They claim that through financial engineering and "innovative" structuring, nonlawyers can profit from legal fees of law firms, directly or indirectly, without running afoul of Rule 5.4. They are wrong. Simply put, the law firm MSO model is inconsistent with the letter, purpose, and spirit of Rule 5.4. A nonlawyer should not be permitted to accomplish indirectly through an MSO, management agreement, debt instrument, affiliated company, or other arrangement what the Rules prohibit that nonlawyer from doing directly. Nevertheless, private equity firms will continue to undermine and exploit Rule 5.4 as currently written unless it is amended.

Private-equity-backed law firm MSOs are not like MSOs utilized in other professional service fields. There is a fundamental difference between a law firm and virtually every other business that private equity acquires. **Our clients are not assets, and their cases are not inventory.** The decisions we make as lawyers cannot be driven, directly or indirectly, by investors who owe no professional or fiduciary duty to our clients. The inherent problem with the law firm MSO model, aside from it being similar to how private equity hollowed out medical practices to the detriment of both patients and doctors, is that every law firm MSO financial model ties the MSO's recurring fee to a law firm's legal fees, directly or indirectly.

While private equity firms generally do not publicize details of MSO fee structures to those outside the deal, they use various metrics tethered to legal fees, including the use of purported "independent" third parties who periodically determine the "value" of the services the MSO provides to the law firm. To underwrite the deal, nonlawyer investors conduct extensive due diligence into the firm's financials, case inventory, attorney fee projections, and internal processes. But the due diligence is not solely for the purchase of the MSO; it is so that private equity firms can determine the recurring and fluctuating fees they charge back to the law firm for future returns on investment, and ultimately, scaling projections for the future roll-up sale to the next level of private equity investors. Such arrangements threaten the public, the sanctity of the attorney-client relationship, and facilitate the unauthorized practice of law.

To be sure, a law firm's use of traditional outside vendors to assist in certain "nonlegal" or administrative functions is permissible, even if most or all of those services are performed by a single vendor. However, those vendors charge a fixed rate for their services. They do not need to conduct due diligence to work with law firms. They do not need access to financial records to determine their fees. They do not manage a law firm's personnel, systems, or processes. Most importantly, they do not exercise any practical control over law firms.

Outside nonlawyer investors do not provide fixed or flat-rate legal support services like traditional legal vendors. They are interested in growth, scalability, and increased profit margins. The private equity model is to roll up entities, obtain a sizeable market share, and re-sell in 3 to 7 years to the next buyer – solely to deliver a return on their shareholders investments.

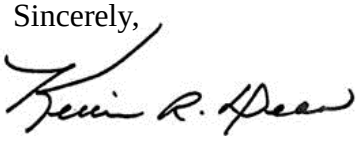
Consistent with other jurisdictions that have strengthened and clarified their versions of Rule 5.4, SCAJ urges this Court to adopt straightforward anti-circumvention provisions that expressly:

- Prohibit providing any portion of legal fees, firm profits, revenues, or appreciation in the value of legal services to a nonlawyer or an organization that economically participates in the provision of legal services or shares in the profits of legal fees or revenues and is owned or controlled by one or more nonlawyers (Management Service Organizations, equity-like debt instruments, etc.);
- Prohibit entering into a financial or contractual arrangement with an alternative business structure that relates to providing legal services, and defining the iterations of those prohibited arrangements;
- Prohibit entering into a financial or contractual arrangement with a third-party lead generation or legal marketing entity that solicits consumers who may need legal services by obtaining the consumer's personal information and information about the consumer's legal issue and then selling that information to attorneys or law firms, and defining the iterations of those misleading and prohibited marketing tactics;
- Prohibit associating with or forming an entity with a nonlawyer if any of the activities of the entity consist of providing legal services;
- Prohibit compensating a person that provides administrative or nonlegal business services to a lawyer or law firm on any basis that is contingent upon a percentage of legal fees or revenues or determined in connection with recoveries, settlements, case outcomes, or firm valuations.
- Prohibit entities from circumventing these provisions through contractual formalities;
- Mandate reporting requirements to affirm compliance with these provisions; and
- Create a private right of action to enforce the aforementioned prohibitions for: 1) a person to whom a lawyer or law firm provides legal services that are alleged to be in violation of the act; and 2) a law firm doing substantial business in South Carolina that has suffered or may suffer a loss in revenue due to a violation of these prohibitions by another lawyer or law firm in violation of the prohibitions.

SCAJ appreciates the Court's attention to this important issue. In our view, South Carolina should not wait until these impermissible arrangements become commonplace. They are already here. Once substantial outside capital becomes embedded in South Carolina law firms, the problem will become increasingly more difficult to remedy. The principle at stake is simple: **South Carolina law firms should be owned by lawyers, managed by lawyers, and controlled by lawyers. Our professional judgment should answer to our clients and to this Court—not to nonlawyer investors.**

We appreciate the Court's willingness to address this issue proactively and respectfully urge the Court to adopt an amendment broad enough to preserve that principle. Thank you for your consideration.

Sincerely,



Kevin R. Dean
2026 – 2027 President
South Carolina Association for Justice

cc: Kenny Hastie & SCAJ Executive Committee
Mark Bringardner, Chair SCAJ Rule 5.4 Subcommittee