The Last Partnership

The Last Partnership

How Wall Street and the Big Four Cashed Out—and Why Big Law Is Next

Michael J. Bommarito II

MICHAEL J. BOMMARITO II

2026

The Last Partnership: How Wall Street and the Big Four Cashed Out—and Why Big Law Is Next

First Edition.

Published by Michael J. Bommarito II.

Publisher's Cataloging-in-Publication Data
Names: Michael J. Bommarito II, author.
Title: The Last Partnership : How Wall Street and the Big Four Cashed Out—and Why Big Law Is Next / Michael J. Bommarito II.
Description: First Edition. | Michael J. Bommarito II, 2026.

Portions of this book were drafted and edited with the assistance of AI tools. All facts, citations, and final language were reviewed and verified by the author.

Printed in the United States of America.

For the juniors — who paid the tuition
and arrived as the school was closing.

Everyone had told them, and told them repeatedly, that going public would change the firm forever. They did it anyway.

— On every conversion in this book

Contents

CHAPTER ONE

The Vote

In the first week of June 1998, the partners of Goldman Sachs gathered to decide whether to stop being partners. The firm was a hundred and twenty-nine years old, founded in 1869, when the fastest way to move a message across New York was still a boy on a bicycle.[1] It was the last of the great private partnerships on Wall Street.[2] Every rival house of any size had already sold itself or floated its shares. The question on the table was whether Goldman would follow, and turn a private compact among a few hundred people into stock that anyone could buy.

The debate was not new. Twice before, the firm had walked up to this decision and turned around. In December 1986, the management committee brought a plan to a weekend retreat; the argument ran long and hot, by the accounts that survive, and ended with no vote at all.[3] A second, detailed plan was worked up in 1996 and quietly set aside.[4] For more than a decade the partnership had argued with its own economics and, each time, chosen to stay itself.

What the partners kept refusing to sell was, at bottom, a promise. In a partnership the people who made the decisions carried unlimited personal liability for them, so a ruinous trade could reach past the firm and into a partner's own house. That exposure was the discipline. For more than a century it was also why a client could trust a Goldman partner's judgment over a stranger's, because the judgment was backed by the partner's net worth. Turn the firm into a corporation and the liability stops at the balance sheet: the upside survives, and the person who now bears the downside is a shareholder who was never in the room.

This time the room said yes. The partners and roughly two hundred managing directors endorsed pursuing a public offering, and the co-chairmen, Jon Corzine and Henry Paulson, put out a joint statement in the flat house voice of men who had just won a long argument. It spoke of a strong consensus among the partners and a mission to pursue.[5] The vote itself was the news. A partnership had agreed to become a corporation, and the only remaining questions were price and timing.

Both turned out to be harder than the vote. Goldman filed to go public in August, and then Russia defaulted, a hedge fund called Long-Term Capital Management collapsed, and bank shares fell by roughly half. In late September the firm withdrew the offering, citing "the volatile state of global financial markets."[6] The delay cost Corzine his job. In January 1999, in what one securities-law professor called a "palace revolt," he was eased out of the chief executive's chair; Paulson took sole command, and the man who had championed going public was gone before it happened.[7] The argument had a way of consuming the people who tried to end it.

The payoff, when it came, was clean and enormous. In early May 1999 Goldman priced its shares at $53, raised $3.66 billion, and watched the stock close its first day at $70 and three-eighths.[8] When the accounting settled, 221 former partners held 48.3 percent of a company the market valued near $29 billion.[9] That was the real transaction. A hundred and thirty years of restraint, the salaries junior bankers had forgone for a shot at the tournament's prize, the capital every prior generation had left in the firm rather than take home, all of it capitalized at once and paid to the few hundred people who happened to hold the equity the week the music stopped.

* * *

1.1 The Meeting Before

That room was not rare. The same meeting had already happened, again and again, up and down the same street, with different faces at the table and the identical decision on it.

Wall Street ran the whole passage between 1970 and 1999. The first through the door were three young partners: Donaldson, Lufkin, and Jenrette. They sold their firm's shares to the public in 1970, over the objection of an exchange that until then had forbidden it. They had read the same numbers every other house could see and drawn the conclusion first: the capital a modern securities business needed had outgrown anything a partnership could raise from its own partners. For a few years the defectors stood almost alone, condemned by the older houses as men who had broken faith with the idea of a partnership. Then the economics that had pushed DLJ pushed everyone. Trading came to consume more capital than any group of partners could supply, and computers and financial theory turned what had been a craft of judgment into something closer to a production line.[2] House by house, the holdouts converted. Goldman, the proudest of them, was the last to admit that the argument was over.

The accountants ran it next, on a different clock and in a different key. Across the late 1980s and 1990s the partners who ran the eight great audit firms collapsed them inward into five, each merger justified as the price of serving clients who had themselves gone global. The fall from five to four was not a merger. Arthur Andersen, one of the eight, was destroyed within months of a single criminal indictment in 2002, the first proof that these passages leave casualties and not only fortunes.[10] Then, beginning around 2021, the middle tier of American accounting did what Wall Street had done a generation earlier: it sold itself to outside capital. In August 2021 the audit-and-tax firm EisnerAmper took an investment from the private-equity house TowerBrook, splitting itself into a licensed audit practice and an investor-owned services company alongside it.[11] The deals came steadily after that. By January 2025 one such firm, Citrin Cooperman, was changing private-equity owners in a transaction its own trade press called "monumental," its stake flipping from one fund to another as though it were any other portfolio company.[12] The bond between a firm and its name, which had once been the whole of an accountant's collateral, had a market price.

Two professions, thirty years apart, arriving at the same table and signing the same paper. The details differ. A trading floor is not an audit practice, and 1970 is not 2021. What does not differ is the order of events: a rule that keeps outside owners away, a shock that makes partner capital or partner skill insufficient, a first defector, a wave, a last holdout, and a windfall for whoever holds the equity when the wave arrives.

1.2 The Meeting Now

The meeting is being scheduled again, and this time the room is a law firm.

In November 2025, a top-twenty American law firm, McDermott Will & Schulte, confirms it is exploring outside investment through a structure that walls its lawyers off from its money and lets a private-equity partner into the second half.[13] The firm has just booked revenue near $3 billion.[14] Seven months later, in June 2026, Morgan & Morgan, the largest personal-injury practice in the country at some $2.4 billion in gross revenue, hires an investment bank to explore selling a minority stake that could exceed a billion dollars; its founder, John Morgan, calls the exercise "purely exploratory."[15] That spring, a Phoenix firm has already closed the largest such deal yet disclosed, taking $125 million into a newly separated back-office company while its lawyers keep the practice.[16] The sellers are lining up behind a simple arithmetic: roughly two in five law-firm partners expect to retire within a decade, and a partnership share is worth far more sold to capital than handed down to the next associate in line.[17]

Capital is only half of what is moving. The other half is the work itself. The tasks that once filled a young lawyer's first years, reading documents and drafting first versions and running the diligence, are the tasks software has learned to do fastest and cheapest, and the money has noticed. When a legal-software company launches a lawyer-owned firm built around its own tools in late 2025, one of the largest private-equity houses in the world puts $50 million behind the technology, routed so that it never touches the firm.[18] The same force ran through banking a generation earlier, and it is a large part of why the third passage may move faster than the first two.

None of it is reported as history. Each deal arrives as news, a novelty, a first. It is the third time. When capital and technology break the economics of a human-capital partnership, the partners sell the firm, and the generation in the room keeps the money. Banking proved it. Accounting proved it again, faster. Law is proving it now, in the present tense, one press release at a time.

This book follows all three passages: banking from 1970, accounting from the late 1980s, and law from the vantage of a transition still under way. The point of setting them side by side is not to insist that law is identical to the others. It is to show that the three rhyme closely enough that the reader can learn the tune. Each passage runs through the same handful of beats, and once you have watched them fall twice, you can name each one as it lands.

Two of these stories are finished, which is why this book can tell them in the past tense. Banking's partners have been shareholders for a generation; accounting's middle tier already answers to funds. The third story is still being written, and the chapters that reach it shift into the present, because the vote has not yet been counted.

There is a temptation, watching capital wash into one profession after another, to read the story as decline, and another temptation, watching the windfalls, to read it as progress. Neither reading survives a close look at what the partnership actually did for a living. It was a working institution with three moving parts. Unlimited liability was a promise to clients written in the partners' own money; the low pay of a junior's early years was tuition for a trade that could only be taught by doing; the tournament that made associates work like that held out a share of the firm as the prize. When the economics that supported those arrangements move, the arrangements move too, and someone captures what a century of restraint had accumulated. The winners are easy to see: the partners who hold the equity at the moment of sale, and the capital that buys in. The losers are harder. The junior whose tournament prize is quietly cancelled once software does the work that used to win it; the client whose bond with

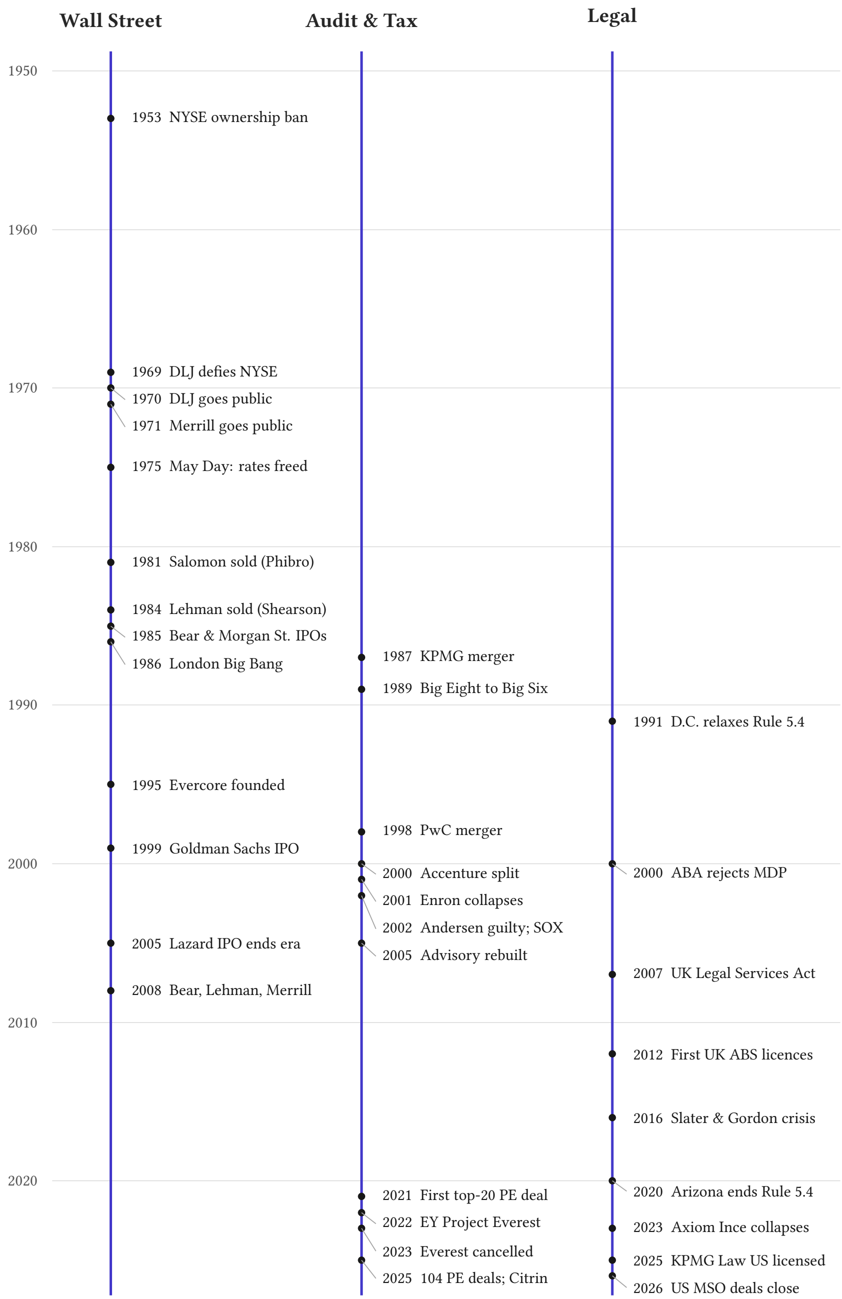

Figure 1.1: Three professions, one sequence. The conversions of investment banking (from 1970), audit and tax (from the late 1980s), and legal services (under way) laid on a common timeline. Read down each column and the beats line up: a rule, a shock, a first defector, a wave, a last holdout, and a reckoning.

a named partner becomes a line item owned by a fund. The open questions are who captures the windfall, who pays to train the next generation once the pyramid's base is automated, and what replaces the bond between a firm and the clients who once trusted it.

Goldman's partners argued for thirteen years before they voted, and lost the argument to their own numbers. The accountants took less time. The law firms retaining bankers in 2026 are not holding weekend retreats to search their souls; they are quietly hiring advisers and reading term sheets. The vote that took Goldman a generation to reach is, in the third profession, already on the calendar. What follows is the story of how the last two rooms decided, told closely enough that when the third one votes, you will recognize every face at the table.

CHAPTER TWO

The Partnership Bargain

The boy's first assignment at Goldman Sachs was the partners' overshoes. In November 1907 a sixteen-year-old named Sidney Weinberg was hired at 43 Exchange Place, paid five dollars a week as an assistant to the building superintendent. He brushed the mud off the partners' hats and boots and ran their errands.[19] He was small, he had left school after the eighth grade, and he had already been turned away from other Wall Street houses. What he had was proximity.

Paul Sachs, a grandson of the founder, noticed the boy, moved him into the mailroom, and paid out of his own pocket to send him to business college at night.[19] Weinberg reorganized the mail. Then he reorganized whatever they handed him next. He made partner in 1927, senior partner in 1930, and ran Goldman Sachs for the next thirty-nine years, until his death in 1969.[20] Along the way he led the syndicate — the group of banks that sold the shares — for the 1956 Ford Motor Company offering, then the largest public share sale in American history. He advised five presidents, and the newspapers called him Mr. Wall Street.[21] In time he gave the government years of unpaid wartime service and called it "the highest form of citizenship." Franklin Roosevelt, who used him and liked him, nicknamed him The Politician.[21]

He kept one souvenir of the climb. On display in his office, through a career that put him on the boards of Ford, General Electric, and Sears, sat a brass spittoon he had polished as a boy.[21] The man who ran Goldman Sachs never let a visitor forget that he had once cleaned its floors.

Weinberg's rise gets told as an American fable, and it is one. It is also a precise description of how a professional partnership worked. Skill in this business was tacit: you learned it by standing next to someone who already had it, for years, inside one firm. Weinberg was sponsored by a named partner, trained on the job, and admitted to ownership only after two decades of watching. The spittoon on the desk was the tuition receipt.

2.1 What the Firm Owned

A professional firm owns almost nothing. No factory, no warehouse, little equipment beyond desks and telephones. Its productive assets are its people, and every evening those assets ride the elevator down to the street and go home. A steel mill that loses its workers still owns the mill. A firm like Goldman that loses its people owns the carpet. That sounds like a curiosity. It shaped everything about how the work was owned.

Start with a problem the client cannot solve: quality. A brief, an audit opinion, a fairness letter can each hide weeks of care or a single careless afternoon, and the buyer often cannot tell which for years, if ever. Armen Alchian and Harold Demsetz gave the classic account in 1972. When a team's output cannot be traced to any one pair of hands, someone has to monitor the work — and he will watch closely only if he keeps the profit left over.[22] In a firm of professionals, the only people who can judge the work are other professionals, so the monitors and the owners had to be the same people. That is the first reason the senior practitioners owned the place.

A second reason explains the partnership's snobbery, and any partner ruling on a new admission felt it in his own pocket. Say yes to a candidate and every partner already inside surrenders a slice of his profit to make room, so the only admission worth the cost is one that lifts the average. An outside investor runs the opposite reflex: because clients cannot judge quality before they buy, each new body that bills is pure gain, and the temptation is to hire fast and let the talent thin. Jonathan Levin and Steven Tadelis later showed formally what the partners already knew from doing the arithmetic on their own draws.[23] It was the reflex behind Paul Sachs's wager on the mailroom boy: the firm admitted Weinberg to ownership only after two decades had proved he raised the average, not merely the headcount. The form was a standing promise to be choosy, and the partners' own wallets enforced it.

None of this came free. Eugene Fama and Michael Jensen named the cost: a firm whose owners must also be its expert decision-makers cannot sell shares to strangers, because strangers cannot evaluate what it does.[24] The partnership bought quality assurance and choosiness at a fixed price — it could raise money only from the people already in the room. For most of the twentieth century that looked like an obvious trade. This book is about the decades when it stopped looking obvious.

Set out plainly, the bargain balanced four sets of hands. The partners got rents, control of their own firm, and an exit, a stake they could one day sell to the juniors coming up behind them. The juniors got below-market pay and real training, plus a ticket into the tournament. Their low wage was the tuition, paid not in cash but in the gap between what they earned and what their hours billed. Weinberg's spittoon and a first-year salary were the same instrument, read from opposite ends. The clients got quality they could not verify, underwritten by the partners' reputation and, in the last resort, their houses. And the public got a gatekeeper, a professional with personal skin in the game standing between it and the misconduct of others. Each side gave something to get something. The weakness sat inside the strength: a firm owned only by its working seniors could raise money only from them, and could move only when they agreed.

2.2 The Price of the Bond

The handicap had an upside the partners rarely mentioned and the clients rarely saw, until something broke. It had also cut the other way once, and badly.

In December 1928 Goldman launched the Goldman Sachs Trading Corporation, an investment trust it sold to the public with fifty million dollars of capital. It was the project of Waddill Catchings, the first man from outside the founding families to lead the firm. Then the market broke. In the crash of 1929 the trust's shares fell from a peak near three hundred and twenty-six dollars to about a dollar and seventy-five, a loss of more than ninety-eight percent. The Goldman vehicle alone accounted for roughly seventy percent of the money that the fourteen largest investment trusts destroyed.[25] Catchings was out by May 1930. Into that wreckage stepped Sidney Weinberg, as senior partner. The lesson stayed with the firm. The partnership form concentrated risk on the partners, and when a leader misjudged it, the partners paid.

Four decades later the same lesson arrived in a different form. In the winter of 1970 something broke badly at Goldman Sachs.

For years the firm had brokered *commercial paper*: the short-term IOUs that blue-chip companies issue to borrow for a few weeks at a time. Goldman placed the paper with investors, took a fee, and stood implicitly behind the borrower. One of those borrowers was the Penn Central Transportation Company, the largest railroad in the country. By early February 1970 Goldman was holding about ten million dollars of Penn Central's paper on its own books, against a firm-wide capital of roughly fifty million.[26] One shaky railroad had come to sit on a fifth of everything the partners owned.

On June 21, 1970, Penn Central filed for bankruptcy, then the largest corporate failure in American history. It defaulted on something like eighty-seven million dollars of commercial paper that Goldman had placed with roughly three hundred investors.[26] The default sent a shock through the whole commercial paper market, and the clients Goldman had vouched to began to sue. Goldman's own corporate history, no friend of overstatement, describes the stakes in one flat line: the potential losses were greater than the firm's capital, "posing a threat to its very existence."[26]

Senior partner Gus Levy, a trader who had joined in 1933 at twenty-seven dollars and fifty cents a week, spent the next several years steering the firm through the settlements.[27]

Here is what the partnership actually priced. Benjamin Klein and Keith Leffler supplied the theory. When quality cannot be put into a contract, a seller keeps its word only because breaking it would forfeit a stream of future profits worth more than the one-time gain from cheating.[28] Partner profits were exactly that sort of bond, rents worth more kept than stolen. Behind the profits stood something starker still. A Goldman partner in 1970 was personally liable, without limit, for the firm's debts. Had Penn Central taken the firm down, the partners would not have lost their shares. They would have lost their houses. That was the promise the client bought and could not get any other way: the personal wealth of the people vouching for the work, put on the table. No public shareholder posts that bond. That bond would later soften: when these firms reorganized as limited-liability partnerships in the 1990s, a partner still risked his capital and career, but no longer, in the ordinary case, his house.

2.3 The Pyramid and the Tournament

Liability and choosiness explain who owned the firm. They do not explain how a firm of owners makes money, and the answer to that is a shape. At the apex sit the *finders*, the partners who bring in the work. Below them the *minders*, who run it. At the base the *grinders*, the juniors who do it. A partner sells a junior's hour for several times the junior's wage and keeps the spread, multiplied across every junior in the pyramid. David Maister, who spent the 1980s studying professional firms, drew the shape and called it "the modern embodiment of the medieval craftsman's shop, with its apprentices, journeymen, and master craftsmen."[29]

How wide the base runs depends on the profession, and the difference drives much of what follows. Elite law firms stay narrow, fewer than three juniors for each partner, because bespoke judgment does not break into steps a beginner can follow. Audit and tax firms run ten or twenty times as many juniors as partners, because much of that work decomposes into procedures that can be written down, handed out, and checked.[30] The wider the base, the more a partner earns from other people's hours, and the more the firm leans on a steady supply of juniors willing to grind at the bottom. The pyramid does two jobs at once. It produces the work, and it sorts the workers, because the juniors grinding at the base are the pool the next partners come from.

The juniors accepted the bargain because the pyramid paid them in more than money. Alan Morrison and William Wilhelm modeled the old investment bank as a machine for handing down skill no manual could hold. It passed by proximity: a feel for markets, a read on clients, the judgment Weinberg absorbed over twenty years in the room.[31] A partner's stake was illiquid. He could cash it out only by selling to the juniors coming up behind him, at a price set by the firm's reputation. Training the next generation well was not generosity, then. It was a partner protecting the value of his own retirement.

No one engineered the apprenticeship more deliberately than a lawyer. When Paul Cravath became presiding partner of his New York firm in 1906, he built a system distinctive enough to take his name.[32] ***The Cravath System*** hired only the top graduates of a handful of law schools, and only fresh ones, straight from school or a clerkship, so that no habits formed elsewhere had to be unlearned. It put them on a salary, an innovation around 1910 when most firms still let young lawyers scrounge their own clients, and rotated each associate through eighteen-month tours under one partner's close watch.[33,34] Then, after five to seven years, the firm ruled on each associate without euphemism: promotion to partner, or out. Most associates never made partner. They knew the odds going in and spent their twenties inside the firm anyway, trading present pay for the training and a chance at the prize. The hours were punishing, and the firm wore them as a badge. Asked in 1958 about the workload, Cravath's oldest active partner, Hoyt Moore, answered for the whole institution: "There wasn't a light on when I left at two o'clock this morning."[35]

Two law professors later found the engine inside the arrangement. Marc Galanter and Thomas Palay pointed out that a real promotion tournament forces a firm to grow. Every associate who wins the prize becomes a partner who then needs his own associates beneath him, so the base must widen with each generation.[36] Ronald Gilson and Robert Mnookin supplied the logic under it. The up-or-out tournament is a second-best fix for a two-sided problem of trust. The firm cannot tell in advance which associate will be good, and the associate cannot trust a bare promise that the firm will promote him fairly. A large prize, awarded years later by public rule, is what lets both sides commit.[37] The machine built to pass down judgment built size as its byproduct. Cravath's own firm grew from about eighteen partners before the war to some hundred and sixteen lawyers by 1957, the second largest on Wall Street.[35]

The tournament was fair only to the people allowed to enter it, and for most of the century that was a narrow set. Goldman Sachs named no woman partner and no Black partner until October 1986, when Jeanette Loeb and Garland

Wood were included in a class of thirty-seven.[38] The apprenticeship that carried Sidney Weinberg out of the mailroom was real. It was also, for most of a century, a staircase open to some and shut to most. An honest account of what the partnership was owes that fact the same ink as the spittoon.

2.4 The Firm That Tried to Quit

It would be easy to read all this as sentiment: mahogany and old money and men who liked things the way they were. Goldman Sachs itself proves otherwise, because for five years it tried to stop being a partnership.

In 1922 the firm reorganized into a joint-stock association, a kind of corporation with common and preferred shares. The motive was arithmetic, not romance. The new structure saved on taxes and cut about a hundred and ninety thousand dollars a year in brokerage commissions. The partners were unsentimental enough to keep one feature of the old form: the shareholders stayed personally liable, without limit, exactly as partners had been.[39] They wanted the tax treatment of a corporation and the client's bond of a partnership at once.

Then the New York Stock Exchange settled the matter for them. The Exchange would not admit a corporation to membership. Only a partnership could hold a seat on the floor. So in 1927 Goldman Sachs reorganized itself back into a partnership and swept the leftover corporate machinery into a shell company.[39] The firm did not stay a partnership because the partners loved the form. It stayed a partnership because an outside rule made the partnership the only way to keep doing business on the Exchange.

That rule was one of three, and the other two ran through law and accounting. The bar forbade a nonlawyer from owning a law firm or sharing its fees at all. State boards required that any firm doing audit work be owned mostly by licensed accountants. Each was defended the same way, as a guarantee of independence. A professional who answered to outside shareholders might trim his judgment toward a return target, and in these trades the client was not the only party who mattered. The auditor was, in the Supreme Court's phrase, a public watchdog. The lawyer was an officer of the court. Whatever else the rules accomplished, they held outside capital off the property. Where the wall stood absolute, pressure built behind it until capital found a crack. Where the wall was only partial, capital seeped through. Where the wall came down, the water moved fast.

That is the shape of the thing, and it is about to run three times. A professional partnership stood on four supports. Its work was hard for outsiders to judge. Its skills passed by apprenticeship from one generation to the next. It needed little capital beyond the partners' own. And a rule kept outside owners off the property, whether the Exchange's, the bar's, or the accountancy board's.[23,24,31] Pull any one support and the form leans. Pull enough and the partners do the arithmetic, and sell.

Two forces did most of the pulling, and they recur in every case ahead. One was capital. The day the business needed more money than the partners could put up, ownership had to open to people who could. The other was codification. Every time a piece of tacit craft got written into a system, whether a trading model, an audit method, a review program, or a machine that reads, the apprenticeship mattered a little less. The work grew a little easier to judge from outside, and the base of the pyramid grew a little easier to automate. Weinberg's spittoon sat on that desk because skill in his world could be handed down only in person. The next seventy years are the story of that stopping being true, one profession at a time. Wall Street went first.

CHAPTER THREE

The Dam

On Wednesday, June 12, 1968, the New York Stock Exchange did not open. Neither did the American Stock Exchange, nor the over-the-counter market. The richest securities markets on earth went dark for a day. They would go dark every Wednesday through the middle of December, on purpose, so that clerks could claw back a little of the ground the other four trading days kept burying them under[40].

The trouble was not a panic. It was the opposite of a panic. Americans were buying stock faster than Wall Street could record who owned what. Daily volume had roughly doubled in three years, from about five million shares in 1965 to twelve million by 1968, and every one of those shares still moved as a piece of paper[41]. A trade was not finished when the price was agreed on the floor. Somebody then had to find the physical stock certificate, check the endorsement, cancel the old name, issue the new one, and carry the document by hand to the buyer's broker. Messengers walked the certificates through the financial district after the closing bell, satchels full of other people's ownership.

Behind the messengers were the back offices, and the back offices had broken. At McDonnell & Co., a mid-sized house, the staff had grown so fast that some clerks worked standing up because there was no floor space left for their desks. The firm hired anyone it could. New arrivals often did not know, in the exchange's own later phrasing, simple arithmetic, spelling, or how to take a telephone call[41]. Turnover among Wall Street clerks ran near 50 percent a year. People were processing certificates worth more than they would earn in a lifetime, and they were quitting in months[41].

One of them told a reporter for *The New York Times* what the work felt like from the inside.

> I worked in a dress factory snipping loose threads, but we knew what we were doing; we could see the dress. Down here, I just check numbers, numbers, numbers. I don't know what it's all about, but it never ends.

— A back-office clerk, 1968[41]

It never ended because the paper kept arriving. Every trade was supposed to settle in five business days: money one way, certificate the other. When a broker took a customer's money but could not produce the stock on time, the trade became a "fail to deliver," a broken promise sitting on the books waiting to be made good[41]. By the end of 1968, the fails had piled to $4.13 billion, a sum larger than the entire capital of every member firm of the exchange combined[42]. Each of those dollars was a certificate lost in a drawer, or in a satchel, or in the memory of a clerk who had quit two months before. The market had outgrown its own plumbing. And the plumbing, it turned out, was the whole institution.

3.1 The Rule

To understand why the paperwork mattered so much, go back fifteen years, to a vote that seemed at the time to settle almost nothing.

In March 1953, the members of the New York Stock Exchange voted, 594 to 538, to let member firms organize as corporations rather than as partnerships[42]. The membership had rejected the same idea twice before, in 1947 and again in 1949. The fight had been bitter enough that the trade press described Wall Street as having squabbled fiercely over it[42]. A study group had finally recommended that the advantages of the corporate form should be available to member firms, and the board agreed. The margin was 56 votes.

The vote changed how a firm could be built. It did not change who could own one. The 1953 rule carried a condition that gutted it of any threat to the existing order. Every share of voting stock in a member firm had to belong to someone actively engaged in the business[42]. A partner could now incorporate for tax reasons or liability reasons, but he still could not sell a piece of his firm to the public. Outside money remained locked out, not by custom but by the exchange's constitution. That was the dam. It held back an ocean of capital, and it did so by a single sentence about who was allowed to hold a share.

The dam protected something real. Wall Street's partnerships rested on the same three-legged structure as the great law firms and accounting firms of the era. The first leg was unlimited personal liability: when a partner's own house and savings stood behind the firm's obligations, a client had a bond that no marketing could counterfeit. The second was apprenticeship, the slow transfer of judgment from senior to junior across years of underpaid work in exchange for a claim on a future partnership. The third leg was capital, and here the 1953 rule did its work. The firm's money was the partners' money. There was no other kind. A partnership could grow only as fast as its partners could plow their earnings back in, and it could keep only the capital its living partners chose to leave in[42].

Incorporating was never the same as going public, and for two decades almost no one confused the two. A firm might take the corporate shell for its tax treatment, or to cap a junior partner's exposure, and still keep every share in the hands of people who came to work each morning. The public could buy the stock of the companies these brokers took public. It could not buy a share of the brokers themselves. That was the whole point of the 1953 sentence, and the membership had written it on purpose.

For a long time that arrangement was enough, because the business did not ask for more than partners could supply. A brokerage needed a floor, a telephone, a research department, and clerks with pens. The capital stakes were human, not industrial. As late as 1960, fewer than 11 percent of member firms had even bothered to incorporate; the partnership was still the natural shape of the trade[42]. The dam did not need to be strong, because nothing was pushing very hard against it.

Then the water rose.

3.2 Numbers, Numbers, Numbers

The bull market of the 1960s, the "go-go years," did something the exchange's architecture had never contemplated: it made ordinary Americans trade in volume[43]. Performance funds churned their portfolios to chase the quarter's hottest names. Conglomerate stocks and speculative new issues changed hands again and again in a single week. The buying was fast, and the settlement behind it was not. Each transaction, no matter how small, demanded the same manual choreography of certificate, endorsement, and transfer that had served a quieter market for a century. The system did not bend under the load. It jammed.

The exchange tried to buy time by taking it off the clock. It shortened trading hours first in August 1967, then started closing at two, and finally, in June 1968, surrendered one full day a week. The second quarter of 1968 had set a record nobody wanted: 845 million shares, more than a quarter above any prior quarter in the exchange's history[40]. Trading time was the one lever the exchange fully controlled, so it kept pulling that lever while the backlog grew anyway.

The numbers tell the story of a machine seizing (Table 3.1). Back-office headcount across the industry climbed from about 22,000 in late 1966 to roughly 28,000 by the spring of 1968. Even then, the exchange reckoned Wall Street was nine thousand clerks short of what the volume required[41]. Firms threw bodies at a problem that bodies made worse, because each new untrained clerk

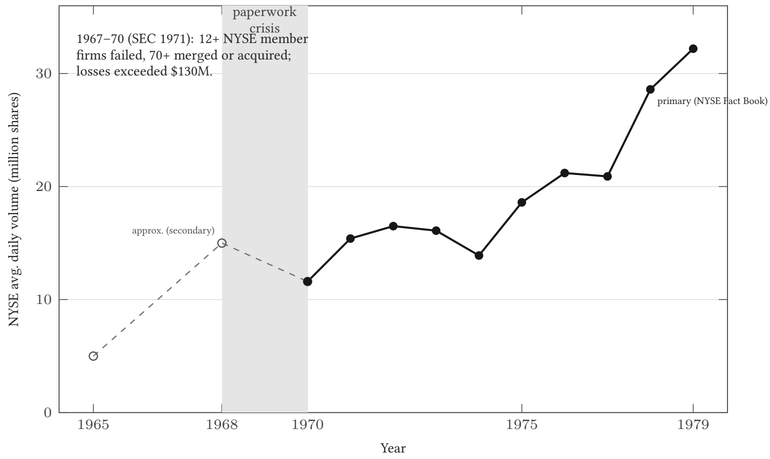

Figure 3.1: Average daily share volume on the New York Stock Exchange, 1965–1979. The shaded band marks the 1968–1970 paperwork crisis, when volume outran the industry's ability to settle its own trades.

Table 3.1: The paperwork crisis by the numbers, 1965–1971.

Measure	Figure
Average daily volume, 1965 to 1968	about 5M to 12M shares
Back-office clerks, 1966 to 1968	22,000 to 28,000 (about 9,000 short)
Clerk turnover, 1968	about 50 percent a year
Fails-to-deliver, year-end 1968	$4.13 billion
Member firms that vanished, 1969–70	100+ (about one-sixth)

generated errors that other clerks had to chase. The oldest houses drowned alongside the newest. In the spring of 1968, Lehman Brothers discovered it could not account for $473 million in securities it owed to others[40]. Industry-wide, the most tangled "aged" fails, the ones nobody could resolve at all, peaked near $837 million that July[42]. Certificates went missing. Some were never lost at all, merely stolen. The exchange later estimated that organized crime siphoned off as much as $400 million in securities during the chaos, walking out through the same doors the paperwork could not close[42,44].

The exchange understood the mechanical fix. In June 1968, it opened the Central Certificate Service, a depository that held the certificates in one vault and let brokers settle trades between themselves by ledger entry[40]. Instead of a runner carrying paper across the district, a clerk changed a number in a book. It was the first real step toward a market where the certificates stopped traveling at all. The fix was correct. It was also expensive, permanent, and computerized, and that combination was exactly what the partnership form could not buy.

Here was the trap the 1953 rule had built. A mainframe and a depository were not a bigger research department; they were fixed industrial plant, the kind of investment that pays back over a decade and cannot be pulled out when a partner retires. But partner capital was the opposite of permanent. A new partner brought his money in; a retiring one took his out. When the market fell, the securities a firm counted as capital fell with it. And the money could be pulled at the worst possible moment, which on Wall Street was usually the only moment that mattered[41]. The business had begun to demand capital that stayed, and the partnership was a machine for capital that left.

The downturn of 1969 and 1970 pressed on exactly that weakness. As stock prices fell, the securities a firm held as its own capital fell with them, and the customer loans that had padded its balance sheet evaporated. Firms that had looked solvent on paper were revealed to be holding paper that lied. Felix Rohatyn, the Lazard partner drafted onto the exchange's emergency committee, put the auditing problem flatly: figures from firms with huge back-office problems, he said, were meaningless[41]. Nobody could say with confidence which houses were sound, because the machinery that was supposed to keep the books was the very thing that had failed.

3.3 The Rescues

More than a hundred member firms disappeared in 1969 and 1970, about one in six, absorbed into stronger houses or wound down before their customers' accounts could be lost[41,42]. Some names that had meant something for decades went out. Firms like First Devonshire and Plohn & Co. failed outright[43]. The exchange, terrified of the headline that would follow the first customer wiped out by a broker's collapse, appointed a small crisis committee to manage the dying. Its central figures were Robert Haack, the exchange's president; Bernard Lasker, its chairman and a well-connected Nixon fundraiser; and Rohatyn. To pay for the rescues, the exchange raided its own accounts. Its trust fund for failing firms swelled to $55 million, $30 million of it pulled from money the exchange had set aside to put up a new building[41,43].

They governed by triage, not by rule. The net-capital regulations that were supposed to protect customers had become a loaded gun pointed at the exchange's own members, and Haack knew it. If the committee had enforced the rules to the letter, he admitted, it probably would have put half of Wall Street out of business[41]. So it did not enforce them to the letter. It found capital wherever capital could be found, on whatever terms, and apologized to no one. Beggars, Haack said, can't be choosers[41].

The rescues showed what the crisis committee was really scrounging for: outside money, the exact thing the 1953 rule forbade a firm to raise on its own. Goodbody & Co. made the point most sharply. The exchange's fourth-largest broker, with 225,000 customer accounts, was ordered in October 1970 to produce $15 million in fresh capital within ten days or face suspension[41]. It could not. Only Merrill Lynch was large enough to swallow it, and Merrill agreed only after the exchange guaranteed it against the losses buried in Goodbody's books. The precaution proved wise. Goodbody's true hidden shortfall, some of it concealed by the very computer system meant to control it, eventually reached $24.3 million, and every member firm was assessed to cover the gap[41]. The machine that was supposed to save the back office had hidden the losses that killed the firm.

Hayden Stone, one of the oldest names on the Street, had to be taken apart before it took its customers with it. By June 1970 the firm was about $12 million short of the capital its own rules required. Much of the collateral holding it up was a block of subordinated stock — shares ranking behind the firm's other creditors — pledged by a group of Oklahoma investors. The April crash had cut that block from $17 million to $9 million[41]. The exchange put in several million of its own money and split the survivable pieces off to a rising firm called Cogan, Berlind, Weill & Levitt. The customers were made whole, again on the exchange's money rather than the partners'.

Where an established broker could not fill the hole, a stranger did. F.I. duPont, Glore Forgan, one of the largest houses on the Street, was kept alive by Ross Perot, the Texan who had built the data-processing company EDS and who already held duPont's computing contract. Perot put in $5 million in November 1970. As the firm's deficit swelled toward $40 million, he committed that sum too, taking control of a Wall Street partnership its own partners could no longer fund[41,45]. At an emergency meeting of the firm's investors in March 1971, Haack told the room that something was better than nothing[45]. Perot framed it more grandly. He had done it, he told ***Fortune***, in the national interest[45]. He would put duPont into bankruptcy three years later and never see his $40 million again.

Washington drew the obvious lesson. In December 1970, Congress created the Securities Investor Protection Corporation. It started with a fund of $77.6 million and guaranteed customers up to $50,000 in securities and $20,000 in cash if their broker failed[46]. The government had decided that a customer's account could no longer rest on a single partnership's promise to stay solvent. The bond that unlimited liability was supposed to provide, the first leg of the tripod, had been quietly nationalized.

Look at where the money came from. Merrill's balance sheet caught Goodbody. Ross Perot's Texas fortune caught duPont. The exchange emptied its own building fund to catch the smaller firms, and Congress stood up a federal corporation to catch the customers if all of that failed[46]. Every patch that held Wall Street together in 1970 came from outside the partnership, because the partnership had run out of money to hold itself together with. The form that had organized the Street for a century could no longer meet the Street's bill.

By early 1971, the immediate emergency was over. The Wednesday closures were a memory, the depository was clearing trades, and the survivors were larger and fewer. But the crisis had settled an argument that the 1953 vote had left open. It had proved, on the hard evidence of a hundred failed firms, that the modern securities business needed more capital than partners could raise and more permanent capital than partners could promise. The dam had not been breached by anyone's principle. It had been undermined from below, by the plain operational fact that the paper could not be moved and the machines that could move it cost more than any partnership could keep.

None of the men bailing out Wall Street in 1970 would have called it a template. But the shape was there to be seen: an operational shock, not anyone's change of principle, had proved the partnership too small for the business it now had to carry. Outside money arrived to finish what the partners could not. The same undermining would run again in accounting, and then in law. Wall Street only got there first.

That left a single wall standing between Wall Street and the public's money: the rule that only people active in the business could own a share of a member firm. It was the oldest part of the structure and now the only part still holding. It was also cracking. In May 1969, in the middle of the wreckage, a small research house named Donaldson, Lufkin & Jenrette announced its intention. It would sell its shares to the public, the act the exchange's constitution forbade outright[42]. The clerk who checked numbers until they never ended never saw the headline. The rents that rule had protected were real, and DLJ was about to put a price on them.

CHAPTER FOUR

The Defector

4.1 No New Firms Since 1932

In December 1959, at 51 Broad Street, three young men opened a securities firm with a staff of three. Their stated corporate objective, one of them said later, came down to two words: to have fun.[47] William Donaldson was 28. Dan Lufkin, his Yale classmate, was also 28. Richard Jenrette, at 30 the elder, had come up through New England Life, the North Carolina National Guard, and Brown Brothers Harriman before deciding he would rather own a firm than work inside someone else's.[48] All three carried Harvard MBAs. None of them carried much else. "There wasn't much downside risk since we were all bachelors," Jenrette recalled, "and we weren't earning that much, no more than $7,000 or $8,000 a year."[47] Even that was rounded up in the retelling. Jenrette once put his own first-year pay at $6,500, and Lufkin corrected him on the spot. "No," he said, "it was $7,200."[47] Men who could argue about a $700 difference in a starting salary were about to build a firm whose books would one day report a return that made the argument look quaint.

What they had done was borrow money to buy the one thing Wall Street had stopped selling: a new firm. About half a million dollars in start-up cash and collateral went into the boutique, most of it raised from friends and family. Its founders were younger than some of the analysts at the houses they meant to unseat.[49,50] When Jenrette told Brown Brothers Harriman he was leaving, a partner there answered with the plain arithmetic of the era. "Dick, don't you know that there have been no new firms since 1932?"[47]

The partner was very nearly right. Wall Street in 1959 was a closed shop that had been closed on purpose since the Depression. A seat on the New York Stock Exchange was scarce and expensive, and mostly it was inherited. The houses that held the good accounts had held them for generations. The money inside a member firm was the partners' own money and no one else's, which meant a firm could grow only as fast as its partners could earn and plow back. A firm without rich partners could barely grow at all. Into that arithmetic walked three men in their twenties, with borrowed capital and no clients, and the sensible verdict of the Street was that they would not last the decade. Getting onto the exchange at all took nerve and the right introductions. Donaldson secured the seat that made DLJ a member firm, a small rebuttal in itself to the man who swore there had been no new firms since 1932.[51]

They lasted by selling something the comfortable houses did not bother to make. The old firms chased the same blue-chip accounts and covered the same large companies everyone already knew. Lufkin pointed DLJ at the far end of the market instead: small, fast-growing companies that no analyst followed, researched in depth and written up for a new kind of buyer.[52] That buyer was the institution. Pension funds, mutual funds, and insurance companies were taking over the market in the 1960s, moving stock in blocks that dwarfed anything an individual traded. They were hungry for research that told them where the growth was before the crowd arrived. A boutique that answered that hunger could charge for the answer. It did not need a century of pedigree. It needed to be right early and often, and DLJ was. By the late 1960s the firm that supposedly could not exist ranked among the more profitable names in institutional brokerage. Its problem, when it came, was not failure. It was success. Success needed capital the partnership could not raise, and that made it the more dangerous condition.

The niche had stayed open because the old houses had a richer one. Their money came from large, familiar companies traded in size, at commissions the rule book set and no client could bargain down. Covering a small, unknown company that traded in fits and starts was expensive research for a thin reward, so the established firms left it alone. DLJ took the leavings and found they were not leavings at all. The institutions paying for a first read on tomorrow's large companies were the same institutions whose block trades the old houses were feasting on. They were glad to send their business to the firm that fed them the ideas. The strategy was not that DLJ found a market no one wanted. It was that DLJ found the fastest-growing corner of a market everyone wanted and got there first.

4.2 Defied by a Member Firm

The wall DLJ hit is the one the previous chapter built. A member firm could not sell shares to the public: every voting share had to sit with someone active in the business, so partner capital was the only capital a firm could raise.[42] For a research house that wanted to expand faster than three founders could reinvest their earnings, the rule read as a ceiling, and the firm meant to climb through it. The paperwork crisis that had just torn through the back offices of Wall Street had already proved the point on the wreckage of the firms it killed. The modern securities business needed more capital than partners could supply, and steadier capital than partners could promise.[42] DLJ read that evidence and drew the conclusion its elders would not.

In May 1969 it said so in public. The firm announced that it intended to sell shares to ordinary investors, the single act the exchange's constitution forbade outright. The next morning's ***New York Times*** carried the news under a headline that read like a charge sheet: "Big Board Defied by Member Firm."[53] The word defied was fair. DLJ was not asking permission. It was announcing a plan to break the rule and daring the exchange to stop it.

The defiance carried a particular sting, because the man behind it sat inside the body he was defying. By 1969 Lufkin held a governor's seat on the exchange, one of the youngest men ever to occupy one.[54] The push to break the rule was not coming from an outsider throwing rocks at the walls. It came from a governor of the institution, a man who had read the economics before his colleagues would admit them, done the arithmetic first, and said the answer out loud. That figure recurs in every conversion this book follows, a partner who reads the numbers before the room is ready to hear them, and the room resents him long before it follows him.

The exchange faced a choice, and both answers hurt. It could expel DLJ, a member in good standing and a profitable one, for the offense of wanting outside money. Or it could change the rule that made the wanting an offense. Donaldson, who had secured the firm's seat in the first place, pushed to overturn the prohibition rather than watch a sound firm be thrown out for reading its own books correctly.[51] The exchange chose to bend. In 1970 it amended its constitution to permit public ownership of member firms. An institution that had voted the idea down for forty years reversed itself the moment refusal meant losing a firm that made money. Confronted with a defector it could not afford to expel, the exchange did not expel him. It rewrote itself around him.

The rule had never been a principle. It was a habit, and it had held only because no firm worth keeping had yet tried to break it.

4.3 The Rents Had a Price

The offering came in April 1970. DLJ sold 800,000 shares to the public at $15 each, raising about $12 million before the underwriters — the banks that bought and resold the shares — took their cut, and roughly $11 million after.[49] By the standards of the deals its own bankers would later run, the sum was trivial. What mattered was not the money raised but the firm that raised it. DLJ had become the first publicly owned member firm in the history of the New York Stock Exchange.[55] The dam that had held back outside capital since the Depression now had a hole in it, and the hole had a name on the ticker.

To sell shares, a firm has to open its books, and DLJ's books held a number the old partnerships had never once had to say aloud. The prospectus disclosed that the partnership had been earning returns on equity above 50 percent.[47] Returns like that, in good years and lean ones, are hard to explain without a rent somewhere, some fee or franchise that competition has not been allowed to erode. Partners had always known, in a private and unstated way, that a seat on the old Wall Street was worth a great deal. Now anyone holding the prospectus could read exactly how much, to the percentage point, printed and filed with a federal agency.

The disclosure did more than embarrass the old partnerships. It set a precedent none of them could escape. Any firm that wanted the same access to public capital would have to open its own books the same way, and lay its own returns beside DLJ's for the market to judge. The economics of the whole Street, kept for a century inside partners' heads and private ledgers, were becoming a matter of public record, one prospectus at a time. And what could be measured could be compared. What could be compared could, in time, be competed away.

Much of that return traced back to a price the buyers were not allowed to argue with. Brokerage commissions were fixed by rule, and DLJ's disclosure showed in a single line how richly a fixed price could reward the house collecting it. The number stirred real anger among the institutions that had been paying those commissions without knowing quite what they were funding.[47] The fight over that fixed price would reach its own reckoning a few years later, and it gets its own chapter. What matters here is what the prospectus did to the argument before it started. It turned a private fact into a public document.

That is the quiet revolution inside the DLJ offering. The rents that the partnership form had collected and never had to name, the reward for holding a scarce seat behind a protective rule, were now visible, audited, and for sale. The partnership had not been abolished. It had been priced. And a thing that can be priced can be bought, which changed the only question that mattered. It was no longer whether the other houses would follow DLJ through the hole in the dam. It was which of them would go first, and what that order would reveal about the business.

4.4 Merrill Lists on Itself

The answer came from the heavy end of the business. The next firms to convert were not the white-shoe advisory houses that lived on judgment and relationships. They were the retail brokers, the ones that moved the most paper across the most desks, and the largest of them went first. Merrill Lynch had more customers and a hotter back office than anyone on the Street. It had spent the postwar decades carrying stock ownership to ordinary households, building a retail network that reached cities the old partnerships never bothered with. Every one of those small accounts threw off paper that had to be cleared, financed, and reconciled.[56] In 1971 the firm went public under Donald Regan, who had joined it in 1946 as an account-executive trainee and now ran it.[57] The offering priced that June. On July 27, 1971, Merrill's own shares opened for trading on the floor of the New York Stock Exchange, the first member firm ever to trade its own stock on its own exchange.[56,58]

For the men who held the equity when the form was cashed in, the flotation paid. Regan alone received 167,130 shares, roughly 4.2 percent of the issue, a stake worth close to $7 million within a year.[59] A man who had walked in as a trainee a quarter century earlier walked out, on paper, wealthy. He had not built a bigger firm to get there. He had converted the firm he already ran into shares that other people would buy.

The order in which the houses converted was the telling part, because it was not random. Merrill went first among the retail brokers because Merrill's business had already become the kind of work outside capital is good at financing. Settlement was the heavy machinery of the trade: matching the orders, moving the certificates, reconciling the accounts. It was repetitive, high-volume processing that a computer could do and a partner's savings could not fund at the scale the volume now demanded. Roughly 16 retail-oriented firms followed DLJ and Merrill through the opening in short order, converting for the same reason.[2] Where the work had hardened from craft into process, the capital that the process required went looking for public shareholders, and found them.

The houses that stayed private were the ones whose product had not hardened. Where a firm still sold a senior banker's judgment, priced at the range of a long relationship rather than the cost of a transaction, there was nothing to convert. No machine to buy, no reason to take a partner's liability off the table. The advisory and trading houses felt none of the pressure that pushed the retail brokers public. Some would stay private for another thirty years, arguing the whole time that what they sold could not be owned by strangers. That argument, and how it finally lost, is the spine of the chapters ahead.

DLJ itself learned quickly that the door swung both ways. A firm that sells shares to the public also hands the public a verdict on its worth, delivered daily and without mercy. The bear market of 1973 and 1974 crushed the stocks DLJ traded and the small growth companies it had built its name on. It crushed DLJ's own shares along with them, driving a price that had opened at $15 down toward $1.75. The research boutique that had pried open the exchange nearly went through the floor it had joined. For a stretch, only an infusion from American Express kept it alive. Jenrette, years later, did not soften it. "That was my lowest day," he said. "American Express made us feel like the end of the world to me."[49] The windfall and the exposure arrived in the same envelope. The founders had captured the value of the old franchise the day they sold it. The risk of the new one now belonged to whoever held the stock when the market turned.

The ledger of who gained reads plainly. The founders and the early partners captured a windfall. It was the market value of a franchise that decades of a closed exchange had built and guarded, paid out to whoever happened to hold the equity the year the rule fell. The new shareholders bought that franchise at full price and inherited its risks, as the plunge to $1.75 taught them within four years. The clients who had leaned on a partner's unlimited liability now held a stock quote, and the juniors still grinding toward partnership found the prize had changed shape while they worked for it.

None of this was theft. It was a sale, conducted in the open, of something that had never been for sale before.

By the end of 1971 the rule that had stood since the 1930s was gone, and the firm that broke it had turned its founders into the owners of a listed company. Three men who a decade before could not clear $8,000 a year now held stock worth a fortune the partnership form could never have paid them. The form was not destroyed. It was sold, and whoever held the shares at the moment of sale kept the value that generations of restraint had banked behind the old rule. The retail houses, whose ledgers had turned into computer runs, took the offer first. The judgment houses waited. And one piece of the old order still stood, propping up DLJ's returns even as the ownership rule fell away. The commission was fixed by rule, and that floor had five years left.

CHAPTER FIVE

May Day and Big Bang

On the morning of Thursday, May 1, 1975, brokers along Wall Street kept answering the same unfamiliar question. A client would call to place an order and, before naming the stock, ask what it would cost. What's your rate? For a hundred and eighty-three years the answer had been printed in a rule book, the same for every house on the exchange. That morning, for the first time, the honest answer was that it was negotiable, and a buyer with enough volume could push it down by asking.[60]

The date already had a name. Traders had been calling it ***May Day*** for months, and the pun was not affectionate. Fixed minimum commissions traced back to the founding document of the New York market itself, the Buttonwood Agreement of 1792, in which two dozen brokers promised one another not to charge less than a set rate. The floor had held, in one form or another, ever since. In the run-up to its removal the industry predicted catastrophe. Robert Baldwin, chairman of Morgan Stanley, warned that somewhere between a hundred and fifty and two hundred firms might not survive.[61] Houses lobbied Congress, commissioned studies, and forecast a collapse of the research and distribution that fixed rates were said to support.

The day itself was an anticlimax. No firm failed on May 1. The floor opened and closed on schedule. What changed was invisible from the gallery: the price of a trade had come loose from the rule book and attached itself to the customer's bargaining power. The catastrophe the industry had forecast did not arrive that day, or that year. What the lobbying had actually predicted, underneath the talk of ruin, was that ending fixed rates would starve the research and the coverage the commissions quietly paid for. On that narrow point the industry was right. The bill took thirty years to come due, and it fell on the part of the business nobody had been arguing about.

The price of a trade can seem a world away from who owns the firm. It was not. The fixed commission was one of the props under the old partnership economics, and this is the story of the first prop to fall. It is also the story of how the work that price had quietly paid for fared once it had to stand on its own.

5.1 The Price Floor

By 1975 the fixed rate was overcharging a very particular customer. The market had institutionalized underneath it. Individuals had held more than half of New York Stock Exchange volume through the 1960s; by 1975 their share had fallen below thirty percent. The count of individual American shareholders dropped from 30.8 million to 25.3 million between 1970 and 1975 alone.[60] Trading had passed to pension funds and mutual funds that moved shares by the hundred thousand. A flat per-share commission charged those giants the same as it charged a widow buying ten shares of a utility. The institutions paid the most and had the most to gain from a discount, and they were the ones lobbying hardest to pull the floor out.

A fixed commission is a simple thing with a complicated shadow. The simple thing is a price the seller may not go below. The complicated shadow is everything that price quietly pays for. When every broker charges the same rate and none may discount, the rate stops being a price for executing a trade and becomes a subscription to the firm. Out of that guaranteed margin the firm paid for its research departments, the salesmen who called portfolio managers with ideas, the analysts who covered companies no one paid for directly. The firm gave the research away because it had already collected the commission. It was a free good resting on a price floor.

That shadow was exactly what the exchange invoked to defend the floor, and exactly what the government had stopped believing. The Justice Department had been calling the fixed commission what it was, a price-fixing agreement, since the late 1960s. The pressure moved through the courts and the regulators for most of a decade before it resolved.[61] The Securities and Exchange Commission finally knocked the floor out with Rule 19b-3, effective that May 1, under chairman Ray Garrett Jr., who had presided over the last stretch of the fight. The exchange had argued that without a guaranteed margin the research and the coverage would starve. The regulators decided that was the exchange's problem to solve, not the public's to subsidize. Once the rule took effect, the numbers moved in one direction. Rates charged to big institutions, measured against the money they moved, fell twenty-six percent within four months and close to half within three years.[60,62] A commission that ran above eighty cents a share in the early 1970s drifted toward four cents over the following three decades. About twenty brokerage houses merged or failed inside the first year.[60,62] One government

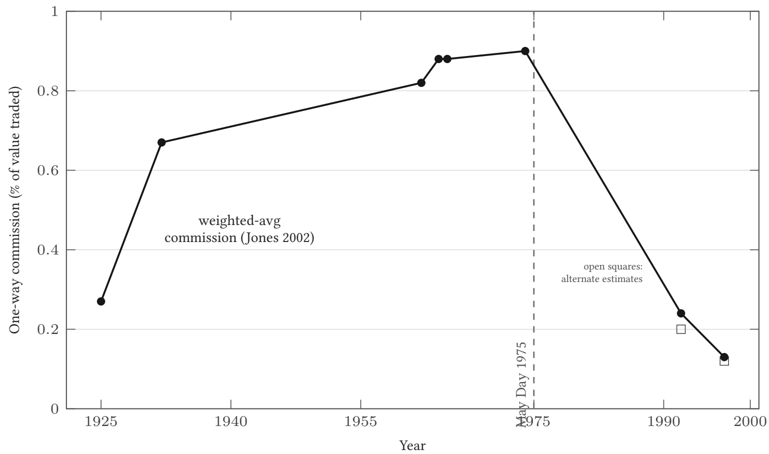

Figure 5.1: One-way trading costs as a share of value traded across the twentieth century. The dashed rule marks May Day 1975; the sourced anchors are sparse by nature, and the line connects only what the record supports.

study later put the savings to investors at roughly seven hundred million dollars in the first twenty months alone.[61]

The money saved by investors was money that used to belong to brokers. It had been paying for a great deal, and now it would pay for less.

5.2 The Discount Door

Most of the established houses read the new freedom the way a monopolist reads a court order: as a loss to be managed. They cut the rates they charged institutions, whose traders had the volume to demand it, and quietly held retail rates near where they had always been. The small investor, who could not negotiate, kept paying something close to the old price for a service that now had no floor under it.

Charles Schwab saw the gap between what the law now allowed and what the incumbents actually did, and walked into it. He was thirty-seven, a former investment-newsletter writer whose earlier venture had failed. In September 1975, four months after May Day, he opened a plain storefront brokerage in Sacramento aimed at the customers everyone else was overcharging.[63] No research, no advice, no salesman calling with ideas. Schwab's firm would take an order and execute it, nothing more, at commissions that ran as much as half below what a full-service house charged. The unbundling that terrified Wall Street was his entire business model.

He understood exactly what he was doing to the people who had held the floor. "If you have a monopoly," Schwab said, "you think the worst thing that can happen is to have it overturned."[60] The discounters multiplied behind him. By 1979 the country had ninety-seven registered discount brokers handling something like eight percent of retail trading volume, a business that had not existed five years before.[61] They sold execution and only execution, and they proved that when a customer was allowed to pay for just the trade, that was very often all the customer wanted to buy.

The lesson took a while to reach the top. The full-service houses spent the next two decades defending the bundle, insisting that the research and the advice were worth the higher rate, and for a class of client they were right. But the rate could no longer hide inside a rule. Every year it had to justify itself against a discounter's price posted in plain view. The money that used to fund the research departments as a matter of course now had to be argued for, line by line, against a competitor who did not carry the cost at all. The subsidy had not been abolished so much as made visible, and a subsidy that has to be defended in daylight tends to shrink.

5.3 London, in a Single Day

New York had taken a decade to feel the full weight of May Day. London ran the same experiment and compressed it into a morning.

The British market rested on a peculiar architecture called *single capacity*: a firm could be a broker, taking orders from the public, or a jobber, making markets in shares, but not both. The wall between them was old and defended. A broker who could not also make a market had to deal a client through a jobber, and the two-step kept the business small, partnered, and clubbable, with fixed commissions of its own laid on top. It was, in its way, the same machine New York had run: a rule that held the price up and let a genteel trade support more people than an open market would have paid for.

In July 1983 the Thatcher government's trade secretary, Cecil Parkinson, struck a deal with Nicholas Goodison, the chairman of the London Stock Exchange. The government had brought a restrictive-practices case against the exchange's rule book, and rather than fight it in court, Goodison agreed to phase out fixed commissions and dismantle single capacity.[64] The cap on outside ownership of member firms came off in March 1986, and the banks moved in before the ink dried. American and continental houses bought up the old London brokers and jobbers they had been barred from owning for generations. The firms that had spent a century keeping the trade small sold themselves to the institutions best placed to make it large.

The changes all took effect together on Monday, October 27, 1986, a day the market itself named the ***Big Bang***. Goodison walked a trading floor thick with foreign television crews before the eight o'clock open, deflecting the cameras with a line about the appeal of novelty. "If you put a new monkey or dodo in the zoo," he told them, "people will queue up to see it."[65] The zoo was the new electronic quotation system, SEAQ, which was about to carry the whole market off the floor and onto screens.

It nearly failed on contact. Page requests to the system ran past five million against a design that had expected fewer than two, and by 8:29 in the morning it buckled under the load. The exchange's chief engineer, John Scannell, remembered the moment as noise. "Eight o'clock comes and the systems all come up," he said. "Then it got to 5m, then everything is going berserk. Bells, and whistling, and ringing."[65] The screens steadied within the week. What did not come back was the floor. Once every quote lived on a screen in an office, there was no reason to stand in a crowd to trade, and within days the physical floor stood nearly empty. The jobbers had made their living reading a room, quoting a price from the set of a rival's jaw and the pitch of the noise, and that craft was now a database lookup anyone could do from a desk. A skill that had taken a career to build was worth what the screen charged for it, which was nothing. Of roughly two hundred member firms, more than half were absorbed into larger groups, most of them banks, inside a year.[66] A market that had defended single capacity for generations dissolved it, and itself, over a long weekend.

5.4 The Free Good

Two markets, eleven years apart, had run the same test and gotten the same result. Take away the fixed price and the business survives; the free good it had been paying for does not. In both cities the deliverable left dangling was research.

Cut loose from the commission, the analyst had to sell his research on its own terms for the first time, and found that no one knew what it was worth. The work had never carried a price of its own, and the answer the market kept returning was: not much. For a while the analysts found a second patron. If research could no longer be paid for by trading commissions, it could be paid for by the investment-banking fees of the companies it covered, so long as the coverage stayed flattering. A star analyst could win his firm an underwriting mandate with a bullish rating, and a bullish rating on a client's stock was worth more to the firm than any honest one. The research kept its premium pay by quietly changing what it was for. It had stopped being advice to investors and become marketing for issuers, dressed in the same suit. That arrangement held through the internet boom, and it held until the emails surfaced.

In 2001 and 2002 the New York attorney general, Eliot Spitzer, subpoenaed the internal correspondence of Merrill Lynch's analysts and found them privately trashing the same stocks they were publicly recommending. The investigation widened into a settlement with ten of the largest firms, announced on April 28, 2003. It ran to about $1.4 billion in penalties, disgorgement — the return of ill-gotten gains — and mandated independent-research funding.[67,68] Salomon Smith Barney paid the largest single share, four hundred million dollars. The settlement also ended two careers that had defined the boom. Jack Grubman, the telecom analyst at Salomon Smith Barney and for a time the highest-paid research analyst on the Street, was barred from the securities industry for life and fined fifteen million dollars. Among the documents was an email in which he tied his 1999 upgrade of AT&T, a stock the Citigroup chairman Sandy Weill wanted upgraded, to Weill's help getting his twins into the nursery school at Manhattan's 92nd Street Y; Citigroup then pledged a million dollars to the school, and the twins were admitted.[69] The rating and the preschool place had moved through the same favor bank.

Henry Blodget had made his name in December 1998 with a $400 price target on Amazon, a call so aggressive it became the emblem of internet-era research, and it moved him from an obscure analyst to a Merrill star almost overnight. The subpoenaed emails showed him rating stocks a public buy while privately holding them in contempt; of one he was recommending, he wrote that he could not believe what a piece of garbage, in cruder words, the thing was.[70,71] The case did not need to prove the research was wrong. It only had to lay the public rating next to the private verdict, and the gap between them was the whole indictment. Blodget was barred for life and fined four million dollars.

The settlement severed the second subsidy the way May Day had severed the first. What remained was research standing on its own, priced by a market that had finally been forced to price it, and the number kept falling. Global research budgets ran near $8.2 billion in 2008 and about $3.4 billion by 2017.[72] Then Europe's MiFID II rules took effect in January 2018 and required, in plain terms, that asset managers pay for research separately rather than bundling it into trading fees. Forced to write a check for research they had long received as part of the package, many managers looked at the invoice and decided they needed much less of it than they had been taking. A deliverable that had employed thousands of people at premium pay turned out, once every subsidy under it was cut away, to command almost no price of its own.

* * *

The pricing story ran underneath the ownership story the whole time, and it is the one that rhymes most exactly with what a professional firm sells. A fixed commission was never really the price of a trade. It was a convention that let a firm collect one fee and quietly fund several things with it, and the people doing the funded work never had to prove their work could stand on its own in a market. When the convention fell, the work had to. Some of it could not.

The money did not vanish so much as change hands. The London partners who sold their firms to banks in 1986 sold at the top, cashing out the value of a franchise the rules had protected before the rules could stop protecting it. Schwab built a fortune out of the gap the incumbents left open. The clients captured the lower price. The people who paid were the ones who could not renegotiate their claim: the small houses that closed, the retail customers who kept paying the old rate until the discounters reached them, and the analysts whose whole profession turned out to have been floating on a fee it never set. Every one of them had been living on the same subsidy, and the subsidy paid out to whoever held it when the floor came away.

Wall Street learned the lesson twice, in New York and in London, and then watched its research analysts learn it a third time. The order was always the same. A price is fixed by rule; a rule is removed; the price falls to what a customer will actually pay; and the generation holding the fee when the floor gives way discovers how much of it was subsidy. Any profession whose junior labor is carried on a billing convention should read that sequence closely. The law firm bills an associate's hour at a multiple of that associate's cost, and calls the difference training. No regulator fixes that price the way the SEC once fixed a commission. Custom does the work a rule used to, and custom has held only because nothing has yet offered the client a cheaper way to buy the same hour. The lever differs: May Day pulled a fixed price down by regulation, while the force now gathering against the associate's hour is a technology that makes the work itself cheaper. A sheltered price, though, falls the same way whichever lever moves it. It is a fixed price with a complicated shadow, and it has never been asked to prove what it would fetch in the open.

CHAPTER SIX

Selling the House

The Tarrytown Conference Center sat on a former Duke estate above the Hudson, the kind of place Wall Street used when it wanted to decide something out of earshot of the tape. On the last weekend of July 1981, the men who ran Salomon Brothers drove up from the city to settle the largest question a partnership can face. Whether to go on being one.

John Gutfreund had already answered it. Fifty-one years old, managing partner since 1978, he had spent the spring negotiating in secret with Phibro. The commodities house had grown rich on the oil and metals boom, and it carried the kind of cash Salomon's balance sheet did not have. The price was $554 million.[73] The buyer was getting a bond-trading firm that could no longer, on partner capital alone, fund the positions its own traders wanted to carry. Sixty-two general partners would divide the proceeds.[74]

Phibro had its own reasons. The commodities boom that had made it rich was violent and cyclical. Its leadership wanted the steadier earnings and the underwriting muscle a securities house could bring.[74] For Salomon the logic ran the other way. Its bond desks needed a bigger balance sheet than partners could refill out of their own pockets each year, and Phibro had cash to spare. The talks had been held so closely that most of the firm learned the terms only that weekend.

The weekend's real business was signatures. The men in the room were the firm's high command, the economists and arbitrageurs and syndicate heads who had turned a second-rank bond shop into a first-rank one. They had come to be told, not consulted. The negotiation was finished and the papers were drawn. There was no vote. Partners had until Sunday to sign new employment contracts, and by Sunday morning every one of them had signed. Gutfreund got a standing ovation. One partner remembered the reaction as shock, followed by a single practical question that traveled desk to desk: what does it mean for me?[74]

For one man it meant almost nothing. William Salomon, called Billy, was the founder's son, sixty-seven years old. He had hired Gutfreund as a trainee in 1953 and later handed him the whole firm. Years before, he had become a limited partner, and limited partners collected their capital and no share of the gain. He was told late, and he was angry. When the money was counted he drew out less than ten million dollars, the book value of a name that had been over the door since his father put it there. The men he had trained divided the premium that name now commanded.[74,75]

For the rest it meant a great deal. Men who had spent careers drawing salaries, watching their wealth sit locked inside the firm, woke on Monday as some of the richest people on Wall Street. Their capital was suddenly liquid, with a premium stacked on top.[74] The question that had run desk to desk on Sunday, what does it mean for me, had an answer, and for most of the sixty-two it was the best answer of their working lives. That was the shape of every conversion still to come. The people in the room did well. The argument was only ever about who else would pay.

6.1 What the weekend was worth

Billy Salomon had spent his working life building the thing now being sold. He had taken a scrappy bond house and made it a power on the Street. He had done it partly by rule: partners drew modest salaries and left the rest of their earnings inside the firm as capital, year after year.[74,75] That discipline was why Salomon could trade at the scale it did. It was also why there was a premium to sell. The partnership he ran was a machine for deferral. Young men joined it cheap, Gutfreund among them at forty-five dollars a week. They traded years of undermarket pay for a claim on the firm's future, one that vested only if they survived the tournament long enough to make partner.[76] Each generation underpaid itself to leave capital in the house for the next.

So the sale posed a question of ownership that the balance sheet could not answer. The capital inside Salomon in 1981 was the compounded restraint of everyone who had ever been a partner, Billy's father included. The sale did not divide that sum among the generations that had laid it down. It went to the sixty-two. They happened to hold the equity in July of that year. The ledger read like a verdict on who was standing where when the music stopped. A general partner's average cash payout came to about \$2.7 million, tax-free, on top of a pool of convertible bonds — debt that could later be swapped for stock. The men on the executive committee took roughly \$11 million apiece.[74] Gutfreund's own package, cash and securities together, ran to something near \$32 million.[76]

Set that beside Billy Salomon's sub-ten-million and the arithmetic of a conversion is complete in one line.

Why would a commodities house pay a premium for a bond firm at all? Because Salomon's trading floor was the most productive engine on the Street, a room where the firm bet its own capital on interest rates all day and the culture ran on nerve and volume.[77] Michael Lewis sat on that floor as a young salesman. He opened his book about the place with Gutfreund challenging his head trader to a single hand of Liar's Poker for a million dollars, no tears.[77] That floor was the asset. The mahogany and the client list came with it, but the thing Phibro was buying was the appetite and the skill to carry enormous positions overnight. Gutfreund understood what he was joining. Of the commodities men now on the other side of the house he said flatly, "I'm a foreigner in that culture."[76] It did not slow him down. Within three years he had pushed aside Phibro's own David Tendler and taken sole command of the merged firm, the foreigner who ended up ruling the place that had bought him.[76]

What had changed under the wholesale houses was the size of the bets. After 1979, when the Federal Reserve under Paul Volcker let interest rates swing, the bond markets that Salomon dominated turned huge and violent at once. Trading them was more profitable than ever. It was also hungrier for capital: a firm had to carry vast inventories of bonds to make markets in them.[77] Partner accounts, refilled a slice at a time from retained earnings, could not keep pace with a balance sheet that now moved in billions. The firm that resulted from the sale grew into the biggest bond house on the Street. The business press soon crowned Gutfreund the King of Wall Street. He had just presided over the end of the partnership that made him.[77]

The order in which these houses sold is the part worth slowing down for. The retail brokers had gone first, a decade earlier, Merrill Lynch public in 1971 with sixteen firms behind it. Their business was settlement, and settlement had become a machine that swallowed capital and produced codified, repeatable work.[2] The wholesale houses came later. Their product was judgment and relationships that no computer had yet learned to copy, and for a while that kept them private. Then they sold anyway, and more of them by outright sale than by public flotation.

A partnership, in the end, is a device for handing hard-won, tacit skill from one generation to the next. The seniors teach, the juniors sweat, and ownership is the prize that keeps everyone in the room long enough for the transfer to happen.[2] It works best when the skill cannot be written down and the capital to run the business is small enough for partners to supply it themselves. The codifying came in two waves. Mainframe computers turned settlement into software, which is why the retail firms that ran on settlement went first. Then financial economics,

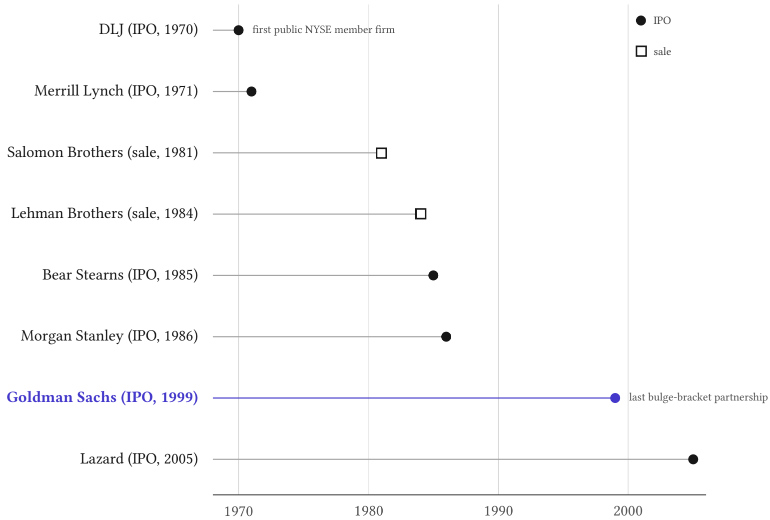

Figure 6.1: The conversions, 1970–2005: eight partnerships leave the form, by public offering (filled circles) or by sale (open squares). Goldman Sachs, highlighted, went last among the bulge bracket, Wall Street's top tier of underwriters.

the Black-Scholes formula and everything it spawned, moved skills that had been learned over years on a trading floor into a textbook and a classroom.[2] Each wave made a piece of the work teachable without the firm, and each pushed another kind of house toward the exit. The wholesale trading houses broke on the other condition, the capital one, when the trading book outgrew what any group of partners could personally fund.[42]

6.2 The house that tore itself apart

Salomon sold itself in a weekend, cleanly, for cash. Lehman Brothers took a longer road to the same place and nearly burned the building down along the way.

The firm had been trading since 1850, when the Lehman brothers ran a cotton brokerage in Montgomery, Alabama, and by 1983 it ran along a fault line as old as investment banking: bankers against traders.[78] On one side stood Peter Peterson, called Pete, former Nixon commerce secretary, chairman since 1973, a statesman who brought advisory clients in over lunch. On the other stood Lewis Glucksman, a rumpled trader who had built much of the firm's profit on the trading side and resented the patricians who looked down on him for it.[79] The house Glucksman would seize was formally Lehman Brothers Kuhn Loeb, the product of Peterson's own 1977 merger of two of the oldest names in American finance.[80]

Earlier in 1983 Peterson had made Glucksman co-chief executive. He meant it as a peace offering. Glucksman took it as a beachhead. The grievance underneath was money and standing. Glucksman's traders were throwing off a rising share of Lehman's profits, and Glucksman believed the bankers who ran the place treated his people as hired help.[79] Within months of his elevation he had forced Peterson toward the door; Peterson kept the chairman's title in name until the firm was sold, but the house was Glucksman's.[80] He moved to reward the trading side and to settle scores, and the bankers who had lost, the men whose client relationships were the firm's other half, began to leave. A house that runs on relationships cannot shed its relationship men and stay whole.

The victory did not last a year. Stephen Schwarzman, then running Lehman's merger committee, later put the place in one phrase: an extremely competitive internal environment that had become dysfunctional.[78] A partnership at war with itself cannot raise capital, cannot keep its best people, and cannot wait. On 1984-04-10, American Express announced it would buy the firm for $360 million and fold it into its Shearson brokerage.[81] Lehman's partners and principals split the price in convertible debt and subordinated notes, roughly $180 million of each.[82] The Lehman name went dark inside Shearson for the better part of a decade, a house trading since before the Civil War reduced to a division of a division. The collapse became the subject of a book, Ken Auletta's ***Greed and Glory on Wall Street***, because it was the rare conversion that looked less like a windfall than a wreck.[79] Peterson walked out and, the next year, started a small advisory firm called Blackstone with Schwarzman, a private partnership built on the ashes of the one that had thrown him out.[80]

Salomon's partners had chosen their buyer. Lehman's had run out of the ability to choose. The same conversion, partner capital swapped for a corporation's, arrived at Salomon as a windfall calmly pocketed and at Lehman as the bill for a civil war.

6.3 Flotation, and the last man standing

Two of the four wholesale houses did not sell themselves to anyone. They sold to the market instead, floating their shares — going public — rather than handing the firm to a single buyer.

Bear Stearns went public in 1985, floating about a fifth of itself while its partners kept the rest.[83] Alan Greenberg, called Ace, was chairman. A serious bridge player, he ran the firm on terse one-page memos. He had watched Bear's capital climb from $46 million when he took over in 1978 to $517 million the year of the offering.[83] A firm that grows its capital elevenfold in seven years does not need a rescuer. It needs a public currency to keep growing, and Bear took one on its own terms, with the partners still in control. Greenberg had built Bear as an outsider's shop, hiring for hunger over pedigree and prizing traders who could make money in a falling market.[83] By 1989 the firm's equity had reached $1.4 billion, roughly triple its level at the offering, the outsiders' shop compounding on money the private form could never have raised.[83]

Morgan Stanley was the last of the cohort, and the proudest. The house had been spun out of the Morgan bank in 1935, when the Glass-Steagall Act split commercial banking from securities underwriting. For half a century it had turned up its nose at trading and retail in favor of blue-chip corporate advice.[84] That model finally needed a balance sheet of its own to compete. Rivals were committing their own capital to win mandates, bridging deals and underwriting risk that pure advice could not match. No partnership, however proud, could put up money on that scale. In 1986, under chairman S. Parker Gilbert, the firm sold shares to the public at $56.50 apiece.[85,86] The offering raised $163.8 million, and the stock jumped about a quarter on its first day of trading, the market pricing in an afternoon the rents a private partnership had kept to itself for decades.[87] Under Gilbert the firm's equity would run from about $207 million toward $2 billion, and its staff would swell from 2,600 to 6,800, a corporation's scale grafted onto a partnership's name.[86]

Timing helped both of them. The mid-1980s bull market was hungry for financial stocks, and a healthy firm could sell a slice of itself into it at a rich price without giving up the wheel. Salomon and Lehman had no such luxury when their moments came, one driven by a balance-sheet squeeze and the other by a mutiny. Strength chose the market; need took the first serious buyer.

Selling to a buyer and selling to the market were not the same surrender. Salomon and Lehman disappeared into a parent, their names surviving as brands on someone else's balance sheet. Bear and Morgan Stanley kept their names, their managements, and for a time their control, and the public became a new and patient partner. Both routes ended the partnership. Only one ended the firm's independence, and which route a house took came down to whether it was selling from strength or from need.

Four houses, five years, and the sequence itself is the lesson. Salomon sold because its trading book had outgrown its partners' pockets. Lehman sold because it had made itself ungovernable. Bear and Morgan Stanley floated because they were strong enough to name their own price. The retail brokers had converted first, when their work became a machine. The wholesale houses converted next, when their capital needs outran the men who supplied it. In every case the order tracked one variable: how much of a firm's value still lived in people rather than on the balance sheet.[2]

* * *

By the end of 1986 the roll of great private houses had thinned to almost nothing. Salomon belonged to a commodities trader, Lehman to a credit-card company, Bear and Morgan Stanley to their shareholders. In each case the partners who happened to hold the equity in the year of the sale had turned the accumulated restraint of everyone who came before them into money they could keep. The clients whose bond had once been a partner's personal fortune now dealt across a desk answerable to a stock price. The juniors coming up behind found the tournament changed under them: the prize at the end was no longer ownership of the house, only a title inside a company someone else owned.

Banking was the first of the professions to run this passage end to end, from private house to public company, and it left a template. Accountants would trace the same figure a decade on, and lawyers a generation after that. A reader who has watched the wholesale houses fall in order already knows the shape of what comes next.

One house had not moved. Inside Goldman Sachs the same proposal was already circulating, and the same partners were already saying no. They would go on saying it, in one form or another, for thirteen more years.

CHAPTER SEVEN

Goldman's Long Argument

In December 1986, the nine men on Goldman Sachs's management committee brought the partners a recommendation they had argued over for months. Take the firm public. Stephen Friedman and Robert Rubin, the committee's driving pair, had done the arithmetic. The business now needed more permanent capital than a rotating set of partner accounts could supply. Every rival worth naming had already found that capital outside the partnership.[2] The partners gathered for a two-day weekend retreat and argued the question out. The debate ran long and hot, by the accounts that survive.[3,88]

It ended with nothing. Not a rejection anyone could point to, not a tally, just a proposal that died in the room. John L. Weinberg, the sole senior partner and the last word on any question that mattered at Goldman, was unenthusiastic, and in 1986 the senior partner's lack of enthusiasm was a verdict.[1] Some of the older men in the room were close enough to retirement to have cashed a public valuation and walked away. They went home having quietly left tens of millions of dollars on the table.[3] They had decided the firm was worth more unsold.

It was a strange thing for a management committee to lose. Friedman and Rubin were not junior agitators. They ran the place day to day, and they had carried to the partners the considered recommendation of the firm's most powerful body. They lost anyway, to a man who never had to call for a vote, because the thing they proposed to sell was still worth more to the room than the price on offer. The clock that started that weekend would run for thirteen years.

The recommendation was not a leap into the dark. That same year Morgan Stanley, the house Goldman measured itself against, had sold shares to the public and watched them jump about a quarter on the first day.[87] Friedman and Rubin were proposing that Goldman do what the firm across the street had just done, at a moment when the doing looked easy and lucrative. The committee had read the direction of the business correctly. It had misjudged only the room.

What they were protecting had a history. The partnership dated to 1869, and by the clock of Wall Street it was ancient, the last of the great houses still owned entirely by the people who worked there.[2] Weinberg was himself the proof of how such a firm reproduced itself. His father, Sidney Weinberg, had run Goldman for four decades from the 1930s, and the son had inherited not a fortune but a seat and a trade learned from the inside.[1] That was the machine the partners declined to sell. Unlimited personal liability put each partner's own money behind the firm's word. A long apprenticeship turned one generation's judgment into the next one's raw material. To take it public was to put a price on all of it. A price, once paid, does not reverse.

The partners who wanted to stay private made a cultural argument, not a financial one, and that was the whole difficulty with it. Goldman's product was advice, and it had spent a century convincing chief executives that a firm whose partners kept their own money at risk would tell them the truth. The culture was the product. Charles Ellis would later give an entire book to how a partnership turns a reputation for candor into a fortune.[4] None of which made the partnership a charity. It was a closed shop. It had concentrated great wealth in a few hundred men, kept most of its own employees out of ownership, and reinvested only what those men could personally spare. The holdouts were defending something genuine and something exclusive in the same breath. Neither one paid for a mainframe.

* * *

7.1 Arguing with the Arithmetic

The order in which the other houses had gone told a story, and it was not a story about nerve. Donaldson, Lufkin & Jenrette had broken the New York Stock Exchange's ban on public ownership in 1970. Merrill Lynch followed in 1971. Through the 1980s the trading and retail houses sold themselves one after another, by flotation or outright sale, until Goldman stood very nearly alone.[2] The economists Alan Morrison and William Wilhelm later gave the sequence its logic. A partnership exists to pass tacit skill from one generation to the next — the kind of judgment that cannot be written down, only absorbed by working beside someone who already has it. Such a firm converts to public ownership when two things happen at once. Technology codifies the skill, so it no longer has to travel through apprenticeship. Meanwhile the capital the business needs outgrows what the partners can supply from their own pockets.[2,31]

The distinction was easy to see on Goldman's own floors. A currency trader's edge, by the late 1980s, increasingly lived inside a model that a bright graduate could learn in a semester and a computer could run in a second. A senior banker's edge lived in twenty years of knowing which chief executive would actually pull the trigger on a merger and which one only liked being courted. The first kind of knowledge a public company could buy off the shelf. The second it had to grow, slowly, inside a partnership.

Both had happened to the rest of the Street before they happened to Goldman. Mainframe computers had turned the settlement of trades into a codified, capital-hungry industrial process. Financial economics had turned trading and valuation into subjects taught in a classroom rather than skills learned only at a senior man's elbow. The houses whose work codified earliest sold earliest. Goldman's core business, advising companies and their chief executives on the largest decisions of their corporate lives, codified last, because it ran on relationships and trust that no model captured. That was why the firm could hold out. It was also why holding out had an expiration date, because the capital stakes were climbing for everyone in the business. The ten largest American banks held roughly one billion dollars of capital, adjusted for inflation, in 1960; by 2000 they held about \$194 billion.[2] No partnership's balance sheet could keep pace with a number growing like that.

The word codification hides what it cost the people at the bottom. A young banker at Goldman put in years of long hours at modest pay for a shot at partnership. The ones who made it collected on the same promise the partners above them had once collected on. That was how the tacit skill actually moved: not through a manual but through a decade of sitting close to someone who had it and watching the judgment get applied. Codification cut at that bargain from both ends. It let the firm buy the skill instead of raising it. And it turned the tournament prize, once a slice of a private partnership, into something a public company could hand out in salary and stock.

The training system and the ownership system were the same system. You could not sell the one without changing the other.

So the argument never really closed. It only paused. In 1996 the firm worked up a detailed plan to go public and, once again, set it aside.[2] The plan was thorough, drawn up by the firm's own bankers. It lost to the same objection that had killed the 1986 proposal: a public Goldman would not be Goldman. Each time the question came around, the partners who wanted to sell had the arithmetic on their side. The partners who wanted to wait had the culture, the conviction that a share price would dissolve the very thing that made Goldman valuable. For ten years the culture won. By the end, the argument had not changed. The men making it had, and so had the size of the check on the table.

7.2 The Room Finally Says Yes

By the spring of 1998 the men making it were Jon Corzine and Henry Paulson. They ran a firm that had grown too large and too hungry for capital to keep pretending the question was still open. In early June the partners and roughly two hundred managing directors gathered at a retreat and endorsed an initial public offering, in the word the firm used afterward, overwhelmingly.[5] Corzine and Paulson put out a joint statement in the flat register of men announcing something already decided.

> This strong consensus among the partners and throughout the firm will permit us to move confidently to adopt our structure to the mission we are pursuing.
>
> — Jon Corzine and Henry Paulson, June 1998

Thirteen years after the management committee first raised it, the room had answered the question. The answer was the one the numbers had implied from the start. The partners who had held out in 1986 and again in 1996 had not been wrong about what a partnership was worth. They had only been early, and being early carried a price of its own. The men who had run Goldman in 1986 were mostly retired by 1998, their partnership stakes long since cashed out in private at nothing close to a public valuation. The partners who voted yes in June were the ones who would still be holding equity when a public market set the number. The argument had not been won on the merits. It had been settled by turnover.

7.3 The Verdict Nobody Voted On

The market answered next, and it was less polite than the room. Goldman filed its registration statement on August 24, 1998.[6] Within weeks the ground gave way beneath it. Russia had defaulted on its sovereign debt. Long-Term Capital Management, a hedge fund that had borrowed tens of billions against a thin sliver of its own capital, was failing, and had to be rescued by a consortium the Federal Reserve convened. The timing could not have been worse for a firm trying to sell shares in itself. Merrill Lynch, Morgan Stanley Dean Witter, and Lehman Brothers watched their stocks fall by roughly half from their highs. Goldman's own pretax profit dropped about a fifth in a single quarter.[6] A firm cannot sell a piece of itself into a market that has just decided financial companies are worth half what they were in July. On September 28 the executive committee pulled the offering, citing the volatile state of global markets and its disproportionately negative effect on financial firms.[6] Corzine and Paulson left the door ajar.

> When markets and other conditions improve, our executive committee may propose a new plan of incorporation and public offering to the partnership for approval.
>
> — Goldman Sachs statement, September 1998

For the partners it was a fortune deferred by a year, and for a bad few weeks a fortune that might not arrive at all. Men who had spent the summer quietly told they were about to be rich went back to running a firm whose trading desks were bleeding money. The June vote had promised them the end of the argument. The market had reopened it on its own terms.

The door reopened for the firm, but not for the man who had pushed hardest to walk through it. Goldman's fourth-quarter results were bad, weighed down by bond-trading losses, and the failed offering carried a cost that landed on Corzine personally.[7,89] In January 1999 the partners received an email. Corzine would give up the chief-executive title, Paulson would hold it alone, and two lieutenants, John Thain and John Thornton, would become co-chief operating officers. Corzine was dropped from the new management committee. A securities-law professor named Alan Bromberg called it what it was.

> They're moving him back for trying to do the IPO and then having to pull it.
>
> — Alan Bromberg, January 1999

Corzine's own statement kept the firm's composure. He believed the change served Goldman's long-term interest, he said, and he would now put his energy into completing the public offering he had championed and would not lead.[7] He kept the co-chairman's title through the spring, then left later that year to run for the United States Senate. The man who won the argument for going public did not run the firm on the day it finally went.

7.4 May 4, 1999

The offering, when it finally came, priced on the evening of May 3, 1999 — the day the Dow Jones Industrial Average first closed above 11,000[8] — and it was not a close call. Demand outran the available shares by more than ten to one.[8] Goldman sold 69 million shares, 12.6 percent of itself, at $53 apiece, the top of the range, raising $3.66 billion.[8,90] The next morning the stock opened above the offer price and closed at $70.375, up a third on the day. A partnership founded in 1869 was now worth about $29 billion at the offer price, and more than $33 billion by the first day's close.[91] It was, at that moment, the second-largest public offering an American company had ever brought to market.[90] The number that counted inside the firm was not the total raised, though. It was the slice of what remained that each partner still held, and that slice the market had just converted into cash. An analyst watching the sale caught the mood on the buy side.

> Everyone walks out happy. Portfolio managers know they didn't buy it at an outrageous price.
>
> — Randall Roth, Renaissance Capital, May 1999

The people who walked out happiest were not named in the coverage. When the shares began trading, 221 former partners held 48.3 percent of Goldman Sachs.[9] That was the whole argument, resolved and priced. Every partner who had ever declined to sell, in 1986, in 1996, in a hundred private conversations in between, had been declining on behalf of people who would never see the proceeds. The value they had preserved by not selling did not evaporate while they waited. It compounded. And on the morning of May 4, 1999, it belonged to whoever happened to hold a partner's slice of the firm on the day the firm at last sold.

There was a second transfer, quieter and harder to price. The bargain Goldman had always offered its young bankers was ownership deferred: bear the cost of the apprenticeship now, hold a piece of the firm later. After May 4 that piece was a share of common stock like any other, and the company it bought into answered to a public market. The tournament kept running. Its prize had changed shape. The bankers who came up after 1999 would spend their careers building an outside shareholder's firm rather than their own. The apprenticeship survived the sale. What it trained people for did not. A young banker in 2000 still bore the cost of learning the trade, but the firm at the end of that climb now belonged to strangers.

* * *

That is the transition's mechanism at its cleanest. A partnership is a relay. Each generation runs its leg carrying the accumulated restraint of the ones before it: the capital they left in the firm, the clients they kept, the higher price they declined. Then it hands the baton forward. Conversion breaks the relay. The generation holding the baton when the firm sells does not pass it on. It cashes it.[4]

What passed to the partners of 1999, precisely, was a hundred and thirty years of declined offers. Every earlier partner had added a layer to that value. One left profits in the firm instead of drawing them out. Another held a client at a thin margin because the relationship outlasted the fee. Another voted the firm's independence over a personal payday. None of it could be banked until somebody sold the whole thing at once. The 221 were not more able than the generations whose work they sold. They were the ones in the room when the music stopped.

Goldman's partners had argued with their own economics for thirteen years, on the honest ground that the firm was worth more as a partnership than as a stock. They were probably right. They sold anyway, because the arithmetic that made them right had also made the check too large for the people holding it to refuse.

Six years later Lazard went public too, the most purely advisory of the great houses and the most dependent on a handful of bankers' personal relationships. The era that Donaldson, Lufkin & Jenrette had opened in 1970 closed.[2] Every private partnership of any size on Wall Street had become a public company or a memory. The completed experiment was on the record, its distributional ledger legible to anyone who cared to read it. The converting partners took the windfall. The bill, for the borrowing that outside capital invited and the crisis it would produce, would arrive in 2008, addressed to shareholders and taxpayers who had never sat in any of the rooms. The partners of 1999 had already been paid.

CHAPTER EIGHT

Aftermath and Counterwave

John Gutfreund had a proposition for the writer who had made him famous and then, in his own telling, ended him: come to lunch. It was the autumn of 2008. The man once called the King of Wall Street was in his late seventies now, running a small consultancy from an office few people needed to visit. Michael Lewis accepted. Twenty years earlier, Lewis had been a young bond salesman on Gutfreund's trading floor at Salomon Brothers. He turned the seat into ***Liar's Poker***, a book that taught a generation how the money got made. It made its author rich for describing a world its subjects would rather have kept quiet. Gutfreund had never quite forgiven him.

They met on the East Side. The small talk lasted about twenty minutes. Then Gutfreund said the thing he had come to say. "Your… fucking… book," he told Lewis, "destroyed my career, and it made yours."[92] It was, from Gutfreund, close to a blessing.

Lewis had come with a question of his own, and it was the right one for the week. Of everything Gutfreund had done at Salomon, one decision had changed Wall Street most. In 1981 he took the partnership public. He sold it to the commodities firm Phibro and handed sixty-two partners a check for the accumulated value of a firm they no longer owned. At the time the other Wall Street chiefs had told him what an awful thing it was to do. Then, one by one, over the next two decades, they had all done it too. Lewis asked what going public had changed. Gutfreund answered without hesitation. Turning a partnership into a corporation moved the financial risk off the partners and onto the shareholders. "When things go wrong," he said, "it's their problem."[92]

It was a confession, and it came from the first man to jump. When Gutfreund sold Salomon in 1981, incorporation was still close to heresy on Wall Street. The great houses were partnerships because they had always been partnerships, and a partner's name on the door meant his money stood behind it. He went first anyway, and the others followed, in an order that turned out to mean something.

The operationally heavy retail firms converted first and the pure advisory houses last, and Goldman argued with itself for thirteen years before it went. Gutfreund had read the arithmetic sooner than the rest.

Outside, the problem was arriving. Richard Fuld's Lehman Brothers had filed for bankruptcy a few weeks before. Merrill Lynch had sold itself over a weekend. The two firms still standing on their own had just petitioned the government to stop being investment banks at all. Gutfreund had started the wave that produced all of it. He offered its epitaph as a joke. "It's laissez-faire," he said, "until you get in deep shit."[92] Then the waiter came to ask whether they would like a deviled egg, and the King of Wall Street ordered lunch.

8.1 Other People's Money

Gutfreund had named the mechanism in a sentence, and it was plain enough. A partner who signs for the firm's debts with his house and his savings prices risk one way. A shareholder who can lose only what the stock cost prices it another. Move the losses from the first person to the second, and the appetite for risk goes up. That is not a moral claim about bankers. It is an arithmetic claim about where the downside sits, and the agency theorists had written it down formally decades before the trading desks proved it.

The old form policed itself, and that was much of the point of it. A partner's capital was locked inside the firm. He could not withdraw it, and when he retired the firm paid him out over years, so the mistakes of his last desk could still find him.[4] Every partner therefore watched every other, because one man's reckless position was a claim on all their houses. Unlimited liability was not a motto on the letterhead. It was a monitoring system, cheap and merciless, that no compliance department has since matched. Selling the firm did not only cash out the partners. It retired the monitors.

Lewis put the popular version plainly, in the same article that opened with the lunch. No investment bank still owned by its employees, he wrote, would have borrowed thirty-five dollars for every dollar of its own capital, or warehoused fifty billion dollars of mortgage bonds it did not understand.[92] The partners of the old firms had gone home at night owing what their firms owed. The men who ran the new ones went home owing nothing.

By 2007 the borrowing had reached altitudes the partnerships would never have tolerated. The five big independent banks carried debt of roughly twenty-six to forty times their equity. The exact multiple depended on the firm, the fiscal year, and whether you counted gross or netted the numbers down the way the banks preferred.[93,94] Bear Stearns, the smallest, sat on about $11.8 billion of equity beneath $383.6 billion of liabilities.[93]

Much of that debt was borrowed overnight and rolled again each morning, in a market called repo where a firm pledges its bonds for cash and buys them back a day later. The arrangement is cheap, and in calm weather it is invisible. It also means the firm must persuade its lenders to stay every single day. A bank financed that way does not need a recession to die. It needs one bad week in which the lenders decline to roll, and no time to sell anything for what it is worth. That is how a firm that looks solvent on Friday can be a corpse by Monday.

Why the banks were allowed to borrow so freely is still argued over. The popular answer points to one meeting. In April 2004 the Securities and Exchange Commission created a voluntary supervision program for the largest broker-dealers and, the story goes, lifted a rule that had capped their borrowing at twelve to one. The officials who ran the rule reject that reading. Erik Sirri, the SEC's markets director, said in 2009 that the old net capital rule had never governed holding-company debt, and the twelve-to-one cap is hard to find in the rule itself.[95] What is not in dispute is the result. The commission's own chairman, Christopher Cox, called the program a failure and shut it in September 2008, and the borrowing had climbed to its record heights whichever door it came through.

Whichever door it was, the result was a system in which the people making the bets no longer owned the losses. In the partnership years a bad enough year could take a partner's home. In the corporate years it took a shareholder's quarter, a taxpayer's guarantee, and a junior banker's job, in that order. The men who had set the risk kept the pay they had already booked against it. The incentive had been turned inside out, quietly, one flotation at a time. In 2008 the invoice came due.

8.2 Six Months

The independent investment bank, as a species, had lasted thirty-eight years from the day Donaldson, Lufkin & Jenrette first sold its shares to the public. It took six months in 2008 to disappear.

Bear went first. In the week before, its prime-brokerage clients — the hedge funds whose cash and trades it held — had wired their balances out, and its repo lenders had stopped rolling the loans. It was a bank run conducted by institutions moving money by keystroke rather than by depositors standing in a line.[93] Over the weekend of March 15, its overnight funding vanished and its cash drained by the hour. By Sunday, Bear Stearns had agreed to sell itself to JPMorgan Chase for two dollars a share. The price was later raised to ten to buy off a shareholder revolt.[96] A firm that had traded above $170 the year before was gone in a weekend. Everyone on Wall Street did the same arithmetic. If Bear could go, so could the next firm down the list.

The next firm was Lehman. On Friday, September 12, Timothy Geithner summoned the heads of the major houses to the Federal Reserve Bank of New York, where he ran the district. Find a private solution over the weekend, he told them, because the government would not be putting up money.[97] Barclays, the likeliest buyer, worked the numbers into Sunday and then walked. Its British regulators refused to let it guarantee Lehman's trading book without a shareholder vote no one had time to hold.[97]

By Sunday night the outcome was plain to the people inside. Lehman employees came in to clear their desks, carrying out boxes and framed photographs while the lawyers upstairs prepared the filing. Harvey Miller, the dean of American bankruptcy counsel, drafted the petition overnight. Lehman filed in the small hours of Monday, September 15, listing about $639 billion in assets. It was the largest bankruptcy in the history of the United States, by a margin nothing since has approached.[98] To keep the firm's brokerage from seizing up, JPMorgan advanced tens of billions of dollars over the next two days against the wreckage.[98]

The same weekend, on a parallel track, Merrill Lynch read the tape and sold itself before it had to. John Thain agreed on Sunday to merge Merrill into Bank of America for roughly fifty billion dollars in stock, about twenty-nine dollars a share. Ken Lewis of Bank of America struck the deal in a matter of days.[98] Three of the five great houses were disposed of inside seventy-two hours. Bear had gone in March. Two were left.

Goldman Sachs and Morgan Stanley did not fail. They surrendered. On Sunday, September 21, the Federal Reserve Board approved their applications to become bank holding companies. The next day it waived the customary five-day antitrust wait so the change could "be consummated immediately."[99,100] The distinction mattered more than the paperwork suggested. A bank holding company answers to the Federal Reserve, funds itself partly with insured deposits, and lives inside borrowing limits it cannot vote away. The two survivors of the independent model had asked to be folded back into the regulated, deposit-taking species the whole conversion wave had been built to escape. Goldman's chief executive, Lloyd Blankfein, framed the retreat as a promotion. Under the Fed's supervision, he said, the firm "will be regarded as an even more secure institution."[101] The publicly traded pure investment bank had lasted thirty-eight years from DLJ's offering, and nine from Goldman's own. Now there were none.

What the crisis did to the balance sheets, an insider's memo did to the culture. In March 2012 a Goldman vice president named Greg Smith resigned by op-ed, publishing his last day in the newspaper. The firm's environment was "as toxic and destructive as I have ever seen it," he wrote. Senior people, he said, called their own clients "muppets."[102] Smith's account was quickly and plausibly attacked as the score-settling of a man passed over for a bigger bonus, and the specific charges were never proven.[103] The piece was read more than three million times, and Goldman's shares fell about 3 percent the day it ran.[104] But the direction of travel matched the one Charles Ellis had traced in his history of the firm. A partnership whose oldest rule put the client's interest first had been refounded as a public company whose first obligation ran to its share price.[4] Gutfreund's shareholders had inherited the risk. Somewhere down the line, so had the clients.

8.3 The Counterwave

The theory that explained the conversions also predicted their limit. Partnerships exist to pass tacit skill from one generation to the next. They give way to public capital exactly where the skill has been codified and the capital stakes have risen.[2] Turn that around and it says something hopeful for the human-capital firm. Where the product stays tacit, senior, and relationship-bound, and the only capital you need is a desk and a reputation, the partnership should survive. In the years around the crisis, it did more than survive. It came back.

The pattern had begun before anyone needed it. In 1995 Roger Altman, lately the deputy Treasury secretary, left Washington to found Evercore. His premise was simple: a client is better served by an adviser with nothing to sell but advice, free of the trading conflicts of the integrated banks. Robert Greenhill built the same kind of firm in 1996; Centerview opened in 2006; Ken Moelis walked out of the top of UBS in 2007 to hang his own name on the door. Each was a senior banker who had decided his value lived in his own head, not in the balance sheet he was leaving behind.

Then the wave arrived in earnest, and its timing was not an accident. Frank Quattrone had built the technology franchise at Credit Suisse — Netscape, Cisco, Amazon. A federal obstruction case, over an email telling colleagues to clean up their files, then cost him three years before it collapsed. In the spring of 2008 he hung out his own shingle, Qatalyst, in the same weeks Bear Stearns died.[105] In 2015 Paul Taubman closed the set, merging his one-man shop into Blackstone's advisory arm and floating it as PJT Partners after three decades at Morgan Stanley.[106,107]

The economics followed them out the door. By 2016 the independent advisory firms had taken roughly thirteen percent of the global merger fee pool, up from a rounding error, and the share kept climbing.[108] Centerview, still private, advised on some of the largest deals in the market with a few dozen senior partners and no trading desk at all.[109] The boutiques that did go public reported the tell in plain numbers. They paid out between sixty-three and eighty-four percent of their revenue to the people who did the work.[110,111] That was not a modern pay scheme. It was the old partnership split, in which the firm was a pipe through which the partners' earnings flowed, rebuilt inside a corporate shell. Where judgment beat capital, the corporation had learned to imitate the partnership it replaced.

Two features made the model work, and both are the partnership's oldest. The boutiques raised almost no permanent capital, because advice needs none; a mandate is won with a reputation and closed with a memo, not a balance sheet. And their independence, once a mere preference, became a product in 2008, when every integrated bank was found to be trading for its own account against the clients it advised. What a boutique sold was one senior person's judgment, priced by nothing but reputation and owned by no one but the person who carried it in his head. That is also a fair description of what a law firm sells, and a first clue to why its partnerships have outlived Wall Street's.

What was taking shape was a barbell. At one end stood the scaled, capital-heavy platforms, the bank holding companies that clear and lend and warehouse and answer to the Fed. At the other stood the talent partnerships, small, rich, and owned by the people inside them. The middle had been the freestanding public investment bank that tried to be both a balance sheet and a brain trust. The middle was the thing that blew up. The two ends held because each matched its form to its product: capital where the work was codified, partnership where it was not.

The banking case was complete now, and it had left a ledger anyone could read. The partners who converted kept the windfall. Gutfreund's sixty-two in 1981 and Goldman's partners in 1999 cashed the capitalized value of every prior generation's restraint. The shareholders who bought in absorbed the losses of 2008. The taxpayers behind them backstopped what the shareholders could not. And the juniors inherited a bargain no one had asked them to approve. The analyst program that had once been an apprenticeship toward partnership became a production line, with high turnover and no partnership at the end of it. The tournament had been cancelled for everyone who had not yet won it, and no one put that to a vote. Every party to the old promise had been paid or billed, except the one that made the promise. That one no longer existed.

It had run all the way through now, in one profession and in order, ending where capital had never been the point: the boutiques that grew back. The accountants were three states over and thirty years behind, running the same sequence without knowing they were in it. Their version would move faster.

And it would end somewhere the bankers never had to go — a courtroom in Chicago, with the firm itself in the dock.

CHAPTER NINE

Eight into Five

Ray Groves and William Gladstone had been friends for years, and they wanted the reporters to hear that part first. It was Friday, May 19, 1989, and the two men stood together in New York to announce that their firms were becoming one. Groves ran Ernst & Whinney, the fourth-largest accounting firm in the country. Gladstone ran Arthur Young, the sixth. Combined, they would be Ernst & Young, seventy thousand people with offices in a hundred countries, and at a stroke the largest accounting and consulting firm on earth. The number that made it so was the revenue: $4.3 billion a year.[112] Half the revenue and a third of the staff were American; the rest was the reason for the deal, spread across the world in the places their clients had gone.[112]

A reporter wanted to know how a deal that size had come together. Groves waved off the drama. It "wasn't a bolt of lightning, it was an evolutionary thing," he said. He and Gladstone were old friends who met often; the serious talks had started only the month before, in April, but the idea had been circling for years.[112] The two firms fit like puzzle pieces, Gladstone said. Ernst & Whinney was strong in banking and the industrial Midwest; Arthur Young was strong on the coasts and in the securities business. Put the two together and, in his words, they made "a real powerhouse in financial services."[112,113] What he did not dwell on was that the firms ran themselves differently, one centralized and one loose. Puzzle pieces that fit on a map do not always fit in a partnership meeting.

Both men were careful, from the podium onward, to call it a combination of equals. The phrase would matter later, when the arithmetic behind it leaked out.

Then came the part that made it a partnership story and not a corporate one. The deal was not final. It needed the approval of 2,105 partners across the two firms, a vote Gladstone expected in the third week of June. He was not worried. "We don't anticipate any problems," he said.[112] The money and the ballots sat on the table in the same breath: to become the biggest firm in the world, several thousand individual owners each had to raise a hand. They would raise them. The partners ratified the merger that June, on schedule, and the new firm opened for business in the fall.[112,114]

The people paid to interpret the announcement understood immediately that it would not be the last. Scott Cowen, dean of the business school at Case Western Reserve, told the room the obvious thing out loud. "Mergers have been going on," he said, "but I suspect this will escalate the trend so you may see a Big Three or Big Four eventually."[112] A former Arthur Young man turned industry commentator predicted the deal would force every rival left standing to find a partner of its own.[112] The one skeptic quoted was Rick Murray, an executive at Touche Ross. He doubted more consolidation was inevitable, even as he conceded "a kind of economic imperative to consolidate in accounting as in other industries."[112] Seven weeks later his own firm would announce a merger.

What was not in the room mattered as much as what was. No investment banker stood at the podium. No block of shares was being sold to the public, no outside investor was buying a piece of the new firm, no exchange had to bless anything. Two partnerships were folding into a larger partnership, owned start to finish by the people doing the work. Wall Street, facing the same pressures a generation earlier, had answered them by breaking its ownership rule and letting outside capital in. The accountants had found a different door, and on that Friday in May they were walking through it in plain sight.

9.1 The First to Move

The wave did not start in New York. It started two years earlier, in Amsterdam. On January 1, 1987, Peat Marwick Mitchell, the American giant, completed its merger with the multinational network KMG Main Hurdman to form KPMG. The combined firm had roughly $2.7 billion in revenue and its international headquarters in the Netherlands.[115,116] It was the first of the ***Big Eight***, the eight firms that had audited nearly every large public company in America since the war, to take a partner from among its own.

Getting there had taken years of circling. These firms did not merge the way corporations do, with a board vote and a press release. They courted, balked, and walked away. Peat Marwick and KMG had opened talks once already, in early 1985, and abandoned them that September over what the lawyers called structuring problems and everyone else understood as cold feet.[117] Others had tried the same before them and been killed off by their own partners.[117] A partnership has no one who can sign for all of it. Every partner has a vote, a corner office, and a reason to think the deal undervalues him.

Growth by absorption was nothing new to these firms; growth by absorption of each other was. Haskins & Sells alone had taken in nineteen local practices between 1952 and 1960, opening offices from San Juan to Honolulu as it went.[117] But swallowing a two-partner shop in a new city was a different act from merging two of the eight names that ran the profession, and the firms knew it. What changed in the late 1980s was not their appetite for mergers. It was the size of the meal.

The name on the new door carried more history than most of the people walking through it knew. The "G" in KPMG was Reinhard Goerdeler, the German accountant who had built the KMG network and served as its first chief executive.[118] He was the son of Carl Friedrich Goerdeler, the anti-Nazi mayor of Leipzig who was executed for his part in the July 1944 plot to kill Hitler. Reinhard himself had been imprisoned at Dachau and, in the last weeks of the war, marched south to the Tyrol, where American troops freed him in May 1945.[118] Four decades later his initial rode on the letterhead of one of the largest firms in the world. The men who built these partnerships had lived inside the century, not above it.

The reasons to merge were the same list that would reappear in every case in this book, and they had almost nothing to do with the back-office machinery that had broken Wall Street. Multinational clients wanted a single firm that could audit them in every country they operated in, and a firm that could not follow the client abroad lost the account at home. Fee pressure had arrived when the profession's old bans on advertising and competitive bidding fell in the late 1970s, and audits that had once been priced by convention were now priced by whoever bid lowest. Litigation exposure was climbing, and a bigger partnership spread the risk of a single ruinous judgment across more shoulders. Above all, the firms were racing to build the technology and consulting practices where the growth now lived, and those were expensive.[114,119] Scale answered all of it. And scale, unlike the permanent industrial capital that Wall Street had needed for its computers, could be assembled without ever asking an outsider for a dime. Two partnerships became one.

9.2 Nineteen Eighty-Nine

The year the Big Eight became the Big Six ran on the calendar like a countdown. Each survivor carried two old firms under one hyphenated name; the full lineage reads more easily as a family tree than a paragraph (Figure 9.1). Ernst & Whinney and Arthur Young announced in May. On July 7, Deloitte Haskins & Sells agreed to merge with Touche Ross, the deal Murray had doubted was coming.[117] It was the odd couple of the profession. Deloitte's culture was described, not kindly, as slow and steady, even creaky; Touche Ross was the Big Eight's self-styled maverick, its least stuffy member.[120] J. Michael Cook, who had run Deloitte since 1986, and Edward Kangas of Touche Ross put the two together into Deloitte & Touche, and this pairing, at least, was honest about being equal. When the numbers later came out, Touche Ross partners had earned about $245,000 the prior year and Deloitte partners about $241,000, near enough to parity that neither side could claim it had rescued the other.[117] Touche Ross brought Chrysler, Sears, and Macy's to the table, along with a Japanese affiliation that gave the merged firm the tail of its full name, Deloitte & Touche Tohmatsu.[120]

The Ernst & Young numbers told a different story, and someone made sure the world saw them. For a year the merged firm's executives had sold the combination publicly as a combination of equals. Then, early in 1990, a copy of the confidential merger prospectus arrived in a plain envelope at the trade paper *Accounting Today*. Its reporter ran the figures. Ernst & Whinney partners had cleared about $263,000 apiece the year of the merger; Arthur Young partners had cleared $191,000.[117] The gap said what the public relations campaign had worked to hide. This was not a meeting of peers. It was the stronger firm absorbing the weaker one, dressed in the language of partnership so that the losing side could keep its dignity and its name on the wall.

The merged firms discovered fast that getting bigger meant giving things up. Ernst & Whinney had audited Coca-Cola since 1924, an account worth something like $14 million a year. Arthur Young had audited PepsiCo since 1965. A single firm could not sign the books of both Coke and Pepsi; independence rules and plain client politics made it impossible. So the new Ernst & Young dropped PepsiCo and kept Coca-Cola.[113] The whole chapter sat in that teacup. Growth by merger meant pruning the client list, and when two accounts collided, the older and larger one won.

Some of these talks led nowhere. The same July day that Deloitte and Touche Ross agreed to merge, the *Wall Street Journal* reported that Price Waterhouse and Arthur Andersen were in formal talks toward a firm of roughly $5 billion.[117] It would have been the largest of them all. It collapsed by late September, wrecked on exactly the differences that scale could not paper over. Andersen sold audit and consulting together with an aggressiveness that Price Waterhouse, which cultivated an image as the conservative auditor of blue-chip companies, found distasteful. The two firms also held conflicting work for rival clients that a merger would have forced one of them to drop.[114,117] Andersen would stay out of the merger wave altogether and grow on its own, a choice that looked like discipline for a decade and then like something else. When the eight had finished sorting themselves in the fall of 1989, six firms remained, and the two mergers that closed both began operating under their new names on October 1.[112,121]

9.3 And Then There Were Five

For eight years the number held at six, and the profession told itself the consolidation was over. It was not. It had only paused to let the audit business finish going flat and the consulting business finish getting large. When the wave resumed in 1997 it moved with none of the earlier hesitation.

The pause is worth sitting with, because it exposes what the 1989 mergers had and had not bought. Fewer firms should have meant more pricing power. It did not. The economist Mary Sullivan, studying the effect of the 1989 mergers, found that audit fees actually declined through the mid-1990s. The Government Accountability Office later reached the same conclusion: consolidation left audit prices flat or slightly lower, not higher.[114,122] The firms had made themselves enormous and no more profitable at their core work. Audit was settling into what it would remain: a mature, regulated, price-competitive annuity, respectable but slow. The growth the partners wanted was going to have to come from somewhere else, and the merged firms knew where they were already looking.

On September 18, 1997, Price Waterhouse and Coopers & Lybrand announced, after a summer of tight secrecy, that they would merge into a single firm, PricewaterhouseCoopers, with combined fees near $12 billion.[123,124] The number was the point. It vaulted the new firm past Arthur Andersen, which stood at about $9.5 billion, into first place worldwide.[123] Nicholas Moore of Coopers would chair the combined firm. He gave the reason in the flat vocabulary of the era: together the two would have "the global reach, the global strength, and the integrated management structure to meet the future challenges."[124] James Schiro of Price Waterhouse would run it as chief executive. Between them the firms counted around 8,500 partners and something like 130,000 people.[125]

The move forced a countermove within weeks. In October 1997, Ernst & Young and KPMG announced their own plan to combine, an $18.1 billion firm to be headquartered, like KPMG before it, in Amsterdam.[114,126] Stephen Butler, KPMG's American chairman, was to run its United States operation and told anyone who asked that the merged firm could grow 30 percent a year against roughly 20 percent apart.[126] This time the scale was too much for the regulators. European Commissioner Karel Van Miert opened an extended antitrust review, and authorities in the United States, Japan, Australia, Canada, and Switzerland began circling the same deal.[126,127]

On February 13 and 14, 1998, Ernst & Young and KPMG walked away from each other. Butler stood down alongside KPMG's worldwide chairman Colin Sharman; on the other side, Ernst & Young's chief executive Michael Henning and its American head Philip Laskawy did the same.[126] The joint statement was drained of all feeling: the regulatory review "would have taken many months, incurring considerable costs and potentially considerable disruption to client service."[126] One Ernst & Young partner put it the way people talk when the lawyers are not listening. The "regulatory thing," he said, "was turning into a complete nightmare ... a lot of time, a lot of money and a lot of blood, sweat and tears."[126]

It was the May 1989 press conference run backward. The same promise of scale, the same careful pairing of named partners at the top, the same Amsterdam address — and this time the room emptied with nothing signed. What had stopped the deal was worth noticing. It was not a partner revolt or a failure of nerve. It was the state. In 1989 the only thing that could kill an accounting merger was the partners' own hesitation. By 1998 the firms had grown large enough that antitrust regulators on three continents had become the ceiling on how big a partnership could get. Price Waterhouse and Coopers & Lybrand completed their merger on July 1, 1998, and the profession settled at five.[124,128] The Big Eight of the war years were now the Big Five, and everyone in the business understood the arithmetic had one more step in it, though nobody yet knew what would force it.

* * *

Set the accounting story beside the banking one and the rhyme is exact until the last beat, where it breaks. Both professions had built their firms as partnerships on the same three legs, and both ran into the same wall of the modern economy. Clients had gone global and national. The work demanded more capital and more scale than any partnership could comfortably raise. And a generation of owners could read the pressure on the balance sheet. Wall Street's answer had been to breach the oldest rule it had and sell the firm to the public. Donaldson, Lufkin & Jenrette walked up to the exchange and put its shares on the market, and within three decades every great partnership on the Street had followed it out the door.

The accountants faced the identical squeeze and reached for a different handle. They did not sell to outsiders. They married one another. Eight partnerships became five, and every one of the survivors was still a partnership, still owned by the people signing the audits, the ownership wall that banking had knocked down left standing untouched. The partners who happened to hold the equity

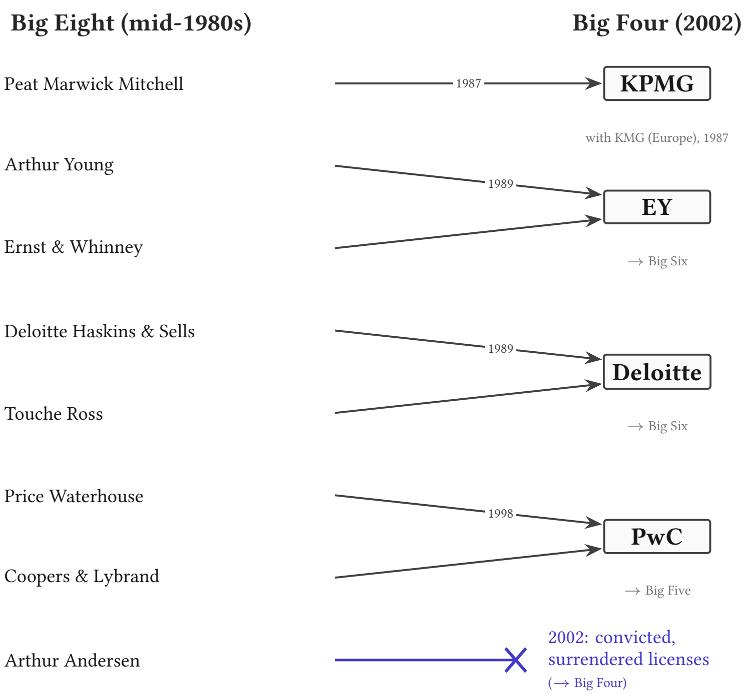

Figure 9.1: How eight firms became four: the merger lineage, 1987–1998, and the one line that ends rather than merges.

when the music slowed kept the firm in the old form, and took real pride in it. It looked like the more principled path, and the firms said so. It was mostly a matter of timing. Merger bought scale without surrendering the form, which meant it answered the symptom and deferred the disease. The hunger for growth that had driven the whole consolidation did not go away when the letterheads combined. Audit had gone slow and respectable and flat. The money the partners actually wanted was made next door, in the consulting practice they had quietly built on top of the audit franchise the entire time they were merging. The partners who ran the merged firms would draw their careers to a close inside a partnership, the way their mentors had. The ones coming up behind them would not be so sure of the ground. The reckoning Wall Street had met at the ownership rule, the accountants would meet somewhere else. It was waiting in the engine they kept in the basement.

CHAPTER TEN

The Engine in the Basement

In August 2000, a single arbitrator dissolved one of the largest professional-services organizations in the world. His name was Guillermo Gamba, a lawyer appointed by the International Chamber of Commerce to settle a private war inside a firm the public knew as Andersen. For eleven years the name had covered three different things. Andersen Worldwide was the umbrella: a holding cooperative that bound the other two together and owned little else. Beneath it sat two operating businesses. Arthur Andersen was the audit firm, the one that signed the books of public companies. Andersen Consulting sold those same companies computer systems and advice, and had grown into the biggest firm of its kind on earth. The consultants wanted out. In December 1997 they had filed for arbitration to be released from the agreements that bound them to the auditors, and above all from a formula that could have cost them a fortune to leave.

Gamba's award was close to total. He found that Andersen Worldwide had failed to run the two units as the 1989 agreements required, so the consultants could walk. Arthur Andersen had claimed the formula entitled it to more than $14 billion. It got roughly $1 billion, released from escrow, real money that read as a rounding error against what it had sought.[129] Joe Forehand, the chief executive of Andersen Consulting, did not hedge. "This is a total win for Andersen Consulting," he said. "We won. It's over."[129] Jim Wadia had run Andersen Worldwide and built the losing side of the case. His whole aim, he said in the flat voice of a man who had just lost, had been "to prove that Andersen Consulting shouldn't be allowed to go for free."[129]

There was one more term, and it was the one that stung. The consultants had won their freedom, but they had to surrender the name. By December 31, 2000, Andersen Consulting would have to stop calling itself Andersen at all.[130]

The case had taken almost three years to decide and a single document to end. An eleven-year marriage between the world's largest auditor and the world's largest consultancy came apart on the ruling of one arbitrator, a man who had never worked a day at either firm. The marriage had bound together a holding company spread across scores of countries and tens of thousands of people. The consultants had gone into the fight to escape a payment formula. They came out of it forced to reprint every business card they owned.

The executive who had built the business worth fighting over was not at Forehand's side. George Shaheen had run Andersen Consulting since 1989 and lifted its revenue from $1.1 billion to $8.3 billion, and it was Shaheen who authorized the 1997 filing that started the whole case. He had left. In September 1999, with the arbitration still unresolved, he quit to run an online grocery startup called Webvan. He missed the ruling, missed the new name, and missed the stock-market windfall that came after, while Webvan itself slid toward the bankruptcy it reached in 2001.[131] The man who read the economics first and said aloud that the consultants should be free was gone before the freedom arrived.

10.1 The Engine in the Basement

To see why a consulting firm would spend three years in arbitration to escape a group of auditors, you have to see what the auditors had become, and what had grown up in their basement.

Audit is a strange business to own. A public company must, by law, hire an outside firm to attest that its accounts are honest, which hands the auditors a guaranteed client and a guaranteed fee. The same law caps them. It is a regulated annuity, respectable and slow, and it does not grow much faster than the economy it measures. In 1977 audit and attest work was roughly 70 percent of a major firm's revenue.[132] The rest was tax and a small line the firms called management advisory services, which in 1975 averaged about 11 percent of Big Eight revenue.[114] The paying engine sat upstairs. Downstairs was a workbench.

Audit did not merely grow slowly. It grew cheaper. Through the 1980s the profession's old bans on advertising and on bidding against one another fell away. Firms that had once divided the great public companies by custom began to compete for them on price. When two of the industry's mergers collapsed the Big Eight toward the Big Five at the end of the decade, the savings flowed to the biggest clients, and fees drifted *down* through the mid-1990s.[122] The core product was turning into a commodity sold at a discount. A firm that wanted to grow had to sell its clients something other than the audit.

Then computers arrived in the corporate back office, and the workbench became a factory. The audit relationship was a standing invitation to sell. A firm that already knew a client's books and its clerks could offer that client a new

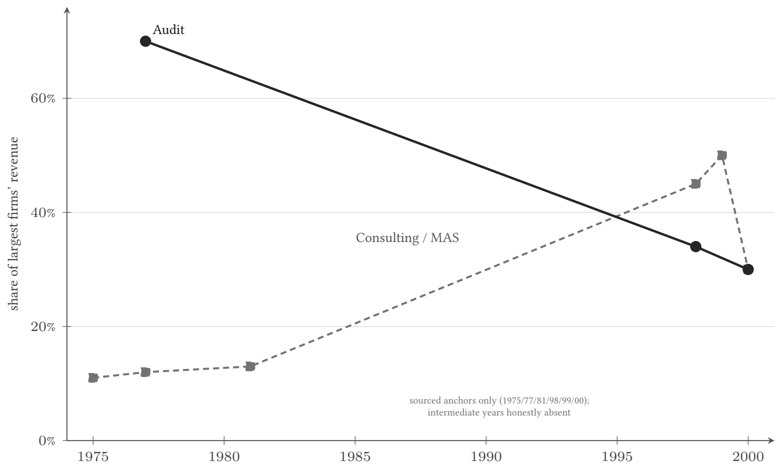

Figure 10.1: The engine takes over: audit and consulting as shares of the large firms' fee revenue, 1975–2000, at the sourced anchor years. The lines cross in the mid-1990s.

accounting system, and the small army of consultants who installed it. Inside a decade the audit that had opened the door was the smaller business in the room, and everyone at Andersen knew it. Arthur Andersen ran furthest with the idea. In 1989 it formalized its consulting arm as a separate business unit, Andersen Consulting, under Shaheen, and by the late 1990s the unit had no equal in its field.[114] The consultants paid up to 15 percent of their profits back to the Worldwide organization every year, a tithe that would become the thing they went to war to escape.

Then the numbers crossed. By 1998 management consulting averaged 45 percent of the Big Five's revenue, and at some firms it reached 70.[114] Audit, which had been 70 percent of the business in 1977, was down to 34 percent by 1998 and about 30 by 2000.[132] By 1999 the American consulting arms of the Big Five reportedly booked more than $15 billion.[133] The annuity still paid the rent, but the ambition and the money had moved downstairs. A firm of auditors had become a consulting business with an audit department attached.

The two halves had never much liked each other. The auditors thought of themselves as a profession with a duty to the public and a signature that was supposed to mean something. The consultants thought of themselves as a business, and a larger one every year, resentful of a governance that let slower-growing partners outvote them and take a cut of their profits. One side sold trust; the other sold change. By the late 1990s they shared little beyond a name and a running argument over money, and the name was the only asset either side truly could not divide.

That created a problem the firms preferred not to name. An auditor's entire value is independence, the willingness to tell a client its numbers are wrong. But when the same firm earns more selling that client software and advice than it earns checking the client's books, the auditor acquires a reason not to make trouble. The watchdog is on the payroll of the thing it is meant to watch. For most of the 1990s nobody with power said so in public.

The consultants had a mirror-image grievance, and they felt it every year. Andersen Consulting owed its tithe to a parent whose principal asset was an audit franchise, and that franchise kept telling the consultants where they could not go. A firm cannot sell lucrative advisory work to a company it audits without inviting exactly the suspicion Levitt would later name. So every corporation Arthur Andersen audited was one its consultants had to keep at arm's length. They were paying 15 percent of their profits to a partner that also fenced off part of their market. By the middle of the 1990s the fastest-growing consultancy on earth had reached a private conclusion: its own name was holding it back.

10.2 Levitt Names It

Then someone did. On September 28, 1998, Arthur Levitt, chairman of the Securities and Exchange Commission, stood up at New York University and said it out loud. His speech was called "The Numbers Game," and on its face it was about earnings management, the tricks companies use to hit Wall Street's quarterly targets. Underneath was the auditors' conflict.

Levitt opened with the disease. "Increasingly, I have become concerned that the motivation to meet Wall Street earnings expectations may be overriding common sense business practices," he said. Too many managers and auditors, he warned, were "participants in a game of nods and winks." The result was "an erosion in the quality of earnings, and therefore, the quality of financial reporting."[134] Then the line the newspapers ran the next morning: "Managing may be giving way to manipulation; integrity may be losing out to illusion."[134]

He put the auditor's dilemma in a single sentence. In the part of the speech he headed "Accounting Hocus-Pocus," Levitt described the pressure directly: "Auditors, who want to retain their clients, are under pressure not to stand in the way."[134] The watchdog now had a mortgage.

An audit exists for a person who will never meet the auditor: the outside investor who buys a share on the strength of numbers he has no way to check himself. The whole apparatus rests on his belief that someone independent has already looked. Levitt's fear was plain. If the checker's largest paycheck came from keeping the client pleased, the belief was hollow, and the investor would be the last to find out.

The speech opened a two-year campaign. With chief accountant Lynn Turner and general counsel Harvey Goldschmid beside him, Levitt moved in 2000 to bar accounting firms from selling consulting and systems work to the companies they audited.[133] The aim was the one the speech implied: cut the financial reason an auditor has to go quiet.

The profession fought as though its life were at stake, because a good part of its income was. The consulting income the rule would police was the fastest-growing money in the profession, and none of the firms meant to surrender it on a chairman's say-so. Three of the Big Five opposed the rule in public. The firms and their allies worked Congress, which held hearings and let it be known that the SEC's own budget might suffer for the chairman's ambition.[133] What emerged in November 2000, a rule numbered Release 33-7919, was a shadow of what Levitt had asked for. It banned a handful of specific services, and mostly it required companies to disclose in their proxy statements how much they paid their auditor for the audit and how much for everything else.[133] Levitt had asked for a wall and been handed a line item.

The line item was worth more than it looked. He had lost the ban and won the disclosure. From 2001 on, a public company's annual proxy would carry two numbers set side by side: the fee it paid its auditor to audit, and the fee it paid the same firm for everything else. Where the second number towered over the first, any shareholder could read the incentive in a glance. The conflict that nobody with power had described for a decade was now a mandatory table in every filing, and the tables were about to be read with unusual care.

10.3 Four Ways Out

What regulation had only chipped at, the market finished. Within thirty months, four of the Big Five got rid of their consulting arms. Regulation had not forced the sales. The arms were worth more sold than kept, and the strain of auditing a company while advising it had become a liability the partners could turn into cash.

The timing was not an accident. For two years the stock market had paid extraordinary prices for any business that wired a corporation for the new economy, and a Big Five consulting arm was the biggest such prize a buyer could acquire in one purchase. A partnership that sold or floated its consultants in 2000 or

2001 was selling into the richest market those skills would ever see. The firms that read the moment moved fast, because the moment was closing.

Andersen went first and hardest, through Gamba's ruling. The new name arrived on a deadline. The arbitrator had given the consultants until the last day of 2000 to stop being Andersen, which left a firm operating in dozens of countries only months to choose an identity and repaint itself across all of them. On January 1, 2001, it relaunched as Accenture, a coined word the company said pointed to "the accent on the future."[130] Six months later it went public. On July 19, 2001, Accenture listed on the New York Stock Exchange at $14.50 a share and raised about $1.7 billion. It was one of the larger offerings in a dismal year for new listings, and it came almost exactly one year after the arbitrator had set it loose.[135,136]

The others left by sale and by flotation. Ernst & Young sold its consulting practice to the French firm Cap Gemini in 2000 for stock worth roughly $11 billion.[137] The partners took their price in Cap Gemini shares rather than cash, which tied their fortune to a technology stock at the very top of its value. KPMG chose the public market instead. It floated its consulting arm on Nasdaq in February 2001 at $18 a share, raising about $2 billion.[138] The business renamed itself BearingPoint, listed its own partners for the public to buy, and then dissolved in the next decade's wreckage, filing for bankruptcy in 2009.

PwC told the sharpest story, and it was about price. In 2000, at the top of the technology boom, PwC was reported to have talked with Hewlett-Packard about selling PwC Consulting for something near $17 billion before the talks collapsed. Two years later, in October 2002, PwC sold the same practice, around 30,000 consultants, to IBM for $3.47 billion.[139] Four-fifths of the value had evaporated in twenty-four months. The sellers who moved first had sold at the top; the ones who waited watched the number fall in real time.

One firm refused to sell. Deloitte announced a spin-off of its consulting practice in 2002, then cancelled it in March 2003, citing market conditions, and kept the engine in the basement running.[114] Its partners had made the opposite bet from everyone else: that a low-growth annuity and a high-growth consultancy were worth more lashed together than either was apart. Over the next two decades the one firm that never let its consultancy go rode it to the top of the industry. That was proof, if the others needed any, that the asset they had cashed out was the one worth holding.

* * *

By now the shape should be familiar. The consulting engine that had outgrown its audit host was cut loose and sold near the top of the market, while one holdout, Deloitte, kept exactly what the others rushed to sell. Wall Street had marked the same beats a generation earlier, in a different room, over a different asset.

Accounting ran the ownership question differently from Wall Street. The audit firms kept the partnership shell, and no member firm listed its own partners on an exchange the way Merrill Lynch had. The partners did not sell the firm the way the banks' had; they sold its fastest-growing limb and held on to the regulated annuity that remained. Flotation and sale turned partnership stakes into tradeable stock and cash, and the partners who happened to hold those stakes when the music stopped pocketed a payout the partnership form could never have handed them. George Shaheen, who had built the largest of those engines, had walked out the year before the payday and into a bankrupt grocery startup. The tournament kept score by timing, and the windfall went to whoever was standing on the equity when the price was struck.

Levitt had asked the right question and lost the vote on it. He wanted to cut the auditor's financial stake in staying quiet, and the firms and Congress handed him a disclosure table instead of a wall. The table would do more damage than the wall might have, though not in any way its authors intended. Within a year a company in Houston would file the largest bankruptcy in American history. Among the first documents investigators pulled was a proxy statement showing how much its auditor had earned from work that was not the audit.[140] The engine had been sold, or floated, or defended in every firm but one. Now the audit itself was about to be tested, and the firm whose name the consultants had been so eager to drop was about to learn why they had wanted it gone.

CHAPTER ELEVEN

Chicago, 2002

By the last week of October 2001, the audit team that Arthur Andersen kept inside Enron's downtown Houston campus had stopped auditing and started shredding.

Working papers went into the machines. E-mail and computer files were purged. Over the next two and a half weeks the Houston office destroyed more than a ton of Enron-related paper, all of it under the cover of a firm rule with a dull name: the ***document-retention policy***.[141]

The partner running the account was David Duncan. He had joined Andersen's Houston office in 1981, made partner in 1995, and by 2001 earned more than a million dollars a year as the lead engagement partner on Enron, with a seat on the firm's advisory council to prove it.[142] On October 23 he gathered the Enron audit managers and, by his own later testimony, directed them to bring the files into line with the retention policy. Everyone understood what that meant. The paper moved.

It moved in volume: boxes of working papers, deleted e-mail, purged computer files. Staff who had no role on the Enron account were pulled in to help feed the machines.[141] What had been a dull housekeeping rule became, over those weeks, a project with a deadline nobody would name out loud.

The timing was not innocent, and the government would build its case on it. Enron had announced a $618 million third-quarter loss on October 16 and, with it, a $1.2 billion cut to shareholders' equity as the off-balance-sheet partnerships its finance chief had built began to unwind.[140] On October 22 the Securities and Exchange Commission said publicly that it was looking into those partnerships.

The shredding started the next day.

Eleven days earlier, on October 12, an Andersen in-house lawyer in Chicago named Nancy Temple had sent the Houston team a short e-mail. It reminded them of the retention policy and suggested "it will be helpful to make sure that we have complied with the policy."[143] She did not write ***shred***. She did not write *destroy*. That distinction, between a reminder about a real policy and an order to obstruct a federal inquiry, would take three and a half years and the Supreme Court of the United States to settle. In Houston, in October, the paper went into the machines regardless.

The date the prosecutors cared about was November 8. That was the day the SEC served Andersen with a subpoena for its Enron records, and a subpoena turns document destruction into a crime.[141]

Within a day, Temple left Duncan a voicemail telling him to stop, and a November 10 memo confirmed the suspension. By then the shredders had run for more than two weeks. The single count that would eventually kill the firm covered exactly that window: the stretch between the moment Andersen knew enough to worry and the moment it was formally told to stop cleaning house.

Enron did not survive the fall. It restated four years of earnings and, on December 2, 2001, filed the largest corporate bankruptcy in American history to that point.[140] In January, Andersen disclosed the destruction and fired Duncan.

The firm's defense, from the first day, was simple: shredding routine working papers under a written policy is not a crime, and no one at Andersen destroyed anything after the subpoena arrived. As a matter of law, it was a respectable argument. As a matter of survival, it did not matter at all.

* * *

11.1 A Bond, and a Bond Can Be Called

To see why a memo about a shredder could end a global firm, you have to price what that firm actually sold. Andersen owned very little a bankruptcy court could auction. Its offices were leased, its inventory walked out the door every evening, and its one real asset was a reputation: the market's belief that when Andersen signed an audit opinion, the numbers underneath could be trusted. That kind of asset has a name in this book already. It is a bond in the old sense, a hostage a firm posts against its own honesty, worth something precisely because it is forfeited the moment the firm is caught cheating. Andersen had been posting that hostage since before the federal securities laws existed. By 2001 roughly 85,000 people worked under its name worldwide, about 28,000 of them in the United States.[140]

A bond has one terrible property. It can be called all at once. No manufacturer of comparable size could be destroyed by a single indictment; Boeing under indictment is still Boeing, its factories and order book intact. A firm whose only asset is credibility is a different animal. The day a jury calls it a felon, every opinion it has ever signed falls under suspicion, every client with an SEC filing must go find another auditor, and federal law bars the firm from doing the one thing it exists to do. The charge did not have to be upheld to be fatal. It only had to be filed.

None of it had been a surprise inside Enron. That August, a vice president named Sherron Watkins had written the chief executive, Kenneth Lay, a memo warning that the company might "implode in a wave of accounting scandals" over exactly the partnerships now coming undone.[144] Andersen had signed the audits that let those partnerships stand. When investigators came asking, the Enron files in Houston were not neutral paper. They were the record of what the firm's auditors had approved, and why they had approved it.

Andersen had earned about $52 million from Enron in 2000, and more of that came from consulting and other work than from the audit itself.[140] The figure is the whole scandal in miniature. The firm paid to check Enron's books was being paid, more richly, to help build the things the books were hiding. The conflict was not a secret Enron sprang on the world. Three years earlier Arthur Levitt's SEC had warned that audit firms selling rich advice to the companies they audited were compromising the one service investors actually paid them for,[134] and had forced those firms to disclose, in their proxy statements, how much of a fee bought the audit and how much bought everything else.[133] The rule changed little behavior. It revealed a great deal, and it put the arithmetic of the conflict on the public record just in time for someone to add up Andersen's Enron numbers.

When the Justice Department moved in March 2002, it indicted the firm itself, not Duncan, not Temple, not any single partner, but the partnership, on one count of obstruction of justice.[10] Prosecutors had made a bet they would defend for years: to put 85,000 livelihoods behind the conduct of one office.

Andersen's chief executive, Joseph Berardino, had held the top job for about a year. He offered to resign the day after the indictment, and the firm's partner board turned him down. Three weeks later, on March 26, 2002, he went anyway, saying he hoped to "clear the air" because "the innocent" were "being hurt" by the collapse.[145] The innocent were the point. In every conversion this book follows, someone is holding the equity when the music stops. Here the people holding it were clerks and junior auditors in Tokyo and Chicago and São Paulo, about to lose everything, most of whom had never heard of the Enron partnerships.

Duncan ran a different calculation. On April 9, 2002, he pleaded guilty to obstruction of justice and agreed to testify against the firm that had fired him.[146] On the stand he was the government's best witness and, quietly, its worst problem. He described calling the shredding off once the subpoena landed, telling his people "they needed to not follow the policy anymore," and he admitted that until the government came for him in early 2002 he "did not believe [he] had done anything wrong."[142] A man who did not think he was committing a crime while he committed it is either lying or evidence that the crime was not obvious. A jury would have to choose.

Before any of it reached a courtroom, it reached Congress. In January 2002 the House Energy and Commerce Committee called Andersen's people to Washington to explain the shredding. Duncan invoked his Fifth Amendment right and said nothing. So did Nancy Temple, whose October e-mail the members read aloud and circled back to for hours.[141] A firm that had spent the better part of a century vouching for other people's disclosures now sat in the witness chair and declined, on advice of counsel, to disclose. It was a bad look, and everyone present knew the audit business ran on how things looked.

11.2 Ten Days in Houston

The trial opened in May 2002 in the federal courthouse in Houston, before U.S. District Judge Melinda Harmon. The government's lead trial lawyer was Andrew Weissmann of the newly formed Enron Task Force. Andersen's defense belonged to Rusty Hardin, a Houston litigator who held forth on the courthouse steps each morning and clashed with Judge Harmon so often that she eventually ordered him to make his objections at sidebar.[147] No Andersen executive sat at the defense table. The defendant was a partnership.

The case turned on a single phrase in the obstruction statute: whether Andersen had "corruptly persuade[d]" its people to destroy documents. Weissmann won a jury instruction that allowed conviction even if Andersen's employees had not known they were breaking the law, even if they honestly believed the retention policy was a legitimate business rule.[148] The instruction is what made the case winnable. It is also what, three years on, made the verdict reversible. That was three years away, and no use to anyone in the courtroom.

Hardin's case was the one the firm had made since January. Every company keeps a document policy; following it is not a crime; and nothing was destroyed once the subpoena made destruction illegal. The trial ran six weeks. Weissmann's answer was that Andersen's people had reached for the policy precisely because they saw the subpoena coming, and that a lawful rule can be put to an unlawful use. It was a real argument, and it might have persuaded twelve people on its own. The instruction meant the prosecution never had to win it. The jurors could convict without ever deciding that anyone at Andersen knew the shredding was wrong.

The jury deliberated for seven days and told Judge Harmon they were deadlocked. She read them an *Allen charge*, the instruction that asks a hung jury to keep trying, and they went back for three more days.[148] On June 15, 2002, after ten days in all, they returned a single word on a single count: guilty. The verdict rested on a theory of the law under which a person could be convicted for shredding paper he sincerely thought he was entitled to shred.

Because the SEC cannot accept an audit from a convicted felon, that one word was a death sentence, carried out over ten weeks. On August 31, 2002, Andersen surrendered its licenses and stopped auditing public companies.[140] A partnership older than the SEC itself came apart in pieces. Grant Thornton took seven American offices, forty-three partners, and their staff; the consulting arm went to a firm called BearingPoint, the risk specialists to a new one called Protiviti, the tax partners into what is now Andersen Tax; the audit clients scattered among the four firms that were left.[149] Around the world, some 85,000 people lost the firm they worked for. Almost none of them had done anything.

The number is easy to write and hard to feel. Eighty-five thousand is a city. It was partners who had spent thirty years building a practice that was worthless by August, and second-year associates who had joined a global firm in the spring and were hunting for work by the fall, and clerks and schedulers and support staff on three continents whose employer had been convicted of a crime none of them had touched. The partnership's oldest promise was that the people who came up through it would one day inherit it. The people coming up inherited a liquidation.

The law caught up three years too late. On May 31, 2005, the Supreme Court reversed the conviction, nine votes to none, in an opinion by Chief Justice William Rehnquist.[148] The jury instructions, the Court held, had been drawn so loosely that they "simply failed to convey the requisite consciousness of wrongdoing." A firm could not be a felon for following a document policy its people believed was lawful.[150] The ruling was total, and it was worthless. There was no firm left to reinstate. The acquittal had arrived for a corpse.

11.3 The Reform

The reckoning produced a statute. On July 30, 2002, six weeks after the Houston verdict, President George W. Bush signed the Sarbanes-Oxley Act and called it "the most far-reaching reforms of American business practices since the time of Franklin Delano Roosevelt."[151] For accounting the law did one thing above all: it ended the profession's self-regulation, which had run since the 1930s.

Title I created the Public Company Accounting Oversight Board, the PCAOB, with authority to register audit firms, write the audit standards, inspect the work, and punish failures.[152] For seventy years the accountants had made and enforced their own rules through their professional institute. Now a federal board did it. The profession that audited everyone else would itself be audited.

Section 201 went straight at the conflict the $52 million had exposed. It barred an audit firm from selling nine kinds of other service to a company it audited: bookkeeping, systems design, internal-audit work, and, in a clause this book will return to, legal services.[152] Congress had decided that a firm checking a company's numbers could not also be that company's systems integrator or its lawyer. Section 202 let tax work continue if the audit committee approved it in advance. Section 404, whose internal-control audits would push audit fees up sharply from 2004 on, made the yearly audit both costlier and harder to dislodge.

For the auditors who outlived Andersen, the new order was a mixed inheritance. The yearly audit grew more valuable and less pleasant: mandatory, inspected, and priced at last like the compliance product it had become. The work that made accounting glamorous in the 1990s, the consulting and the systems and the advice, was now walled off from the largest clients by federal law. What the profession kept was the annuity. What it lost was the freedom to sell anything more lucrative to the companies it audited, and one of the founding firms whose names had defined the trade.

The reform meant to save investors from a too-cozy audit industry made that industry smaller. Andersen's death took the Big Five down to the Big Four, and its clients had nowhere else to go. By 2003 the four survivors audited more than 78 percent of American public companies and 99 percent of public-company sales.[114] The government had destroyed the fifth firm and then found it could not afford to lose a sixth. The four that remained were now too few to fail.

* * *

Set the Andersen years against the pattern. A profession built on a bond met a shock, a client's fraud running into a shredder running into a subpoena, and the bond was called. One firm forfeited the hostage it had posted, and because that hostage was the only thing it truly owned, the firm did not survive the forfeit. Wall Street's partnerships had sold themselves for capital, on their own timetable and at their own price. Andersen never got the chance to sell. It was seized.

The state that seized it wrote new rules, and the rules did what re-regulation usually does: they hardened the survivors. Self-regulation ended, concentration deepened, and the four firms left standing became load-bearing parts of the financial system, watched now by a board of their own. Buried in Section 201 was a line the third act of this book runs straight into. An auditor could no longer be its client's lawyer. The wall between accounting and law, which the accountants had spent the 1990s trying to pull down, was suddenly federal statute, and the profession next door would spend the following twenty years looking for ways around it.

Then the accountants did what a profession does after a reckoning. They went back to the business the reckoning had punished. Sarbanes-Oxley barred selling consulting to audit clients; it did not bar owning a consulting arm. As the non-compete clocks from the spin-offs wound down around the middle of the decade, the survivors began rebuilding, quietly, the very engines they had just been forced to sell. The bond had been called once, in full view, and a firm of 85,000 people had vanished in a single season. The market had been shown, as plainly as it is ever shown anything, what happens when the hostage is forfeited. It turned out not to be a lesson anyone chose to keep.

CHAPTER TWELVE

The Quiet Rebuild

On October 30, 2013, PwC announced that it was buying a consulting firm. The target was Booz & Company: roughly three thousand strategists in fifty-seven offices, the commercial half of the old Booz Allen Hamilton, cut loose in a 2008 Carlyle Group buyout. Eleven years earlier, PwC had sold its own consulting arm to IBM for $3.47 billion, part of a stampede out of consulting that four of the Big Five had joined between 2000 and 2002.[139] Now it was buying consulting back.

Dennis Nally, PwC's international chairman, framed the purchase in the flat register of the announcement. The combination, he said, would see PwC "lead the way in changing the landscape of the global consulting business."[153] Cesare Mainardi, who ran Booz & Company and would run what came next, matched him: joining PwC gave Booz's people "a bigger, broader, and better opportunity to connect strategy to impact."[153] The Booz partners voted to approve on December 23, and the deal closed the following spring. Because the terms barred the new entity from carrying the Booz name, the firm chose a different one. It called itself Strategy&—a name that reads like a sentence somebody forgot to finish.

The symmetry was almost too neat. PwC had sold PwC Consulting to IBM in October 2002. It announced the Booz purchase in October 2013, eleven years to the month later. The same partnership that had shed thirty thousand consultants to satisfy a post-Enron world was now paying to rebuild what it had dismantled. That timing was not an accident, and it was not a change of heart. It was the calendar doing what calendars do.

12.1 The Door Was Never Locked

Sarbanes-Oxley had not banned the Big Four from owning a consulting business. Section 201 barred them from selling nine categories of non-audit service ***to their own audit clients***.[152] A firm could still build the largest advisory practice on earth.

It could not sell that advice to the companies whose books it also signed. The wall ran between audit and consulting inside the client relationship, not around consulting itself.

The statute even drew the line finely within the firm. Section 202 left tax services permissible for audit clients, so long as the audit committee pre-approved them.[152] Consulting for an audit client was barred; tax for that same client was allowed with a signature. That distinction split the rebuild in two. Advisory had to be built back from outside the client base, loudly, by acquisition. Tax had never left it, and it commoditized quietly instead. Both were the same business at bottom, professional judgment sold by the hour, and both were about to be reshaped by forces the partners did not control.

So the exits of 2000 to 2002 were never the clean amputation they looked like. They were sales made under two pressures at once: a regulator asking hard questions about independence, and a consulting-valuation bubble that made the arms worth more outside the firm than in. Both pressures faded. The bubble popped, which is why PwC's consulting arm went to IBM in 2002[139] for a fraction of the $17 billion Hewlett-Packard had reportedly discussed two years earlier. And the divestiture deals had come with non-compete clauses that ran a fixed number of years. Around 2005 to 2007, those clauses began to expire.[154] The firms that had sold their consultancies were free to build new ones. So they did.

They rebuilt the fast way, by acquisition, and they shopped in the wreckage of the 2008 crisis. The starkest purchase belonged to Deloitte. On January 11, 2013, in a court-supervised sale in Wilmington, Deloitte bought the global strategy business of Monitor Group out of Chapter 11 bankruptcy. Monitor had been founded in 1983 by six people connected to Harvard Business School, among them Michael Porter, the man who had turned competitive strategy into an academic discipline. The 2008 crisis cut roughly a fifth of Monitor's staff and left it unable to carry its debt. Its US arm filed for Chapter 11 protection on November 7, 2012, and Deloitte carried the winning bid ten weeks later. The most credentialed strategy shop of its generation could not survive as an independent partnership, and it ended up inside an accounting network.[155] Jim Moffatt, who ran Deloitte Consulting, offered the acquirer's line: "Our ability to implement the advice we provide has always been a differentiator."[155] Bansi Nagji, Monitor's president, gave the seller's: the two firms were "an effective force with distinctive capabilities."[155] The combined practice, roughly eight thousand people across thirty countries, took the name Monitor Deloitte.[155] Porter's firm now sold its frameworks under an audit brand.

EY moved eighteen months later. On July 21, 2014, it announced the purchase of The Parthenon Group, a strategy boutique that two former Bain directors, Bill Achtmeyer and John Rutherford, had founded in 1991. Parthenon brought about

350 consultants and some $80 million in revenue into EY's transaction-advisory arm, run globally by Pip McCrostie. By 2018 the rebranded EY-Parthenon had grown past 1,400 consultants.[156] The detail worth keeping is not the price. It is the retention terms. All thirty-three Parthenon partners agreed to stay at least four years, on management-fee guarantees pitched above what a standard EY advisory partner earned.[156] EY was not buying headcount. It was buying the partners' willingness to remain partners of someone else, and it paid a premium to lock them in. "The merger with EY," Achtmeyer said, "gives us a really interesting opportunity that we couldn't have dreamed of doing by ourselves."[156]

Booz became Strategy& at PwC. Monitor became Monitor Deloitte. Parthenon became EY-Parthenon. Three of the profession's proudest independent strategy names, absorbed inside three years into the audit firms that a decade earlier had sworn off exactly this business.

The numbers behind the shopping spree are the chapter's spine, and they belong to one man's speech. In November 2014, Steven Harris of the Public Company Accounting Oversight Board stood up to warn his own profession about what it was rebuilding. Big Four non-audit revenue worldwide, advisory and tax together, had grown from $51 billion in 2009 to $65 billion in 2013.[132] That was $14 billion of growth in four years, and by the end of it non-audit work brought in 57 percent of the four firms' global revenue.[132] The growth was lopsided by design: advisory expanded at roughly 10 percent a year while audit crawled at about 4.[132] Harris put the comparison in terms no auditor could misread. Inside the American firms, he noted, advisory revenue had already passed audit's—39 percent of the US total against 36.[132] The franchise built on signing books was now the smaller half of the house.

Harris was not celebrating. He was raising the alarm that Arthur Levitt had raised in 1998, restated for a profession that had promised, on oath and in statute, to have learned its lesson. The conflict he described was the one that had entangled Andersen and Enron. An audit practice was tethered to a consulting practice that grew faster, paid better, and pulled the firm's center of gravity away from the signature that justified its license. The rules had changed. The economics had not.

12.2 The Quiet Commoditization

The audit-and-advisory story ran loud, in press releases and PCAOB speeches. Alongside it, in the same firms, ran a quieter version of the same machine. Tax had commoditized decades before advisory rebuilt, at retail scale, and it showed what commoditization does and does not destroy.

Begin in Kansas City, in 1955. Two brothers ran a small bookkeeping shop called United Business Company, started years earlier on a $5,000 loan. Henry Bloch had come home a decorated Army Air Forces navigator with thirty-two combat missions behind him; his younger brother Richard Bloch had run his own printing business as a boy. That year the Internal Revenue Service stopped preparing free tax returns for individuals in the city. The brothers saw the opening and placed a newspaper advertisement offering to do a return for five dollars. The office booked out within a day, and inside a few weeks the tax work grossed more than $20,000, close to a third of what the bookkeeping business had earned in years.[157] They respelled the family name so no one would mangle it, and H&R Block was born. A two-man storefront became a franchise system that now runs on the order of twelve thousand US offices and books more than $3.6 billion a year.[157] The volume business in individual tax had found its owner, and the owner was not a partnership of professionals. It was a brand over a strip-mall door.

Software commoditized the next layer up. In 1984, a San Diego programmer named Michael Chipman bought an IBM PC to file his own Form 1040 and disliked the experience enough to fix it. He wrote a program that asked the taxpayer questions and filled the boxes for them, so the user never had to read the form. The program became TurboTax. Chipman built his company, Chipsoft, from a one-man kitchen-table operation into a public firm of several hundred people, and ran it as chief executive until 1990. In September 1993, Intuit bought it for $225 million.[158] He left the industry at forty-five, the volume return already an app. TurboTax now processes tens of millions of American returns a year. Its maker spent two decades lobbying to keep the IRS from offering a free filing alternative, defending a compliance market that software had made cheap to serve and lucrative to own.[159]

Then the professionals' own tools got bought out from under them. Tax research was the library of rulings, regulations, and worked examples that a practitioner once mastered as craft, and it too consolidated into vendor infrastructure. Wolters Kluwer agreed in November 1995 to acquire Commerce Clearing House, a publisher with some $600 million in sales and more than five thousand employees, for roughly $1.9 billion.[160] CCH and Thomson Reuters became the two houses that sold nearly every large firm its tax-research engine. What a partner had once carried in his head, and charged for, now arrived as a subscription.

The commoditization did not stop at knowledge. It reached the calculation itself, and it lowered the cost of research to near zero for anyone with a license and a login. A younger accountant no longer earned a place by memorizing the code. The code sat on the same screen as everyone else's, updated nightly by a vendor, and the work that had justified the apprenticeship began to thin from the bottom up.

12.3 The Floor Moves Offshore

The last layer to commoditize was the labor itself. It happened not in a headline deal but in a spreadsheet of return counts crossing an ocean.

In 2002, a certified public accountant founded a company called SurePrep in Irvine, California, built to move the grunt work of tax preparation offshore. A US firm would scan a client's documents. Staff in India would key the data, draft the return, and send it back for a domestic professional to review and sign. In the 2003 season SurePrep processed about six thousand US returns and projected as many as thirty thousand for the next April; a competitor, Outsource Partners International, reported preparing roughly ten thousand.[161] They were not alone. By 2006, the research firm ValueNotes estimated that Indian vendors prepared roughly 360,000 US tax returns for about $40 million in revenue, at cost savings of 40 to 60 percent against domestic preparation.[161] The names in the trade coverage were back-office contractors most taxpayers would never hear of: SurePrep, Xpitax, Datamatics, working alongside the Big Four's own fast-growing offshore centers.

The workflow ran on the clock and the wage gap at once. A US firm scanned a client's shoebox of forms at the close of business. A preparer half a world east keyed the data and drafted the return overnight. A domestic professional reviewed and signed it the next morning. The signer's hours narrowed to the parts that carried legal weight, and everything mechanical had crossed an ocean and come back cheaper by more than half.

The professional societies fretted about ethics and disclosure. The economics did not wait for them. Preparing a straightforward return is a codifiable task, and a codifiable task migrates to whoever can perform it cheapest under adequate supervision. By the 2020s, offshore delivery had stopped being a scandal and become plumbing; the trade press wrote about it as routine infrastructure, a set of considerations to manage rather than a line to hold.[162] SurePrep's own arc closed the loop. It had run twenty years on almost no outside money, taking its first minority investment, from the private-equity firm Bregal Sagemount, only in 2019. Three years later, in 2022, Thomson Reuters bought the company for $500 million and folded it into the same tools duopoly that already sold firms their research.[163] The offshoring pioneer became a feature of the vendor's platform.

Here is the part the alarmists missed. None of it killed professional tax practice. The storefront took the simple returns, the software took the do-it-yourself filer, the vendors took the research, and the offshore centers took the keystrokes. What the firms kept was the work that resisted a script: planning, controversy, the structuring of a transaction, the judgment call under an ambiguous rule. Commoditizing the base of the pyramid did not eliminate the profession. It re-sorted who owned the volume business, and the owners of the volume business were rarely the incumbent partnerships. Tax stayed a quiet giant inside the Big Four, on the order of $45 billion in global revenue, carrying annuity economics and the steepest staffing pyramid in professional services.[164] The value had moved up the stack, out of reach of the storefront and the server and the offshore desk.

12.4 Bigger Than Before

The tax story is the advisory story with the clock run forward. Both begin with a partnership performing skilled work for a fee. Both meet a force that makes some large share of that work codifiable or cheaply reproducible. Both end with the codifiable share owned by someone other than the partnership, and the partnership's value claim pushed toward the judgment that resists the machine. Tax reached that end state in the 1990s. Advisory reached it in the 2010s. The direction was identical.

By the middle of the 2020s, the rebuild is complete, and it overshot the thing it rebuilt. In their 2024 fiscal years the Big Four booked more than $212 billion in combined global revenue.[164,165] Consulting and advisory, the business the firms had sworn off in 2002, again dwarfs the audit franchise that gave every one of them its name and its license. The US advisory line alone had climbed from about $11 billion in 2000 to roughly $40 billion by 2022.[166] Academics who studied the pattern concluded that the four firms had recreated, almost feature for feature, the conflicted structure that Enron and Andersen were supposed to have discredited for good.[154]

At the head of the pack stood the firm that never left. Deloitte's decision to cancel its own 2002 spin-off had looked, at the time, like a firm that missed its window while the others cashed out near the top. It aged into the shrewdest call in the profession. Deloitte rode the retained practice to the top of the industry, and in FY2024 it led the Big Four at $67.2 billion.[165] The lesson its rivals drew was not that consulting was dangerous. It was that consulting was the prize, and that shedding it under pressure had been the mistake to undo as fast as the non-competes allowed.

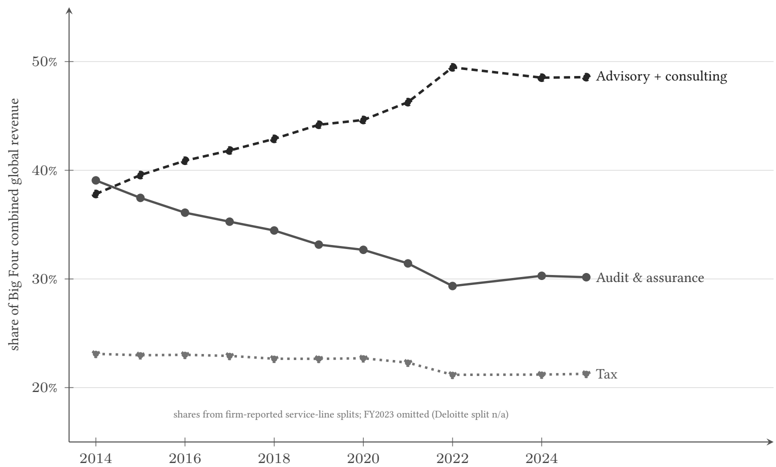

Figure 12.1: The rebuild, measured: shares of the Big Four's combined global revenue by service line, 2014–2025. Advisory and consulting passed audit within a decade of the divestitures' non-competes expiring.

The profession had now watched the sequence run twice: a rule imposed, a shock absorbed, a business rebuilt under different ownership than before. Tax had gone through it first, at retail scale, in the 1950s and after. Advisory went through it a generation later, at the level of the whole firm. Each time, the commoditized work found a cheaper owner and the partnership climbed toward the judgment a machine could not yet do. Each time, the regulator warned that the conflict had returned, and each time the money answered first.

So the cycle did not merely restart. It rebuilt bigger than before, inside the same partnerships, on the same audit franchise, against the same independence warnings, and the regulator's alarm from 2014 went unanswered because the revenue was too good to refuse. Which left one question the rebuild could not settle. A firm can buy a consultancy back when a non-compete lapses. It cannot list one on a public exchange, or sell half of itself to raise capital, so long as it stays a partnership. The four firms had proven they could rebuild the engine. They had not yet proven they could ever cash it out. That test was coming, and it had a name.

CHAPTER THIRTEEN

Everest

The note went out on a Tuesday. On April 11, 2023, EY's global executive committee sent every partner in the firm a message about the project that two years of work, and one chairman's whole legacy, had been staked on. Roughly thirteen thousand people opened it.[167] The important part ran two sentences.

> We have been informed that the US executive committee has decided not to move forward with the design of Project Everest. Given the strategic importance of the US member firm to Project Everest, we are stopping work on the project.
>
> — EY global executive committee, April 11, 2023

There had been no vote. That was the strange thing about the death of a plan whose entire premise was that the partners would vote. For half a year the firm had promised its owners a ballot on the largest restructuring in its history, and the ballot never came. What killed Everest was not thirteen thousand partners saying no. It was one committee, inside one member firm, declining to proceed. The global leadership could only report the decision and stop.

Two years of work reached the partners as news rather than as a question. Bankers had been hired, structures drawn, a new company named and a prospective chief executive chosen for it. Somewhere in the firm were partners who had already run the arithmetic on their own payout, because the whole point of the plan had been to turn the value of a partnership into a check. On the morning of April 11 the check was cancelled by people most of them would never meet. There was no floor motion to make, no count to demand, nothing to be for or against. A partnership had promised its members a decision and then discovered it did not have one to give.

The language around the two sentences was the language of a firm insisting it had not lost. Leadership called Everest a "challenging journey," said it had "listened to the views of the partners globally," and maintained that "the rationale behind the carve-out plan remains strong."[168] None of that was a retraction, and none of it was a plan. EY had spent about $600 million on the attempt, a figure the firm's own UK financial-services head, Anna Anthony, later confirmed to the *Financial Times*.[169] Six hundred million dollars, and the deliverable was a memo announcing that there would be no deal.

The next day the partner who had done the declining stepped forward with a consolation. Julie Boland, the head of EY's American member firm, had been slated to run the surviving audit partnership. Now she told US staff the firm would instead pursue an internal savings program aimed at roughly $500 million.[170] A firm that had been six months from a public offering worth tens of billions was now counting the coffee budget. The mountain had a name because someone had chosen a name that promised a summit. What EY reached instead was the point where a private partnership discovers it cannot make its largest constituent do anything at all.

* * *

13.1 The Mountain They Named

Six months earlier the plan had looked unstoppable. In September 2022 EY announced to partners across the world that they would vote on splitting the firm in two.[171] The audit practice would stay a partnership, provisionally called AssureCo. Everything else, the enormous consulting and advisory business, would become a public company, provisionally NewCo, with Carmine Di Sibio, the global chairman who had championed the split, positioned to run it. Leadership green-lit the design work within days. For a few weeks in the autumn of 2022, the largest carve-out in the history of professional services was a going concern.

The arithmetic was the seduction. The split was structured to raise about $30 billion in total: an initial public offering of roughly 15 percent of the consulting company, plus some $17 billion of new borrowing.[171] Audit partners would take their share as a cash multiple of annual income. Consulting partners would take stock in a newly listed corporation and wait for the market to price their work. It was the Goldman offer in a different profession, the same trade the bankers had made a generation before. Convert the accumulated value of a partnership into a number, and hand the number to whoever holds a seat on the day it clears.

A reader of the banking chapters will recognize the shape of it. Goldman's partners spent thirteen years arguing whether their firm was worth more owned or sold. When they finally sold in 1999, the value a century of restraint had compounded landed on the roughly two hundred people who held a partner's slice that morning. Everest offered EY's partners the same conversion, faster and by design: not a slow drift toward the public market but a single engineered leap onto it. The difference was the part that mattered. The bankers' trade had a buyer and a mechanism that worked. EY's had neither.

The reason for the trade was written into the law. Sarbanes-Oxley's Section 201 had barred an auditor from selling most consulting services to its own audit clients, and by the 2020s that rule had become a wall across EY's growth. The firm audited a large share of the world's biggest companies, and independence rules increasingly blocked its consultants from selling anything to those same companies. Splitting the firm would free the consultants to chase every client the auditors could not touch.[171] On paper the logic was clean. The consulting arm was the growth and the audit arm was the constraint, so separating them would let both run.

The firm that had to say yes, though, was not a firm. It was a federation. EY is a network of member firms, legally separate partnerships bound by a common brand and a shared governance, and each one guards its own interest. The cracks showed early. In September 2022 EY's Greater China firms announced they would not take part in the global break-up.[172] In October the Israeli member firm rejected the plan outright.[173] A public company can overrule a dissenting division: a board votes and the division complies. A network of partnerships has no such lever. Every member firm that walked away took a piece of the deal's coherence with it, and the leadership in London had no authority to stop them.

The rivals watched Everest go forward and confirmed the choice they had already made. When it collapsed, KPMG's global chairman, Bill Thomas, answered by planting a flag: the firm remained committed to its structure, and "we will not be changing our business model."[174] Across the Big Four, the multidisciplinary partnership that Everest proposed to take apart was the asset the others were most determined to keep.[168] EY's attempt did not read to its competitors as a warning against splitting. It read as a reminder of why they had declined to try.

13.2 The Arithmetic in the Basement

The wall Everest hit was not strategy. Its strategy was sound enough that every rival studied it. The real wall was the partnership's own capital structure. To see it you have to go down into the basement of the balance sheet, where a partnership keeps the promises it has made to the people who already left.

The economists Eugene Fama and Michael Jensen had named the constraint forty years earlier. A firm owned by the people who work in it, they argued, cannot easily raise outside equity, because the residual claim and the labor are bound together in the same partners.[24] The residual claim is the right to whatever profit is left once everyone else has been paid. Sell the claim to outsiders and the firm stops being that kind of firm. Di Sibio wanted to do exactly that with half the firm while keeping the other half a partnership. The arithmetic of how to pay for it ran straight into the wall Fama and Jensen had described.

A partner's claim on the firm outlives the career. At a firm like EY, retired partners are owed money for years, and those obligations are largely unfunded, paid out of the earnings of the partners still working. By early 2023 EY's retired American partners were owed something on the order of $7 billion, a sum the reporting described as, in effect, an unfunded pension plan.[175] That was the hidden debt nobody had put on a slide. The audit partnership that would survive the split, AssureCo, would have to carry a large piece of it, and its retired creditors noticed. As one of them put it, the retired partners were the largest creditors of the firm and meant to make sure their rights were protected.[175] A corporation finances a transformation by issuing equity to strangers. A partnership finances it against the incomes and the retirements of its own members, and those members get a say.

The retired partners could not even vote on Everest. Had the ballot come, it would have gone only to the working partners, not to the ones already drawing their pensions from the firm's future earnings.[175] Yet the people with no vote held the firmest grip on the outcome, because their claims sat ahead of everyone's, and a plan that could not satisfy them could not be financed. That is the strange geometry of a partnership. The creditors and the owners and the workforce are the same people at different stations of one career, and Everest had to pay all three at once out of a single pool of money.

Then there was the tax practice, and the tax practice was where the deal quietly came apart. Tax is the quiet giant inside the Big Four, an annuity-like business worth tens of billions and woven through both audit and consulting work. Dividing it meant deciding how much of the most valuable book each successor firm would keep, and the two sides could not agree. In early March 2023 Boland used a partner webcast to call for a pause, citing unresolved disagreement over the fate of the tax experts.[176] The pause was the tell. Months of infighting over how the tax practice would be split, and how much debt the audit firm could safely carry, had already hollowed the plan out from inside.[171] The fight was not academic. Tax partners were among the most profitable people in either successor firm, and both sides wanted them. AssureCo, stripped of consulting, needed a generous slice of the tax annuity to look solvent to the retirees and lenders who would be counting. The consulting company wanted the same partners to help sell the growth story to public investors. There was no neutral referee to divide the spoils, because in a partnership every referee is also a claimant. Julie Boland was the clearest example. She would run AssureCo, the very half that needed a fat slice of the tax book to survive, and she chaired the American committee that could stop the split cold.

What turned the impasse fatal was where the votes actually lived. EY's American member firm produced about 40 percent of the network's global revenue, and no split could proceed without it.[168] Di Sibio understood the arithmetic and tried to route around it. In late March he met Boland in Palo Alto to break the deadlock. Then he emailed the firm's roughly thirteen thousand partners to remind them of their formal right to vote, appealing over the American committee's head to the broader partnership.[175] It was a shrewd move and a doomed one. The right to vote meant nothing if the American committee declined to bring the design forward, and on April 11 it did. The partnership's great democratic instrument, the ballot the whole plan had been built around, was never printed.

The last piece of the trap was timing, and timing is where partnerships and markets keep different clocks. The whole deal penciled out only at the rich consulting valuations of 2021 and early 2022. When central banks began raising rates through 2022 and 2023, those valuations fell, and the number the consulting company could fetch in an offering fell with them. The firm had seen this movie before without recognizing the rerun. Two decades earlier, when the Big Five first shed their consulting arms, PwC had watched the price of its own consulting practice collapse mid-sale as the 2000–2002 market turned. Everest was the same failure of timing, arriving in a partnership that could not move fast enough to beat it. Had the deal gone forward, one estimate put the cost of executing it at around $2.5 billion, before bankers' fees.[169] The partnership would have had to raise that against itself, in a market that was closing, with a retirement debt it could not shed and a tax fight it could not settle. The plan did not fail because the partners lacked nerve. It failed because the structure had no way to finance its own escape.

13.3 What $600 Million Bought

The bill came due in the ordinary currency of large organizations: departures, a new slogan, and interest. Di Sibio, who had staked his chairmanship on the split, announced his retirement in June 2023, a year ahead of his extended term and timed to the firm's mandatory retirement age of 60. EY insisted the exit had nothing to do with Everest's collapse.[177] Few outside the firm believed the timing was a coincidence. The mergers-and-acquisitions lawyer Mathieu Shapiro read the retirement as a signal that the real conversation had moved on. What was happening behind the scenes, he guessed, was "extensive conversation about what they're doing instead of Everest."[178]

What they did instead was reverse the argument entirely. In November 2023 EY named Janet Truncale, a three-decade veteran of the firm, as Di Sibio's successor, the first woman to lead a Big Four firm.[179] Her strategy carried a name as pointed as Everest's had been: "All in." Where the split had proposed to pull the consultants and the auditors apart, Truncale's slogan promised to keep the firm's several hundred thousand people combining their disciplines under one roof. The plan that had been the firm's future in September 2022 was, by late 2023, the thing the firm defined itself against.

Down in the ranks the failure arrived as thrift. Within weeks the American firm was preaching billable discipline. Steve Payne, an EY Americas leader, told partners the firm needed "to do a much better job … in billing every hour we can get our hands on."[180] The global network arranged to borrow around $300 million to reimburse the US and UK member firms for what the abandoned project had cost them.[180] Accountability found a face as well: Andy Baldwin, the global managing partner most associated with the effort, was passed over in the succession that chose Truncale.[179] The partners who had climbed toward the summit came down carrying the weight of it, while the draws of the partnership as a whole were kept whole.

The money left a longer shadow than the strategy. To protect partner distributions through the wind-down, EY arranged a credit facility of about $700 million, borrowing to pay its own members for a deal it had abandoned. The debt outlasted the promises made about it. At the close of the 2024 financial year, some $270 million was still outstanding, and the firm did not clear the balance until October 2024.[181] The carrying cost showed up in a single line that told the story better than any strategy memo: interest on the Everest-related borrowing came to about $74 million, more than double the prior year.[181] That was the price of a plan that produced nothing. Not the $600 million of advisers and diverted partner hours only, but the slow drip of interest on money borrowed so the partners would not have to feel the loss in their own draws.

* * *

Set Everest beside the other exits in this book and its shape becomes plain. The Wall Street partnerships converted because they were capital-hungry and someone would buy them. The accounting mid-market, as the next chapter shows, sold because it was small enough for private equity to swallow whole. EY could do neither. It was too large for any buyer, and too bound to the partnership form to list itself the way a corporation would. So it tried to engineer its own conversion from the inside, and the structure refused. A partnership cannot issue equity to strangers, so it must finance change against its own partners' incomes and retirements. Its members hold vetoes no corporate board would grant a division. Its hidden debts to the departed sit in the basement, waiting. Everest is the control case for everything the rest of these chapters describe. Apply the same capital pressure that converted the banks and sold the accountants to a firm that could not be bought and could not be floated, and the result is not a transformation. It is a memo, a slogan, and $74 million of interest on a loan the partners took out to spare themselves the news.

The firms that could be bought were already being bought. While EY spent its $600 million learning that a partnership cannot self-fund its own escape, the capital it could not reach sat three tiers down the profession. It was already writing checks to the firms small enough to say yes.

CHAPTER FOURTEEN

The Private-Equity Wave

On 7 January 2025, a New York accounting firm changes hands from one private equity owner to another, and for the first time in the profession's history the seller is not a partner. Citrin Cooperman Advisors announces a definitive agreement: funds managed by Blackstone will buy the firm's stake from New Mountain Capital, which had held it for barely three years.[182] Accounting Today reaches for the word the deal has lacked. It calls this the first "turn" in American accounting: a firm passing from one financial sponsor to the next, the way any portfolio company does.[183] The partners at Citrin Cooperman are along for the ride. They no longer own the thing being sold.

The dealmaker in the middle has been here before. Allan Koltin, a Chicago consultant, advised New Mountain when it bought into Citrin Cooperman in 2021. Now he advises both New Mountain and Citrin Cooperman on the sale to Blackstone, standing on both ends of the same handshake.[183] His verdict runs in the trade press the day the agreement is signed. "For many in the profession, the biggest question was whether something like this could ever happen," he says. "Kudos to Citrin Cooperman, New Mountain Capital and Blackstone on making history today."[183]

What the history is worth, no one on the record will say. The Blackstone release and Accounting Today's account of it both note that terms were not disclosed. That is the rule of this wave. The partners cash out, and the price is the one thing no announcement names. Trade estimates fill the silence. Reporting around the deal puts the firm near $2 billion, about fifteen times earnings — fifteen dollars of price for every dollar of yearly profit. Revenue had grown from something like $350 million to $850 million in three years under New Mountain.[12] None of those figures appears in a company document. All of them describe the same fact. A mid-market accounting firm, bought and sold like inventory, had roughly doubled in size and value in thirty-six months. The people who built it were not the ones collecting the difference. By the time of the flip, Citrin Cooperman has more than 450 partners and some 2,800 professionals, and has just been ranked the eighteenth-largest firm in the country.[182] It is a serious accounting business. It has become a tradable asset.

The secondary market Blackstone bought into did not exist four years earlier.

14.1 The Split

It began with a structure, and the structure began at EisnerAmper. On 2 August 2021, the firm announced an investment from TowerBrook Capital Partners, the first private equity stake in a top-twenty American accounting firm.[11] Every prior suitor had run into the same rule. State accountancy law requires that a firm performing ***attest*** work, the audits and reviews that certify a company's numbers, be majority-owned by licensed CPAs. Outside capital could not simply buy an audit firm. So EisnerAmper did not sell one. It split in two.

The mechanism was spelled out in the announcement, before anyone could spin it. In the plainest terms, EisnerAmper LLP, a licensed CPA firm, would provide attest services, while Eisner Advisory Group LLC would provide business advisory and non-attest services.[11] The CPAs kept the audit shell and its majority ownership; TowerBrook bought the advisory company, which held everything else and leased staff back to the attest side. Both entities shared a name, a headquarters, and most of the same people; what they no longer shared was an owner. The arrangement was the ***alternative practice structure***, and every deal that followed, and eventually the first law firms to try the same trick, would copy it line for line. Charly Weinstein, EisnerAmper's chief executive, described the move as a break from habit rather than a sale. "Rather than conforming to traditional frameworks," he said, "adopting a new model of ownership facilitates the best structure for the Firm to drive growth."[11] Days later he took the news to television, talking up the deal on CNBC's ***Worldwide Exchange***. The anchors called it a red-hot market for dealmaking, the SPAC boom of 2021 — the frenzy of blank-check shell companies raising public money — still cresting behind him.[184]

TowerBrook's own partners were plainer about what they were buying. Jonathan Bilzin, the firm's co-president, pointed to EisnerAmper's "large, long-term client base" and "a significant opportunity for the business to increase the pace of that growth." Walter Weil, a managing director, said TowerBrook would help grow the platform "through strategic M&A and further investments in technology."[11] Deutsche Bank arranged the debt. The dollar amount TowerBrook paid was not disclosed. It set the tone for everything after. The partners of a firm built over decades had found a buyer. The price was a private matter between the new owners.

14.2 Up-Market

The wave moved up-market fast, and it moved on a problem every aging partnership carried in its books. A firm funds its growth out of its partners' own capital and owes its retiring partners a stream of payments it never set aside the cash for. The economists Eugene Fama and Michael Jensen had written the flaw down in 1983: that unfunded overhang is a debt the next generation inherits, and it starves the firm of money for technology and acquisitions exactly when both turn expensive.[24] Private equity offered to retire the overhang and fund the buying spree. It would take its return by rolling up small firms bought at four to eight times earnings into platforms sold at twelve to fifteen. Each cohort of partners had drawn its pay and left the next to cover the retirees; the buyout simply cashed that chain out. What it bought, underneath the advisory-company paperwork, was the right to replace the partnership's bargain between generations with a capital market.

Not every buyer understood what it was buying. Koltin, who had by early 2023 canvassed most of the field, warned that a professional-services firm was a peculiar asset, one whose value walked out the door every evening. "Having talked to close to 100 private-equity groups, there's one-third that don't have demonstrated track records of understanding businesses where the assets go home every night," he said. "That group, they would not be successful."[185] The other two-thirds were busy. Of the top twenty firms, Koltin reckoned, more than half were already deep in conversations about selling or restructuring, most of them involving private equity.[185] The wave was not coming. It was here.

New Mountain went first at scale. Its majority investment in Citrin Cooperman closed quietly around October 2021. A press release confirmed it six months later, terms again undisclosed; trade estimates put the firm near $500 million.[186] Koltin, advising the deal, predicted Citrin Cooperman would break a billion dollars in revenue within five years.[187] The buying began at once. By the time the deal was announced, the two sides were already reporting a significant acquisition program six months underway.[186] The firm's founder, Joel Cooperman, was already fielding the calls the deal generated. "I am thrilled about the number of accounting firms across the United States and abroad that have reached out to us," he said, "and I expect the next several years to be exciting."[186] Then Hellman & Friedman, with Valeas Capital Partners, took a majority of Baker Tilly in February 2024. The firm called it the largest private equity investment in the US CPA sector to date; the press valued it near a billion dollars for just over half the firm. Baker Tilly split on the EisnerAmper pattern, into an advisory partnership under Jeff Ferro and an attest firm under Jere Shawver.[188] The firm being carved up had itself been built by acquisition, tripling under Alan Whitman from about $500 million in revenue to roughly $1.5 billion across more than twenty mergers.

A month later the wave reached the top ten. In March 2024, New Mountain announced a growth investment in Grant Thornton's American firm, a $2.4 billion business. The trade press reported a majority stake of about 60 percent, though the release itself named no percentage.[189] Andre Moura, the New Mountain managing director, had led the Citrin investment and now led this one. He described the target in the language of a value buyer. Grant Thornton, he said, ranked "at the highest levels in the U.S. as measured by the quality of its work product and the satisfaction of its clients, even at a much lower price to clients."[189] The profession's establishment had already made its peace with the money. Barry Melancon, the longtime head of the American Institute of CPAs, offered the benediction the sellers wanted: "The fact that private equity is interested in the profession is a statement about the importance of the profession. That's a good third-party validation."[185] A regulated, low-growth audit annuity sat next to an advisory business that capital wanted badly. The partners who held the equity when the buyers arrived were the ones who got to sell it.

14.3 Counting the Wave

How big the wave actually is turns out to be a question the people counting it cannot answer the same way twice. The series the profession first quoted, from the CPA Trendlines deal tracker, recorded 22 private-equity-backed accounting transactions in 2023, 65 in 2024, and 104 in 2025.[190] A later, more comprehensive tracker from the same research house, reaching back to 2016, counts 94 deals in 2024 and 190 in 2025.[191] The two series run roughly double one another, for the same years, from the same publisher. The gap is not an error but a definition: the later count folds platform launches, sponsor-to-sponsor flips, and adjacent capital raises into the same ledger as outright acquisitions.[191]

Both counts are real, and both come from the same house, and even the analysts paid to tally the deals cannot fix the boundary of what a deal is. The market kept inventing new kinds of transaction faster than anyone could name them. By whichever count, the direction held. By late 2025, more than half of the thirty largest American firms had taken private equity capital or were negotiating for it. The comprehensive tracker totals the whole decade: roughly 466 deals, some $49 billion of transacted value on $24 billion of revenue, close to 96,000 working accountants and staff carried along with them.[191] Ten platforms account for more than half of every tracked deal, and the top six alone for more than

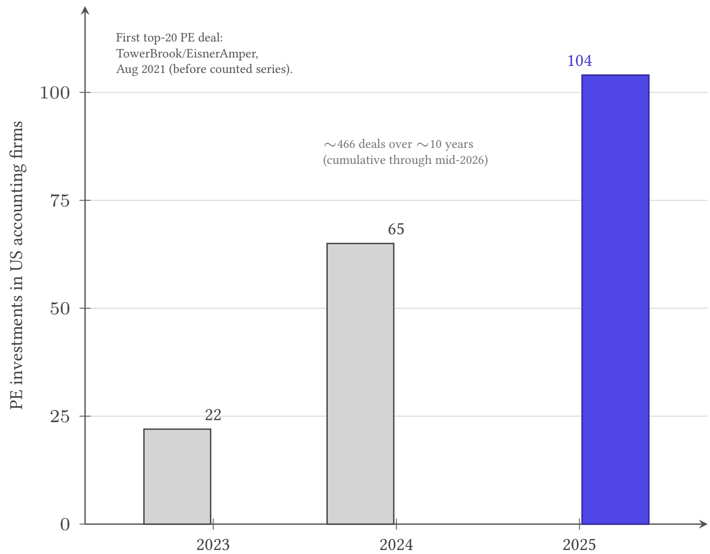

Figure 14.1: Private-equity transactions in United States accounting firms per year, on the narrower of the two published counts. The wave accelerated through 2025.

a third. An entire tier of the profession had been re-owned, and a handful of funds owned most of it.

The biggest single combination came in April 2025, and the parties described it in revenue rather than price. Baker Tilly and Moss Adams announced a merger to form the sixth-largest advisory CPA firm in the country, reporting a combined network revenue of $5.62 billion.[192] Eric Miles, Moss Adams's chief executive, was named to run the combined firm from the start of 2026.[192] Trade estimates of the enterprise value — what the whole business was worth — ran near $7 billion, a different and larger number that the companies never confirmed and never tied to the revenue figure they did release. Old habits held. The firms said how big they were and left the market to guess what they were worth.

14.4 The Regulator's Question

The regulator had already stood up to say what the dealmakers were careful not to. In August 2022, eleven months after TowerBrook and EisnerAmper, the SEC's acting chief accountant Paul Munter published a statement on audit firm restructurings. Complex transactions with investors that are not traditional accounting firms, he warned, and that "have not previously been subject to the same independence and ethical responsibilities, elevate the risk to an auditor's independence."[193] He named the hazard directly. Private equity investments, he wrote, "are often not held on a long-term basis and generally focus on maximizing return on investment." That strategy "could create incentives that conflict with the auditor independence rules."[193]

He returned to it in May 2024, now confirmed as chief accountant, in a broader warning about the culture of the firms. Audit firms are private businesses with the same interest in profit as any other, he wrote. But they "have also been entrusted to be essential gatekeepers in maintaining the integrity of our capital markets." Firm leaders taking outside money, he warned, "need to be sensitive to the message such arrangements could send."[194] He quoted the Supreme Court's old formula, that the auditor's "public watchdog function" demands "complete fidelity to the public trust."[194] It was the argument Arthur Levitt had made against the consulting arms in 1998, aimed now at a new kind of owner. The question was whether a business that answers to outside capital could still serve the public interest it is licensed to protect.[134]

Munter could warn but not block; the SEC had no rule reaching the transactions themselves. The rulebook caught up slowly. On 19 December 2025, the AICPA's Professional Ethics Executive Committee voted to issue an exposure draft of new independence rules for alternative practice structures. It was the most substantial revision of those rules since 2000, with a comment period running into the spring of 2026.[195] The draft's own language is careful to the point of blandness: the changes "aim to uphold the integrity of the profession while offering practical guidance for firms operating in alternative organizational structures."[195] The task force that produced it had been convened in January 2023, when the deal count was first breaking into double digits.[196] Regulation arrived roughly three and a half years after the practice it governs, which is to say after the wave had already crested.

* * *

The wave is maturing now in the way capital markets do, by slowing rather than breaking. January 2026 alone brings more than two dozen transactions, close to a quarter of the prior full year's total in one month. Then the pace decelerates visibly through the spring. Venture capital arrives alongside the buyout funds, with Thrive Capital and Bessemer backing one of the newer platforms.[191] The names atop the tally are their own kind of evidence: Alpine Investors with 39 deals, Ares with 25, TowerBrook with 23, a roster of buyout and growth funds that a decade earlier had never owned an accounting firm.[191] Then the count thins. The year-to-date total through April 2026 runs 78 deals against 44 in the same stretch a year before, but April alone brings only nine, and no private-equity-backed accounting platform has failed. The trailing-twelve-month count crested at 226 deals in March 2026 before easing.[191] Deceleration, not distress, is the first stress signal the market has produced. In March 2026, TowerBrook and EisnerAmper mark five years together with a continuation-vehicle deal. It hands TowerBrook's original investors their cash while keeping the firm in hand. EisnerAmper is now the thirteenth-largest firm in the country, past $1.2 billion in revenue, with twenty-seven acquisitions since the day it split in two.[197]

The operators who built the old firms have not left; they have changed sides. Whitman ran Baker Tilly's tripling, then departed in 2023 after he and the board "differed on aspects of execution." In January 2026 he surfaces at the head of a platform backed by Madison Dearborn. He stitches a Georgia CPA firm, an insurance brokerage, and a transaction-advisory shop into a company built from parts rather than bought whole.[198] "It's kind of a new category in the space," he says of it.[198] A man who spent his career growing a partnership now grows a portfolio company, and the work looks much the same from the inside. Only the owner has changed, and with it the answer to the question of who collects when the platform is sold.

The accountants have now run the whole sequence, and its closing turn came faster than the bankers'. They merged, eight firms into four across a decade of consolidation. They scandalized, one of the four destroyed by a single indictment in a Houston courtroom. They were re-regulated, a century of self-governance ended by an act of Congress. And then, the annuity secured and the reputation rebuilt, the middle of the profession sold anyway, to the one kind of buyer the partnership form had been built to keep out. The rule that kept capital away from the audit was still standing; the firms had simply moved everything of value to the other side of it. Private equity had not bought the accountants' judgment. It bought their client lists and their growth, and paid with the money the partnership could never raise on its own.

The lawyers are watching. What worked for the accountants is about to be photographed and carried across a professional line that has held even longer. The advisory company beside the regulated shell can be rebuilt in a business governed by an older rule than any accountancy board's: the oldest wall in American professional life. Accounting has shown the move can be done. The only question left is who does it first in the law.

CHAPTER FIFTEEN

The Wall

In July 2000, the American Bar Association held its annual meeting in New York, and on one afternoon its House of Delegates took up a measure numbered 10F. The House was the profession's parliament: delegates sent by state and local bars, whose votes became the model rules that nearly every state copied into its own law. The question in front of them had a plain shape under the legislative wrapping. Should a lawyer be allowed to share fees, or a firm's ownership, with someone who was not a lawyer?

Two years earlier the ABA had created a commission to study exactly that, and it had come back twice saying yes, cautiously, with safeguards. The House had already sent it away once. Now it finished the job. After what the record called vigorous debate, the delegates voted 314 to 106. They kept the ban, and declared nonlawyer ownership "inconsistent with the core values of the legal profession."[199] In the same resolution, they thanked the commission for its two years of labor and disbanded it. Nearly three to one, and the commission was commended and buried in a single breath.

The bars that sponsored the winning motion read like the institutional spine of the profession clearing its throat: Illinois, New Jersey, New York, Florida, Ohio, and, from the county level, Erie and Cuyahoga. They had come to take the floor back from their own study group.

This book keeps returning to rooms like this one. A partnership settling its own future by a show of hands is the recurring scene of the whole story, from the New York Stock Exchange in 1953 to Goldman Sachs arguing with itself across the 1990s. Every other time, sooner or later, the hands went up for the money.

In New York in July 2000, they went up for the wall. In the arc this book traces, it was the strangest vote of all, because it was the one that held.

15.1 The Highest Dam

By 2000 the shape of the story was familiar. Banking's ownership rule had broken in 1970, when the New York Stock Exchange let its members sell shares to the public and the old partnerships began, one after another, to incorporate and cash out. Accounting's rule had never been a wall so much as a fence. The audit firms kept the partnership at their core but spun consulting arms into corporations, took outside money through side structures, and let capital in at the edges for decades. Law had the strictest rule of the three, and it enforced it the hardest.

Each of those conversions had run the same script — a rule, a shock that made partner money too small or partner skill too easy to copy, a first defector, a wave, and a windfall to whoever held the equity when the music stopped. Anyone who had watched the first two passages knew the tune. Law was the profession that heard it and refused to dance.

The rule had a number. American Bar Association Model Rule 5.4, titled "Professional Independence of a Lawyer," forbade a lawyer from sharing legal fees with a nonlawyer and forbade a nonlawyer from owning any part of a firm that practiced law.[200] No passive investors. No corporate parent. No public shares. A firm could borrow from a bank, but it could not sell the bank a piece of itself. Every state but one had adopted a version of it, and the single exception, it turned out, proved the rule almost to the letter.

The wall had a rationale beyond protecting lawyers' incomes. A lawyer's duty ran to the client and to the court, and the fear behind the rule was old and specific. An owner with no bar card and no professional duty would answer to the return on capital instead. The partnership form carried that logic in its bones. Partners were jointly on the hook, their own houses standing behind their advice, and no outside shareholder sat between the person giving counsel and the person who paid if the counsel was wrong. Whether the rule mostly protected clients or mostly protected lawyers' incomes was the argument that would not die. That it was the highest of the three professions' dams was not in dispute.

There was a cost to a wall that high, and the profession rarely said it aloud. The same rule that kept capital out also kept the value of a firm locked inside the people who happened to be partners when they retired. A partnership had no stock to sell. A partner's stake was worth a great deal on the day he made partner and nothing on the day he left, redeemed only by the juniors climbing the ladder behind him. The wall protected a real bargain, and it sheltered a comfortable monopoly, and both were mortared into the same bricks.

Table 15.1: The accountants' law networks near their peak, around 2001, and how each one ended.

Network (parent)	Lawyers	Countries	Fate
KLegal (KPMG)	3,000	60	Dissolved 2003
EY Law (Ernst & Young)	2,700	70	Spun off 2004
Landwell (PwC)	2,800	∼40	Rebranded PwC Legal, 2006
Andersen Legal (Arthur Andersen)	2,800+	36	Gone with parent, 2002

15.2 The Assault

The first serious attack on Rule 5.4 came from the accountants, not from Wall Street. At the height of their 1990s confidence, having swallowed one another down to a Big Five, the audit firms decided that law was simply one more professional service to fold into the one-stop shop. Arthur Andersen moved first. In 1993 it established an allied English law firm, Garretts, as the opening move in what it meant to make a globally dominant multidisciplinary practice.[130] Its rivals followed, and within a few years the accountants had built, in plain sight, some of the largest legal networks on earth.

Garretts did not spring up complete. Andersen built the network by accretion, adding the Scottish firm Dundas & Wilson in 1997 and drawing in the Spanish firm Garrigues, until the English arm alone stood among the largest firms in the country. Julia Chain, who ran Garretts before its later chief arrived, would call the whole venture "ahead of its time."[201]

They did not build any of it quietly. Andersen Legal hired the former worldwide managing partner of Clifford Chance to run its practice, and the firms were explicit that the point was law under the same roof as audit and tax.[202] By 2001 the four networks had reached a scale that put them alongside Baker & McKenzie and Clifford Chance, the largest conventional firms of the day.[203]

The assault reached inside the United States too, in a quieter register. Rule 5.4 barred shared ownership, so the accountants built alliances that stopped just short of it. They were contract arrangements between an audit firm and a nominally separate law firm, close enough to sell as one service, far enough apart to survive a bar inquiry. By late 1999 Ernst & Young had launched a Washington law-and-accounting venture, McKee Nelson, and KPMG and PwC had struck their own linkups with established firms.[204] The wall still stood, but the water was already testing every seam in it.

The American bar met the assault at the gate. In August 1998, ABA president Philip S. Anderson created a Commission on Multidisciplinary Practice and gave it a two-year clock. Its chair, Sherwin P. Simmons, was a Miami tax partner. Its reporter, the Fordham legal-ethics scholar Mary C. Daly, drafted the analytical framework. And among its members sat Geoffrey C. Hazard Jr., who happened to be the principal author of the Model Rules the commission was now proposing to amend.[199]

The commission's case was not reckless. Daly's framework moved in three steps: start from the public interest, weigh any change against the profession's core values, and let a rule pass only if safeguards protected client confidences and a lawyer's independent judgment. The commission mapped five models of how a mixed firm might work, from a loose referral network at one end to a single firm owned and run by lawyers and accountants together at the other.[199] It was that last model the accountants most wanted, and that last model the House could not swallow. The commission did the work. After hearings in Washington and Los Angeles, it recommended in June 1999 that Rule 5.4 be loosened. Lawyers could share fees and form partnerships with other regulated professionals, up to fully integrated firms, hedged with safeguards and closed to passive investors. The sitting ABA president, William G. Paul, called multidisciplinary practice "the most important issue the legal profession has faced in many, many years."[204] He was not overstating the stakes. He was, it turned out, standing on the losing side of them.

The House rejected the recommendation in Atlanta in August 1999 by 304 to 98, instructing that no rule change should come "unless and until" further study proved a public benefit.[199] The commission trimmed its proposal to four lean paragraphs and brought it back the next summer. That was the New York vote.

Not everyone inside the establishment liked the manner of the win. Weeks before the final ballot, Michael A. Cooper, the departing president of the Association of the Bar of the City of New York, spent his farewell address scolding his own side. "There has been, in my view, too much circling of the wagons, too many protestations of professional virtue that happily coincides with the protesters' economic self-interest, and too little dispassionate consideration of the complexities of the subject," he told the room.[205] It was a rare admission, from the podium, that the wall might be guarding incomes as much as clients.

The defense held anyway, and it held by weight. The New York State Bar produced a report against the idea that ran to roughly four hundred pages, and more than forty-five state and local bars opened studies of their own. When the counting stopped in April 2001, nine bars had pro-reform recommendations pending and fifteen had rejected the idea outright. Not one state amended Rule 5.4.[199] Simmons, whose commission had just been dissolved out from under him, kept the long view. "My guess," he had said that winter, "is that the MDP will exist in some form in the United States in the 21st century."[204] He was right about the century and wrong about the vehicle.

For all the paper it generated, the fight was at bottom about money and who would keep it. The law reviews of 2000 filled with careful arguments over client confidences and conflicts of interest, and the arguments were serious ones.[206] The accountants, for their part, already employed thousands of lawyers around the world and wanted only the right to call the arrangement what it plainly was. Set against the prospect of the Big Five owning the profession's high-volume work, the House found a firm attachment to the wall. Cooper had said as much from the podium.

The delegates voted anyway.

15.3 What Enron Finished

The vote had declared the accountants' law networks unwelcome. It had not touched them. They were built in London and Madrid and Sydney, under other countries' rules, and an ABA resolution reached none of them. What the House of Delegates only said, a scandal in Houston went and did. The profession had won its vote and would be rescued, within two years, by a catastrophe it had no hand in.

The wall took the credit. Houston did the work.

In December 2001, Enron filed for bankruptcy, and its auditor, Arthur Andersen, did not survive the year that followed; the firm was convicted of obstruction the next June and surrendered its licenses that August. Congress answered with the Sarbanes-Oxley Act, and folded into it was Section 201, which barred an audit firm from selling non-audit services, legal work among them, to the companies it audited.[152] No single blow felled the networks; several landed at once. Andersen's own destruction took the largest of them off the board outright. The scandal made every surviving accountant flee anything that looked like an audit-side conflict. And Section 201 put the audit-client tie — the joint that made the one-stop shop worth building — beyond argument. What the bar had only declared unwelcome, the wreckage in Houston made untenable.

They came apart in sequence. Andersen Legal evaporated with its parent in 2002, and Garretts was carved up that spring, its offices divided among Pinsent Curtis Biddle, DLA, Addleshaws, and Beachcrofts as the rest of the profession picked the network clean. KPMG shut down KLegal in November 2003. Ernst & Young spun off its London legal arm in 2004. Only PwC's network, Landwell, survived, camouflaged as an independent correspondent operation until it was quietly rebranded PwC Legal in 2006.[201] The verdict that lasted came from the legal scholar Bryant Garth, writing while the dust was still settling: Sarbanes-Oxley "eliminated a competitor but not the competition."[207,208]

For one man the collapse had an address. Tony Williams had left the top job at Clifford Chance in 2000 to run Andersen Legal, and for two years he had built the network out across dozens of countries. Then Enron happened, and the parent firm dissolved around him. Williams remembered the end in physical terms. He was, he said, "the last lawyer left at Andersen's glittering headquarters on the Strand." He watched the parent firm's British audit business absorbed by Deloitte while the legal arm was carved up among the rival firms. "It was very unpleasant."[202] The empire that set out in 1993 to dominate the law had come down to one lawyer alone in an emptying office.

15.4 The One Crack

There was exactly one place in the United States where the wall had a gap, and its story is the wall's own logic in miniature. On January 1, 1991, the District of Columbia became the only American jurisdiction to let a nonlawyer hold an equity partnership in a law firm, on one condition: the firm's sole purpose had to be practicing law.[200] That clause was no accident. It foreclosed, by design, the very thing the accountants wanted, a law arm bolted onto an audit-and-consulting business.

The Washington firm Howrey & Simon used the new rule almost at once. It made its chief financial officer, Abe Isenberg, a partner, reportedly the first nonlawyer partner at an American law firm, and brought several in-house economists into the partnership beside him.[209] The experiment did not outlast the decade. When Howrey planned to open in Los Angeles, the California bar signaled that it would not tolerate a firm with nonlawyer partners, and the firm reversed course. Isenberg kept his job and lost his partnership. Even the one crack in the wall had sealed over by the time the House of Delegates cast its final vote.

Uptake was thin from the start. A handful of Washington firms used the rule over the years, and no wave followed it. The District's exception stayed a District curiosity, held inside its own borders by ethics opinions that kept a firm from carrying a nonlawyer partner across a state line.[200] The one gap in the American wall was narrow by design, local by law, and, at exactly the moment the accountants tested it, closing.

So the ledger stood like this. Banking's owners had sold their firms outright a generation earlier. The accountants had let capital in at the edges, and would soon let private equity in at the center. The lawyers had been asked the same question, in the same kind of room, by a commission of their own making, and had answered no, three to one, and meant it. Law built the highest dam of the three professions, defended it head-on, and, alone among them, watched it hold.

Holding the wall bought the profession real things. The lawyer a client hired still owned the firm that employed her, still carried the duty the rule was built to defend, still had no shareholder in the next room asking about quarterly returns. It also bought time, which is what the wall was really for. Nothing about the underlying economics had changed. The accountants had wanted in because law's volume work was a large and profitable business, and it stayed a large and profitable business after the vote. A rule can hold a price up. It cannot hold it up forever.

The water did not recede. It went looking for the seams. Within a decade the Big Four would rebuild their legal networks from the ground up, this time as managed services and volume work rather than head-on rivals for the premium clients. By 2018 they fielded more than ten thousand legal professionals across eighty-five countries.[203,210] They had learned the lesson the hard way and kept the ambition; the second time, they came in through the loading dock instead of the front door.[211] Britain would stop defending its own dam and demolish it by statute. And the question the House of Delegates thought it had settled in New York would return, a quarter century on, in Arizona, wearing the name of the very firm whose predecessor had died on the Strand. The wall was still standing. The river had simply learned to go around it.

CHAPTER SIXTEEN

The British Experiment

On the morning of 1 March 2016, trading in Slater & Gordon reopened on the Australian Securities Exchange, and the market spent one session telling the firm what it was worth. The shares closed at A$0.31, about sixteen pence, down 46 percent on the day.[212] Eleven months earlier, before the firm agreed to spend £637 million on a British insurance-claims business it barely understood, the same stock had traded above A$8. A company that had sold itself to Australian and British savers as living proof that a law firm could be a public company had handed back almost everything it was worth. It had done it in under a year.

The savers on the other side of that fall were not institutions. Slater & Gordon had built its float on ordinary Australian shareholders, the retail buyers who purchase a name they recognise and then trust it to behave, and it had gone looking for British ones too. They had been sold a simple story: that a law firm's shares were an ordinary, ownable thing, as sound as any other blue chip. On 1 March that story met the tape, and the tape won. The trading halt of the previous days had only delayed the reckoning.

The number that mattered was the arc, not the close: A$8 to sixteen pence. Slater & Gordon had listed in 2007 as, by its own marketing, the first publicly traded law firm in the world, and for most of a decade the pitch worked. It bought Russell Jones & Walker to enter England in 2012, then kept buying, until by revenue it ranked among the seven largest firms in England and Wales. The engine of all that growth was acquisition. The one that broke it was Quindell's professional-services division — a book of British road-traffic and hearing-loss claims bought at the top of the market on 30 March 2015. Within a year the goodwill was gone.

Andrew Grech had run the firm for seventeen years. He had championed the British expansion, and he had signed off on Quindell. On the day the shares collapsed, he offered the board his resignation. The board refused it, a decision the market read, correctly, as the admission that there was no one else ready to take the chair.[212] Andrew Watson, who ran the class-actions practice at the rival firm Maurice Blackburn, said the sheer scale of the coming writedown was reason to doubt the accounts Slater & Gordon had been publishing all along. He was not wrong. That August the firm reported a full-year loss of A$1,017.6 million — a shade over a billion Australian dollars, most of it the Quindell goodwill written back to nothing.[213]

For the American and Australian bars, the story wrote its own moral: let outsiders own a law firm and this is what you get. It was the wrong moral, and this chapter is about why. Slater & Gordon did not fail because the public owned it. It failed the way over-leveraged public companies fail in every industry — one bad acquisition, growth priced in before it arrived, no one minding the succession. To see what outside ownership actually does to a legal market, you need the whole British experiment, and Britain had been running it, in the open, since long before Slater & Gordon arrived.

16.1 The Dam Removed by Statute

The experiment began with a review nobody expected to matter. In July 2003 the Lord Chancellor asked Sir David Clementi, a former deputy governor of the Bank of England and not a lawyer, to look at how legal services in England and Wales were regulated. His report landed in December 2004.[214] Most of it was plumbing: one oversight regulator, one complaints body, a tidier structure. Buried in the technical language was a single permissive idea — that a firm practising law might one day have owners who were not lawyers. The press found its shorthand at once. If the rule changed, a supermarket could own a law firm. The supermarket everyone named was Tesco. "Tesco law" outlived the report that spawned it, and the profession understood immediately that the coming legislation would reach further than Clementi himself had proposed.[215]

It did. The Legal Services Act 2007 created the *alternative business structure*: a licensed law firm that could have nonlawyer managers and nonlawyer owners, up to and including full outside ownership.[216] Clementi had recommended a cautious, limited version; Parliament wrote the expansive one. The profession noticed the gap at the time. Reformers called it modernisation; the Law Society warned of capture. They were arguing over the same decision: Britain had chosen, more or less on purpose, to find out what happens when you let money own law.[215]

The licence changed one thing, and everything else followed from it. A traditional firm was a partnership: the people who did the work owned it, carried its liabilities personally, and could not sell a share to anyone who did not also practise law. That rule was a promise to clients and a cage around capital. The alternative business structure cut the cage away. Now an outside investor could put money into a law firm and take profit out of it, the way a shareholder does with any company. A partner who wanted to grow no longer had to wait for the firm to save the money up, one year at a time. Out of that single change to who was allowed to own the work came all the rest: the consolidation, the private equity, the disasters, and the quiet successes.

Standing up the machinery took years. Sir David Edmonds, another non-lawyer, a former NatWest managing director and telecoms regulator, was named the first chair of the new Legal Services Board in 2008. The Board began operating on 1 January 2010, and the first alternative business structures were licensed in 2011.[217] The dam that American law still holds shut had been taken down by statute. The clock the rest of this chapter measures started running.

16.2 What Fifteen Years Actually Show

The first thing the record shows is scale, and it arrived where the economics of scale bind hardest. By 2014 the licensed firms had already captured about a third of the personal-injury market by turnover.[218] The licences themselves piled up more gradually than the alarm implied. The Solicitors Regulation Authority had granted about four hundred by 2014. The count did not pass a thousand — roughly one SRA-regulated firm in eight — until the early 2020s, reaching 1,257 by 2024 (Figure 16.1). Personal injury led because contingency work is the part of law that most resembles an investable cash flow: predictable volume, poolable risk, a marketing problem more than a lawyering one. Capital went where it could be priced. (One caution both sides skip: the clean series counts only firms the SRA regulates. Other bodies license alternative structures too, so the true national total runs higher — but the SRA stock is the consistently reported number, and it is the one the figure tracks.)[219]

What the capital bought, on the regulator's own evidence, was investment. The Legal Services Board's innovation surveys found outside-owned firms investing at more than twice the rate of traditional ones: 28 percent against 12 in new or improved services, 72 percent against 31 in technology.[220] Private equity poured about £1.2 billion into British law firms over the five years to 2024, with £534 million of it in 2024 alone.[221] Even the Big Four took ABS licences from 2014 and built British legal practices worth £45 to 100 million each in revenue within five years.[203]

None of this fell evenly across law. The money gathered in the consumer end of the market: personal injury, conveyancing, wills, family work. It stayed

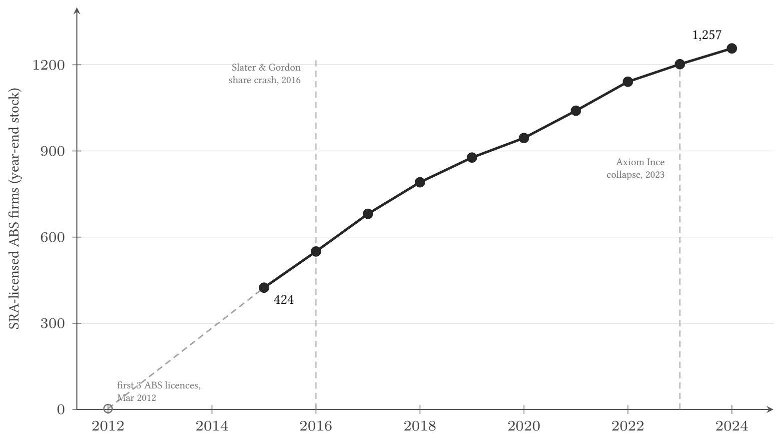

Figure 16.1: Licensed alternative business structures regulated by the Solicitors Regulation Authority, 2012–2024. The dashed markers place the two failures that test the model against its growth.

away from the corporate practices that depend on scarce, senior judgment and cannot be run off a process line. That split is the tell that runs through the whole story. Capital buys the parts of law that behave like a factory and leaves alone the parts that behave like a craft. Britain did not so much open its legal profession to outside owners as reveal which half of it had been a manufacturing business all along.

The second thing the record shows is what did not happen. The bar had predicted a collapse in quality once profit and lay ownership got inside the firm. The regulator's evaluations found no such collapse at the market level; the gains they did find were "emerging slowly." Nor did the other side get its revolution. Reformers had promised that competition and capital would widen access to law; an estimated 3.6 million people in England and Wales still went without legal help each year. Outside ownership reorganised the supply of legal services. It did not, by itself, put a lawyer within reach of the people who had never had one. That is the honest verdict on the reform: it changed how legal services were sold and owned, not whether ordinary people could afford to buy them.

16.3 The Failures, Read Closely

The catastrophes are the load-bearing evidence, because each one, examined, turns out to be a governance failure wearing an ownership costume.

Slater & Gordon is the first, and its ending is the tell. After the 2016 crash the firm limped on. Grech finally stepped down in June 2017, as the senior lenders took roughly 95 percent of the equity in a recapitalisation that split the British and Australian businesses apart.[222] In 2023 the Australian remnant was taken private by Allegro Funds and left the exchange, closing a fifteen-year arc from flotation to buy-out.[223] A public listing had let the firm raise money to grow too fast and had punished it in public when the growth turned out to be bought, not built. The stock market did what stock markets do. Ownership was the accelerant, not the cause.

Axiom Ince is the sharper case, because there the regulator saw it coming and stood still. On 3 October 2023 the Solicitors Regulation Authority intervened in Axiom Ince and closed it outright, fourteen offices going dark in a single day.[224] Two years earlier the firm had employed about eighty people; by then it employed roughly 1,400, all of it built by acquisition.[225] Its sole owner and chief executive, Pragnesh Modhwadia, was not there to answer for it. The SRA had suspended his practising certificate that August, on suspicion of dishonesty, together with two fellow directors — a partial intervention that had left the firm still trading.[226] By the day the doors finally closed, the shortfall in the client account was put at roughly £64 million.[224]

The regulator had every warning it needed. A forensic visit that July had already turned up the hole, running into the tens of millions. Back in January the SRA had flagged the firm internally as a high-risk "accumulator,"[227] three months before it let Axiom Ince complete its largest deal, the Ince Group's legal business, on 28 April 2023.[225] It watched the accumulator accumulate and did nothing until the money was gone. The Serious Fraud Office opened a criminal investigation the next month.

What followed made the failure institutional. An independent review of the SRA's handling appeared in October 2024, and the Legal Services Board activated enforcement powers against a regulator for the first time in its existence.[228] By March 2025 the Board's report was openly damning. The SRA's long-serving chief executive Paul Philip had announced his retirement, and the government had begun stripping the regulator of authority — moving its anti-money-laundering supervision to the Financial Conduct Authority.[225,229] The money went missing inside an alternative business structure. But it went missing because the custodian of client funds was dishonest and the regulator watched an "accumulator" accumulate without looking in the safe. Neither of those is a property of who owned the equity.

SSB Law made the same point from the other direction. It entered administration in January 2024 owing about £200 million, most of it borrowed to fund no-win-no-fee cavity-wall-insulation claims that went bad in bulk.[230] Between

2019 and 2024 the SRA had received more than a hundred complaints about the firm. It had filed them as service quibbles for the Legal Ombudsman rather than signs of a business coming apart. Behind the headline collapses ran a quieter attrition. Parabis, the private-equity-backed pioneer that Duke Street had funded with some £70 million, failed outright in November 2015 and was broken up in a seven-way pre-pack, the whole investment written off.[231] The AA and Saga, two of the most trusted consumer brands in Britain, each launched a branded legal venture with a partner firm, and each quietly abandoned it inside two years. Saga later put the cost of its failed experiment at £4.7 million.[232,233] The lesson repeats: the firms that died were the ones that grew faster than they could govern, or bet a trusted name on a business they never learned to run.

16.4 The Successes, and What the Record Proves

The survivors share a governance signature as clear as the failures'. Keystone Law listed in 2017 on a capital-light model: a platform of self-employed senior lawyers, little office overhead, no acquisition binge. It compounded revenue and profit quietly enough to return several times its flotation price to early backers.[234] Knights, which listed in 2018 and consolidated regional firms, took a bruising profit warning in 2022 and still reached £162 million of revenue by 2025 — operationally durable, if humbled by the equity market.[235] Stowe Family Law ran the clean private-equity cycle the textbooks describe: bought by Livingbridge in 2017 at around £10 million of turnover, grown close to fourfold, and sold on to Investcorp in 2024.[236]

Notice what the survivors have in common with each other and not with the dead. Keystone listed but stayed capital-light in how it ran, its edge a model that let self-employed senior lawyers keep more of what they billed while the firm carried almost no overhead. Where the failures raised money to grow faster than judgment could follow, the survivors either kept capital at arm's length or spent it slowly enough to stay in control of it.

Lawfront is the case that sits directly opposite Axiom Ince. Backed by the investor Blixt and founded in 2021, it hired Neil Lloyd, a buyer of dental and medical-staffing groups before he ever touched law, as chief executive in 2022. Under him it grew from under £10 million to more than £130 million in group fee income across sixteen acquisitions.[237,238] The method was the opposite of Axiom Ince's. Lawfront bought healthy firms, left the local managing partners running the law, and centralised only the plumbing: finance, technology, back office. Pace matched to integration; professional authority left where it was; the governance built before the scale, not after. Same regime, same capital, opposite outcome.

That contrast is the whole finding. Fifteen years of the richest data any legal market has produced supports neither the people who predicted ruin nor the ones who promised transformation. Outside capital changed the structure of the market, consolidating the consumer segments and pouring money into services and technology, without the quality collapse the bar forecast or the access revolution reformers sold. The disasters clustered in one place and one place only. They came where growth velocity outran the firm's ability to govern itself, and where a regulator supervised a new kind of business with tools built for the old one. In every failure the fatal exposure was the same, custody of client money, and in none of them was lay ownership the mechanism of the harm. Any country that copies the British reform imports that risk with it, because the client account sits in the same place whoever owns the firm.

The British experiment is the natural experiment American law keeps insisting it cannot run. Britain ran it, and it neither vindicated the prohibition nor made the case for abolishing it without adult supervision. It priced the thing exactly: outside capital is an accelerant. It makes good firms bigger and bad firms fatal, faster, and it rewards whoever built the brakes before they needed them.

Locate the beat. A country took the ownership rule off its largest professional market and watched capital do what capital does. It rushed to the parts that scale, rewarded the disciplined, and wrecked the reckless faster than any partnership could on its own. The partners who sold got paid. The savers and the clients caught in the failures paid instead. And the regulator, built for a profession of self-owned partners, spent fifteen years learning that it was now supervising ordinary businesses, some of which would empty the client account the moment it looked away.

The pattern is still spreading, and its newest edge is a reminder that statutes, not markets, set the boundary. Scotland passed its own ownership reform in 2010 and has spent the better part of two decades failing to implement it; in 2025 its Law Society pushed the timetable back again.[239] By 2026 a campaign group of twenty-eight Scottish firms was still waiting on a reform its own Parliament had passed sixteen years before.[239] So English firms with outside money now cross the border to buy Scottish practices that Scottish capital is still barred from touching. "English law firms, backed by PE, can enter and compete in Scotland," the Glasgow solicitor Brian Inkster put it in 2026, "but our own homegrown law firms cannot easily access the same PE."[239] Britain had shown that the dam, once down, does not go back up — and that the only real question left is who gets to stand in the current. Every argument the profession was having in London was about to be had again, from scratch, in Phoenix.

CHAPTER SEVENTEEN

The Arizona Opening

On 27 August 2020, in Phoenix, the Arizona Supreme Court unmade a rule that had governed American law for a professional lifetime. It did so without a hearing, a floor fight, or a roll call. Robert Brutinel, the chief justice, signed Order R-20-0034. The order ran to a few pages of court language and amended two procedural rules, and buried in the middle of it deleted Ethical Rule 5.4 of the Arizona Rules of Professional Conduct outright.[240]

Rule 5.4 is the ownership rule. In its standard form it forbids a nonlawyer from owning any part of a law firm or sharing in its fees. It is the wall that kept outside capital out of American law while banking and accounting sold themselves off. The American Bar Association wrote it into its Model Rules in 1983. For thirty-seven years afterward, dozens of state bars studied whether to relax it and every one of them declined. The profession had killed multidisciplinary practice in 2000 by a House of Delegates vote of 314 to 106, resolving that outside ownership was inconsistent with the core values of the law. Arizona needed no vote. Thirty-seven years of the rule went out in two pages, and the pages carried one signature.

What the rule protected was never only the client. It also protected the lawyers who owned the firm, by keeping the price of a partnership share out of reach of anyone holding capital and no bar card. The accountants had tested that wall once before. In the 1990s the Big Four assembled sprawling legal networks, thousands of lawyers across dozens of countries, and moved to fold law into the one-stop professional shop. The American bar met them at the 2000 vote, and the Enron scandal finished what the vote had begun. The profession believed it had closed the question for good. Arizona reopened it on a Thursday morning, and this time there was no one on the other side of the table to argue.

There had been one earlier crack, and its shape is worth noting. Since 1991 the District of Columbia had allowed nonlawyers to hold partnership shares, but only in firms whose sole purpose was practicing law, a clause that foreclosed exactly the accountants' one-stop model and drew almost no takers. Arizona wrote no such limit. Its order lifted the ownership bar altogether and left it to a licensing committee, rather than a sole-purpose clause, to decide who could come in.

The signature was the point. Where the bar had always defended the rule as a shield for clients, Arizona's own study had concluded the opposite. A Task Force on the Delivery of Legal Services, chaired by then–Vice Chief Justice Ann Scott Timmer, had reported in October 2019 that the ownership ban rested on "economic protectionism" rather than public protection. Nonlawyers, it found, "are instrumental in helping lawyers deliver legal services."[241] Brutinel framed the change the same way when the order came down: "The Court's goal is to improve access to justice and to encourage innovation in the delivery of legal services." Two weeks earlier, the Utah Supreme Court had approved a cautious regulatory ***sandbox***, a supervised pen in which nonlawyer-owned ventures could operate under close watch. Arizona did not build a pen. It removed the fence. Licensing of the new ***alternative business structures***, firms with nonlawyer owners, would open on 1 January 2021.

There was no gallery and no roll call. The largest change to the ownership of American law in a generation arrived as a docket entry, effective on a date four months away, and the whole of its drama lay in what the signature let happen next.

17.1 Two Roads Out of One Summer

The two states walked out of the summer of 2020 in the same direction and ended up in opposite places, and the gap between them is the cleanest measure of what happens when a rule falls rather than bends.

Arizona compounded. Nineteen alternative business structures held licenses in 2022; more than 136 did by April 2025; the count passes 151 in early 2026 and keeps moving week to week.[242][243] The composition matters as much as the total. Of the entities licensed in 2024, fifty-nine percent were wholly owned by nonlawyers. These were businesses in which no lawyer held the equity at all, a long way past the lawyer-led firm that merely takes on a passive backer.[242] LegalZoom and Rocket Lawyer took licenses. So did private-equity platforms, personal-injury shops restructuring their back offices, and, before long, the accountants.

Behind the count sits an administrative machine that did not exist in 2020. Arizona now sorts applicants into three license categories, nonprofit, equity, and conventional firms, and runs each through a multi-step review by a standing Committee on Alternative Business Structures before a license issues.[244] The investors moving through that machine are no longer novelties. Benefit Street Partners, a credit manager overseeing tens of billions of dollars, stands behind a licensed firm called Copper State Legal Services. Mustang Litigation Funding, which has bankrolled more than three thousand cases, backs another. Lake Whillans and Nera Capital, litigation funders both, have each put their name behind a firm of their own.[245] The pipeline has thickened from a trickle of curiosities into routine deal flow.

Utah went the other way. Its sandbox opened wide and then narrowed. In 2023 the state tightened the rules, demanding that participants prove they were reaching underserved Utahns with substantial impact, and the entities that had come for the market rather than the mission began to leave. The participant roll fell from thirty-nine to eleven. By early 2025 the ABA Journal counted nearly thirty ventures that had left or were leaving.[246] Rocket Lawyer was among them; it redirected its effort to Arizona, where the license came without the underserved-reach test attached. The same company Utah's mission test pushed out, Arizona's open market welcomed in. Utah had tried to keep the reform pointed at the roughly three-in-five Americans who cannot afford a lawyer. The capital preferred the state that asked no such question, and it voted with its filings.

The divergence answers the reformers' central promise, and the answer is uncomfortable. Arizona shows that dropping the ownership rule reliably pulls in capital and new firms. Utah shows that steering that capital toward the people who cannot afford a lawyer is a second and harder problem, one deregulation alone does not solve. Its ventures chased the market and left the mission behind. What Arizona proves first is that the money will come. It comes for the volume work at the bottom of the pyramid, the routine, repeatable filings and reviews that a firm's junior lawyers have always ground out, and it comes fast. That layer is where a partnership makes its margin, by billing a young associate's hour at a multiple of what the hour costs. It is also the first layer that capital and software know how to buy. Once it is bought, the old bargain frays where it was paid. The underpriced junior years a firm once traded for a claim on tomorrow's partnership buy less and less.

17.2 The Big Four Walks Back Through the Side Door

The most consequential license Arizona grants does not go to a legal-tech startup. On 27 February 2025 the state licenses KPMG Law US, the first arm of a Big Four accounting network authorized to practice law in the United States.[247] The date is worth holding against another one. Twenty-five years earlier, the bar had voted 314 to 106 to keep firms exactly like KPMG out of American law, and the accountants' legal networks had collapsed when Sarbanes-Oxley barred auditors from serving the legal clients they also audited. The same firm-type now walks back in through a door that had not existed five years before. It came the first time as a frontal assault. It comes now as a licensed applicant filling out the state's forms. KPMG already runs legal practices across dozens of countries abroad. Arizona is its way in at home.

Institutional memory rides along in the paperwork. KPMG Law's license carries a single hard condition: it may not serve KPMG's own audit clients.[247] The Andersen lesson, the reason auditor independence and legal advocacy cannot sit inside one client relationship, is written directly into the grant, twenty-two years after the statute that taught it. The wall between audit and law does not come down in Arizona. It shrinks to a clause of a license, which is a very different thing from a wall.

KPMG is not treating the license as a trophy. On its first anniversary, in February 2026, the firm names Christian Athanasoulas, a veteran tax leader, to head its US legal services. The plan he describes is deliberately unglamorous: high-volume, repeatable legal work first, litigation finance later.[248] Clients, he argues, "are looking for a more integrated way to manage legal work." The one-stop shop is the sell. He calls the pairing of advisory scale and legal capacity "unique in the market." This is the 1970 move that banking made and the private-equity move that accounting made. It arrives in law through the volume segment, exactly where the economics are friendliest to industrial capital.

Unglamorous is the whole strategy, not a hedge. The prestige work at the top of the profession, the bet-the-company trial and the marquee deal, still turns on a named partner's judgment that no platform can replicate or resell. The margin capital can actually capture sits lower down, in the standardized work that can be systematized, staffed cheaply, and sold by the thousand. KPMG plans to start there and add litigation finance later, funding cases in exchange for a share of the recovery, which is the same volume logic pointed at a different revenue line.

Behind the marquee names, the market has turned routine. Crispin Passmore, a British regulatory consultant who cut his teeth on England's own liberalization and now advises on these deals, reports fielding roughly ten inquiries a week from institutional investors weighing new Arizona ventures.[245] Ten a week is not a novelty rush; it is a deal pipeline. The technology arrives on the same current. In February 2026, Justpoint Law launches under an Arizona license as, by its own account, the first AI-native mass-tort firm in the country. It is fed by a detection pipeline its sibling company spent seven years building, at a cost of roughly $105 million. The software scans medical records and adverse-event reports for dangerous products.[249] The firm's founder, Victor Bornstein, puts it plainly: "For years, we've built technology to help law firms pursue complex litigation more effectively. With the launch of Justpoint Law, we're applying that same approach directly." A firm built this way could not have opened as a licensed practice in any other state in the country. The intermediary is gone. The software now finds the case, signs the client, and files the suit.

17.3 The Counterattack

The answer to Arizona comes not from the corporate bar but from the plaintiffs' side, and it comes as a blockade. On 10 October 2025, California's governor, Gavin Newsom, signs Assembly Bill 931, sponsored by the Consumer Attorneys of California.[250] The bill does not touch Arizona's rules. It reaches inside California, barring lawyers licensed there from sharing fees with the nonlawyer-owned firms that Arizona and its imitators license.[251] The penalty is $10,000 per violation or treble damages, effective 1 January 2026 and set to expire in 2030.[250] Reuters read the statute plainly on signing day: a roadblock thrown up to keep out-of-state ownership structures from using California lawyers as a bridge into the largest legal market in the country.[252] The firm most obviously in its path is KPMG Law, headquartered in a state where it cannot yet practice and expanding through arrangements with lawyers who can.

The venue of the counterattack is itself a tell. In most states the profession is governed by the supreme court, not the legislature, which is why Arizona could remake the rule with a single order and no bill at all. The backlash cannot use that door. The courts that would have to reverse course are the same courts now weighing whether to follow Arizona. So the plaintiff bar has gone to the legislatures instead, writing ownership policy into statute where a sympathetic judge cannot quietly undo it. A profession that spent a century insisting it alone was fit to regulate itself is now asking elected bodies to do the regulating for it.

AB 931 is the opening shot, not the whole barrage, and the shots rhyme. Across the first half of 2026 the plaintiff bar's resistance hardens into statute in one state after another, and it hardens in the same words. Three states, three bills, and the identical $10,000-or-treble penalty recurring almost verbatim from one to the next: the backlash is drafting from a shared template, and each legislature is signing its own copy. The ABA had set the national line first, reaffirming its opposition to nonlawyer ownership in 2022, in Resolution 402.[253] Then the statehouses filled in the form. Colorado's governor, Jared Polis, signs House Bill 26-1421 on 3 June 2026. The ban reaches past ownership to the management fees an outside company charges a firm when they are tied "directly or indirectly" to legal revenue, and it arms private plaintiffs to enforce it.[254] Illinois moves in parallel, its bill clearing both chambers and landing on Governor JB Pritzker's desk on 26 June 2026, still unsigned, carrying the same curbs on management-services structures and the same $10,000 penalty California wrote.[255–257] California's own plaintiff bar is not finished either: in February 2026 it returns with a follow-on, AB 2305, still working its way through the legislature by midyear.[258]

Two forces cut across the fight from outside it. In December 2024 the European Court of Justice, ruling in the ***Halmer*** case, upheld Germany's restrictions on nonlawyer ownership. That closed off the parallel European route and denied the American reformers a foreign precedent to point at.[259] Pulling the opposite way, the federal antitrust agencies line up behind reform. Tennessee's supreme court has opened a docket of its own on whether to loosen legal-services regulation. In April 2026 the staff of the Federal Trade Commission and the Justice Department file a joint letter. It urges the court, on competition grounds, to end the profession's reliance on the American Bar Association's monopoly over which law schools may train new lawyers.[260] The comment file reads like the whole fight in miniature: Stanford's access-to-justice researchers and reform institutes writing in support, the defense bar and tort-reform groups writing against, and no ruling from the court.[261] Federal competition authorities and the restrictive states are now pulling openly in opposite directions.

* * *

The American map is not converging. It is splitting into three. A liberalizing pole holds at one end: Arizona with its roughly 150 licensed firms, Utah, and the District of Columbia. Puerto Rico joins them in January 2026, opening its door partway to nonlawyer owners up to a 49-percent stake. A hardening pole forms at the other, California and Colorado and Illinois and the Model Rule majority. Between them lies a wide middle where the real action needs no rule change at all, because capital reaches the firm through management companies and licensing fees that the ownership rule was never written to catch.

The shape is familiar by now, and the familiarity is the unsettling part. The book has watched this sequence twice — a rule falls, a defector moves, the waiting capital rushes in, the holdouts mount a defense. Both times the partners holding the equity when the rule moved kept the proceeds; the juniors promised a share of the old firm did not. This time the cast is inverted. Arizona is the small jurisdiction. KPMG, once the profession's enemy at the gate, is the defector. The statutes stacking up in Sacramento, Denver, and Springfield are the defense.

Watch the sunset clauses, because they give the game away. California's bar expires in 2030; Colorado's in 2029. The lawyers who wrote the counterattack drafted it to lapse, as though even they expect the wall they are rebuilding to be temporary. A defense written to expire is a defense already braced for the day the ban lifts. Arizona proved the money would come the moment the fence dropped, and it has not stopped coming. The profession that spent thirty-seven years refusing to hold a vote is now holding them constantly, in one statehouse after another, and losing ground between each one. In banking it took a lunch-hour meeting on a trading floor; in accounting, a wave of quiet mergers. In law it took a chief justice, a pen, and two pages of an order signed on an August morning in Phoenix, and the paperwork has been filing ever since.

CHAPTER EIGHTEEN

Workarounds

On the morning of April 6, 2026, a press release crosses the wire with a Phoenix dateline. Its subject is a company that did not exist a year before: Rafi Law Services, the freshly separated back office of the Rafi Law Group. The release announces a $125 million minority investment at a valuation near $450 million, advised by the boutique banks KBW and Stifel.[16,262] The deal had actually closed the month before, in March; the April notice only made it public. It is the largest disclosed outside investment in an American law firm's operations on record.

Read the announcement again, because the trick lives in the last word. Not an investment in a law firm. An investment in a law firm's *operations*. Brandon Rafi keeps majority control of both the practice and the new company. The lawyers still own the law. What the investors bought is everything wrapped around it: the technology, the marketing, the finance department, the leases, the people who answer the phones. The practice went untouched. The plumbing got sold.

The presence of KBW and Stifel is its own tell. These are the banks that sell companies and take them public, the ordinary machinery of corporate M&A, and they had been pointed at the back office of a personal-injury firm. That machinery had never been allowed near a law firm before. It still was not, technically. It had simply been aimed at the one part of the firm that is not, in the eyes of the rule, a law firm at all.

That is the shape of every deal in this chapter. American law still runs, in almost every state, on a rule the country has refused for a century to relax: no nonlawyer may own any piece of a law firm or share in its fees. The rule was never repealed. It was stepped around. And the whole 2026 wave turns on a single narrow question. How do you sell a firm you are forbidden to sell? You sell everything except the law.

18.1 Not the Practice of Law

The answer was rehearsed a decade early, in a courtroom, by a man who was not trying to change anything. In 2015, a contract document reviewer named David Lola won a small, strange victory in the Second Circuit. A staffing agency, Tower Legal Staffing, had paid him $25 an hour to review documents for a matter run out of Skadden, Arps. He sued for unpaid overtime. Skadden's defense was elegant in a way that would outlive the case. Lola could not collect overtime, it argued, because he had been practicing law, and lawyers are exempt from the Fair Labor Standards Act.

So a firm at the summit of the profession found itself insisting that the temporary workers it paid $25 an hour to read documents were, in law, practicing attorneys. Too professional to earn overtime, too fungible to keep past the matter. The Second Circuit did not buy it. Work that "a machine could have provided," the court held, is not the practice of law.[263] Lola's overtime claim was revived.

Notice who did the stripping. Not a bar committee, not a legislature, but a federal court, and for the plainest reason on offer: the work had become automatable. Three years earlier a Manhattan magistrate judge, Andrew Peck, had given predictive coding its first judicial blessing in ***Da Silva Moore v. Publicis Groupe***. A machine could read the documents in place of a room full of associates.[264] Lola drew the conclusion that ruling implied. If a machine can do the work, it was never lawyers' work to begin with.

By then document review was already an industry of its own. Warehouses of contract attorneys, hired by the matter and paid by the hour, sorted other firms' documents by the millions. The software that ran them served a discovery market approaching $17 billion worldwide by 2024.[265] The reclassification the court described had a long commercial life behind it, and a longer one ahead.

Through the 2000s and 2010s the bottom of law's pyramid was disassembled and sold off, piece by piece, and none of the sales touched Rule 5.4, because none of the work was still called law. Document review turned into software; Relativity, the review platform, served 198 of the Am Law 200 and drew a Silver Lake investment near $3.6 billion in 2021.[266] Around that automated core grew an ***alternative legal services*** industry that outside money was free to buy. Axiom went to Permira, UnitedLex to the buyout firm CVC, the offshore outsourcer Pangea3 from Thomson Reuters to Ernst & Young — a Big Four accountant now owning the review floor another firm's associates once stood on.[267–270] On the consumer side, LegalZoom listed on Nasdaq in 2021 above $7 billion.[271] Each of those was a single piece. Together they moved a whole segment: the Thomson Reuters series caught alternative legal services climbing from $8.4 billion in revenue in the mid-2010s to $28.5 billion by 2023.[272,273] Capital had already bought law's grinder layer, top to bottom. It relabeled the work first, and the rule never noticed.

Two firms tried the same trade in the open, with the label still on, and both died of it. Clearspire ran a two-entity structure in 2011: a lawyer-owned practice beside an investor-funded service company, a management organization years before anyone used the phrase. It dissolved in 2014.[274] Atrium, Justin Kan's law-firm-plus-software venture, raised $75 million from Andreessen Horowitz and shut down inside two years.[275] They had the idea and not the machinery. The software that could finally do the grinder work cheaply had not been built yet, so their platforms cost more than the labor they replaced. Their graves marked the threshold. The 2026 wave was not the first attempt on law's economics, only the first to arrive after the tools did.

The interlude is the whole argument in miniature. Everything outside capital was supposed to do to a profession happened to law's volume work between 2000 and 2021: consolidation, industrialization, offshoring, an outright buyout round financed by Permira and CVC. The one difference was semantic. The work got relabeled "not law" instead of the rule getting changed. The wave now cresting is not new. It is the same process reaching the layers that cannot be relabeled, the parts of a firm where a client still looks a lawyer in the eye.

18.2 The Side Door

The structure Rafi used has a name and a pedigree. A ***management services organization*** keeps the law firm lawyer-owned, holding the clients and the professional judgment. An outside-owned company owns everything else and rents it back under a management agreement at a flat or cost-plus fee. The money attaches to the operations and never to the practice or its fees. Rule 5.4 stays intact on the page. It just no longer reaches the part of the firm that got sold.

The whole game turns on how that management fee is written. A flat fee, or cost plus a fixed margin, reads as rent: the firm pays a set price for services rendered. A fee pegged to a share of the firm's revenue reads as something else, a silent partner drawing profits, and that is fee-sharing, the precise thing Rule 5.4 forbids. Every state that has blessed the structure has drawn its line in the same place. In February 2025 Texas becomes the first state ethics body to bless the legal management organization, and in the same breath forbids any fee set as a percentage of revenue.[276] California exempts flat-fee organizations while walling off other routes. Colorado's 2026 statute bans fees tied to revenue "directly or indirectly."[250,254] The permitted shape is narrow and getting narrower. Capital keeps fitting through it. By late 2025 one advisory firm counts more than a dozen legal management deals already closed.[277]

None of this would be necessary in Arizona. There the ownership rule is simply gone, and an investor can buy a law firm outright. But Arizona is one state, and the reform stalled almost everywhere it was tried next. In the rest of the country the front door stays bolted, so the capital uses the side one. The management organization is what outside money does in a nation that mostly refused to change the rule.

It takes the rule at its word, owns everything the word does not protect, and waits.

The design is borrowed, not invented. Corporate-practice-of-medicine rules bar outsiders from owning a clinical practice, so American dentistry built the dental service organization. The dentist owns the practice. A separate company owns the chairs, the software, the billing, and the brand. Heartland Dental and Aspen Dental grew into national chains on exactly that split, most of it financed by private equity. Accounting reached the same answer through its own arm's-length practice structures. Law is now tracing the diagram one firm at a time.

The deals cluster where Britain's experiment said they would, in personal injury. Contingency fees behave more like an investable stream of cash than any other kind of legal work, and the personal-injury segment led Britain into outside ownership for the same reason. In January 2026 a private-equity vehicle called Orion Legal buys the non-legal platform of Louisiana's Dudley DeBosier Injury Lawyers outright. The attorneys keep the practice and take a minority stake in the management company that now runs their office.[278] They sold the building and kept the practice, then bought back a room in the building. Two months later Rafi does the same thing in Phoenix at ten times the size.

Something is exchanged in each of these deals beyond the money. The partner who sells keeps the law and the personal liability that rides with it, and hands the machine that runs the firm to an owner whose clock is the fund's, not the next partner's. For a founder near retirement that is the whole point. The operations were the only part of a partnership that could ever be turned into cash, and now they can be. The junior who might once have inherited the firm inherits a management contract instead. The firm survives the sale. The partnership as a way of owning it does not.

By late 2025 the money reaches the profession's core. McDermott Will & Schulte is a top-twenty global firm whose combined revenue neared $3 billion in 2025. It confirms that it is exploring private-equity investment through a management organization, the first firm of its size to say so aloud.[13,14] A firm of that scale even looking tells you the workaround has left the volume segment and reached the top of the market. The exploration is still unresolved by mid-2026, and in the meantime the firm supplies its own irony. In July 2026 it hires Robert Rizzo, a dealmaker from Weil, to co-head the practice group that advises private-equity buyers. The chairman, Ira Coleman, calls that practice a "power alley" and says the firm is "all in" on private-equity work.[279] McDermott counsels the buyers by day and studies becoming a seller by night.

The largest name to test the structure belongs to the largest firm in the segment. Morgan & Morgan is John Morgan's personal-injury operation, roughly $2.4 billion in revenue across all fifty states. In June 2026 it retains J.P. Morgan to explore a minority-stake sale that could top $1 billion, with a public listing floated as a long-shot someday. John Morgan calls the exercise "purely exploratory."[15] A Morgan had hired a Morgan to put a price on the firm that carries his name.

18.3 The Other Doors

The management organization is the busiest of the doors, not the only one. There are three in all, and they share a logic. One sells the operations and rents them back. One buys equity through Britain's open regime and carries the arrangement home. One routes the capital into the software, so the money never has to enter the firm at all. Each takes Rule 5.4 at its word, and each ends the same way: an outside investor earning a return on a law firm it is not allowed to own.

Litigation finance cut the second. Funders already bankroll commercial lawsuits in exchange for a slice of the eventual award, a real industry the Government Accountability Office mapped in 2023.[280] The next step was to own the firm itself, not just the case. In 2020 Burford Capital took a 32 percent equity stake in a London litigation boutique called PCB, the first time a funder owned part of a law firm, allowed under Britain's alternative business structure regime.[281] In 2025 Burford begins pitching the same move in the United States: minority stakes in American firms, routed through management organizations.[282] The largest firms answer coolly. They have no succession gap and no shortage of cash, and they do not want their litigation funder owning a piece of the house. A year on, Burford can describe a pipeline but no closed American deal.

The third door needs no law firm to take the money at all. When Norm Ai launched its affiliated practice, Norm Law, in November 2025, Blackstone's $50 million went into the technology company, not the lawyer-owned firm. The firm licenses the software and pays for the use of it.[18] The capital never touches the practice, so the structure is legal in all fifty states at once. By July 2026 Norm Ai has raised a $120 million round that pushes its total past $260 million.[283] The firm attached to it stays, on paper, an ordinary partnership of lawyers.

That is the door the machines walk through. The capital funds the software, the software does the grinder work, and the firm licenses the result. Norm even supplies the chapter's last irony. In April 2026 Norm Law hires Bill Mone, a private-equity partner from Ropes & Gray, to build a group serving private-equity clients.[284] A firm that by design takes no outside capital into itself now runs a practice built to advise the people who deploy it. The workaround has become a specialty a firm can staff for.

* * *

By the summer of 2026 the side door has its own dedicated fund. On July 16, three former Gridiron Capital dealmakers close Uplift Investors' debut fund at a $670 million hard cap in Darien, Connecticut. Will Hausberg, Doug Rosenstein, and Brad Skaf are 42, 39, and 38, mid-career buyout men rather than gray eminences. Legal services is one of five "microsectors" the fund is built to buy into. Its legal platform is Orion Legal, the same vehicle that bought Dudley DeBosier, now managing two more plaintiff firms as well, Hughes & Coleman and John Foy & Associates.[285] What started as a structuring trick for one Phoenix firm now has a fund and a thesis behind it.

The sellers are lining up for a structural reason. About 40 percent of law-firm partners expect to retire within a decade, and a partnership, unlike a company, has no stock to hand its founders on the way out.[17] A retiring partner is normally paid off out of the firm's current profits, which means the next generation funds his exit out of its own future earnings. The management organization breaks that arithmetic. It lets the founder cash out the value of a firm he could never take public, and it lets the buyer keep the returns without ever owning a share of the law.

The pattern is one the reader has watched twice already, in other rooms. Banking's rule gave on the floor of an exchange, accounting's in a decade of mergers; law's is giving through a management agreement drafted to keep the rule technically intact. Each conversion moves the same thing — the accumulated restraint of a partnership, the earlier generations' habit of taking less so the firm would outlast them. The generation holding the equity when the capital arrives prices that restraint and sells it, and the buyer books a return on restraint it never had to practice.

Rule 5.4 still stands, word for word, in almost every state. Nobody repealed it. Capital found the seams the rule does not cover: the operations, the software, the offshore review floor, the technology license. It poured in through those. Banking's dam broke in 1970 in a single stroke, a year everyone could name. Law's is not breaking so much as leaking, through a dozen doors at once, while the rule stays nailed to the wall above them. The volume end of American law has stopped debating its version of 1970. It is papering the deals. And in Darien, the fund to finance the next round has already closed.

CHAPTER NINETEEN

The Machines Arrive

On 27 February 2025, a scoreboard goes up, and for the first time the lawyers are on it too. The company that builds it is Vals AI, working with the analysts at Legaltech Hub and a bench of practicing attorneys recruited through Cognia Law. The project lead is Tara Waters. Nicola Shaver and Jeroen Plink design the study around her. The premise is simple enough to fit on a napkin and awkward enough that no vendor has ever run it in public. Take seven tasks that junior lawyers actually do. Give them to the four leading legal-AI products and to a panel of lawyers sourced from Am Law 100 firms. Score both, blind, against the same answer key.[286] The four products are the ones every general counsel is being pitched that winter: Harvey's assistant, Thomson Reuters's CoCounsel, vLex's Vincent, and Vecflow's Oliver. LexisNexis enters and then withdraws from most of the tasks before the scoring is done.

The headline number lands like a slap. On document question-answering, Harvey's assistant scores 94.8 percent against a lawyer baseline of 70.1 percent.[286] Not a photo finish. A rout, on the kind of work a second-year associate bills at several hundred dollars an hour. The machines sweep four of the seven tasks outright — the document question-answering just described, plus extraction, summarization, and transcript analysis — and tie a fifth, a chronology exercise, dead even. For the first time, an independent referee rather than a marketing department has put a number on a sentence the profession has spent two years half-believing.

Then look at the two tasks the lawyers win. On redlining a contract, the best AI tool, Harvey, manages 65.0 percent; the humans score 79.7 percent.[286] On finding the right filing in EDGAR, the securities database, the lawyers take it 70.1 to 55.2. The pattern in the losses is sharper than the pattern in the wins. Redlining is not reading a document; it is guessing what a specific counterparty will sign. EDGAR research is not retrieval; it is knowing which drawer the answer lives in before you open it. The machines take the work that is really pattern-matching against a corpus. They lose the work that is judgment about a particular human being on the other side of a deal.

That split is the whole chapter in miniature. The tasks the machines win are the grinder layer: the first drafts, the diligence memos, the document review that a partnership pyramid buys cheap from associates and sells dear to clients. The tasks they lose are the reason the partners sit at the top of the pyramid at all.

A benchmark meant to measure software has, without meaning to, drawn a line straight through the economics of a law firm.

The February result is not a fluke of one hard test. Eight months later, in October 2025, the same team runs a second benchmark narrowed to legal research, the task lawyers thought safest, and the tools average 80 percent against a human 71.[287] The scorecard keeps landing on the same side. What it measures is narrow, and the people who built the benchmark say so. What the money does with it is not narrow at all.

19.1 Entry Prices

The most important number in the spring of 2026 is not on any scorecard. It is a valuation. On 25 March, Harvey announces $200 million in fresh funding at an $11 billion valuation, co-led by GIC, Singapore's sovereign wealth fund, and Sequoia.[288,289] Six weeks earlier the company had been worth $8 billion; a year before that, $3 billion.[290,291] The firm has re-priced itself nearly fourfold in thirteen months, without selling a thing anyone can point to.

Winston Weinberg is thirty-one. He was a securities and antitrust associate at O'Melveny & Myers before he co-founded Harvey in 2022. That makes him precisely the defector the pattern keeps producing: the person inside the firm who reads the economics first, then leaves to build the thing that eats it. He tells an interviewer that Harvey "hasn't touched the majority" of the money it has raised.[292] Read that slowly. A company valued in eleven figures is sitting on more committed capital than it has found uses for. Its valuation rests entirely on where investors expect the business to go, not on any dollar anyone has taken off the table.

Behind the valuation is a revenue line that did not exist three years ago. Harvey crosses $100 million in annual recurring revenue around August 2025 and, by one close estimate, approaches $300 million by the following May, with roughly half the Am Law 100 now on its customer list.[293] The incumbents are moving on the same board. In November 2025, Clio, a practice-management company, buys the legal-research firm vLex for $1 billion and raises $500 million of its own at a $5 billion valuation.[294] The research database and the case-management system, the two pieces of plumbing every firm already rents, are being bought up and wired to the same models.

Hold onto that beat, because the reader has met it twice before. Every figure in this section is an entry price. Nobody has cashed out. When DLJ went public in 1970 and when Goldman finally voted in 1998, the partners in the room were selling something they had spent careers building. Here the money is arriving before the exit, betting on a liquidity event that has not happened and may be years away.

The capital is early on purpose.

And it is not betting on one horse. In March 2026, Legora, a Stockholm startup barely two years old, raises its way to a $5.55 billion valuation.[295] Its co-founder, Max Junestrand, is twenty-five. He gives the competitor's line the wave needs: Legora is gaining on Harvey, he says, "with fewer employees and less spend."[296] Behind him the same money is buying practices, not just software. Eudia, the first AI-native firm to take an Arizona license, raised up to $105 million from General Catalyst, roughly $75 million of it earmarked to buy traditional firms outright.[297,298]

The escalation does not slow, and the aggregate is the number to hold. The first quarter of 2026 alone absorbs $2.34 billion of legal-technology funding across 103 deals.[299] Eve crossed a billion-dollar valuation; one contract-review startup raised on a billion dollars of contracts run in nine months; the rest was a blur of smaller rounds.[300,301] And on 7 July 2026, ten days before the present tense of this book, Norm Ai raises $120 million at a $1.2 billion valuation, past $260 million raised in under three years.[283,302]

Its founder, John Nay, frames the work as building "the interface between AI and the most legitimate encapsulation of human values: law." The structure underneath the sentence matters more than the sentence. Norm's affiliated law firm, launched the previous November, prices legal work on outcomes instead of hours, and it is chaired by Mike Schmidtberger, until recently the executive-committee chair of Sidley Austin.[18,302] A senior partner from one of the largest firms in the country now lends his name to the machine that is coming for the billable hour.

Two theories of the money run through the wave, and they are the two conversion routes this book has watched run twice already. One says: replace the pyramid's labor with software. The other says: recapitalize the labor you have and make it faster. New-entrant displacement on one side, incumbent recapitalization on the other. Banking ran the first with DLJ and the second with everyone who followed. Accounting ran both across thirty years. Law is running them at the same time, in the same quarter, with the same investors' names on both sides of the ledger.

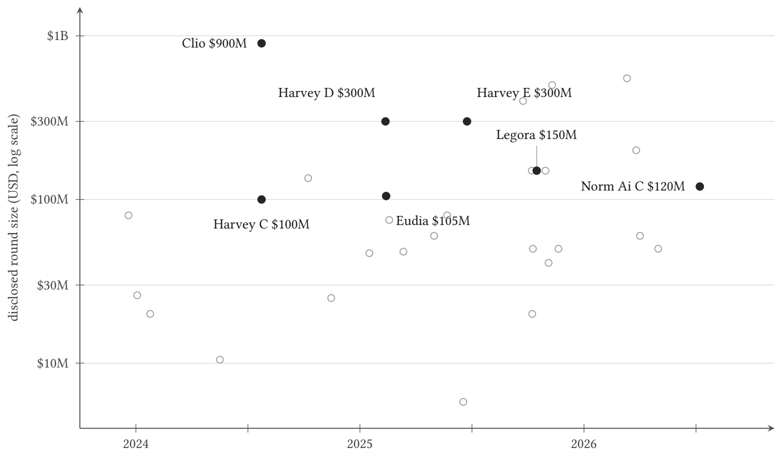

Figure 19.1: The entry prices: disclosed legal-technology funding rounds, 2023–2026, on a logarithmic scale. Labeled points are the marquee rounds discussed in this chapter; open circles are the rest of the wave.

19.2 The Stack

By the surface numbers, the American law firm has never been healthier. The Am Law 100 posts $158.3 billion in gross revenue for 2025, up 13.3 percent in a single year, and average profits per equity partner reach $3.15 million, up 12.3 percent.[303] A record year, by the only scoreboard the partners keep. If the machines are coming for the business, the profit line has not heard about it. Headcount tells the same cheerful story: the hundred firms employ 123,953 lawyers, 7.7 percent more than a year before.[303] The spread inside the average is its own tell. Revenue per lawyer runs from $4.47 million at Wachtell, which keeps a thin roster and sells judgment, down to $464,000 at Dentons, the sprawling network built for volume.[303]

The strain shows one level down, in who counts as a partner at all. In 2025, salaried "non-equity" partners cross 50.9 percent of all Am Law 100 partners: an outright majority, for the first time.[303] In the early 1990s they were under five percent of the count. The title that once meant ownership now mostly means a bigger salary and a business card, and the equity tier it sits above is not just growing more slowly. It is shrinking. Equity-partner headcount, which crept up about 0.7 percent a year through the late 2010s, fell 0.5 percent in 2025.[303] The record profits are being split among fewer real owners, and the number of

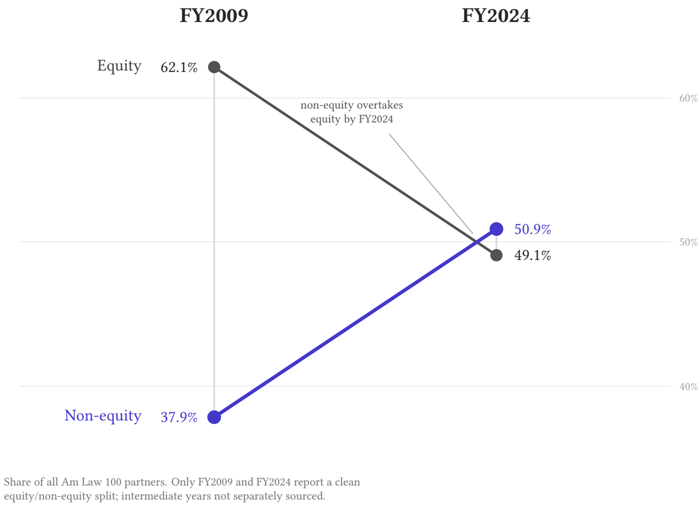

Figure 19.2: The quiet restructuring inside the Am Law 100: salaried partners' share of all partners crossed half between fiscal 2009 and fiscal 2024.

salaried lawyers stacked beneath each of them keeps rising: 4.01 in 2019, 4.57 by 2024.[303]

Picture the two shapes side by side (Figure 19.3). The old one is the pyramid every associate learns on the first day. A narrow band of partners sits at the top, a wider band of senior associates below them, and a broad base of juniors does the document review and first drafts. The base pays for itself twice. The juniors accept a discounted salary in exchange for training and a shot at the top, and their billed hours, marked up over their cost, are the profit the partners divide. The pyramid is a machine for turning cheap junior time into partner income, and a tournament for deciding who climbs it.

The machines attack the base directly, and the base is exactly where the evidence says software bites hardest. Across randomized and field experiments in writing, consulting, support, and legal drafting, generative AI produces its largest gains among junior and lower-skilled workers. Speed improves by 25 to 130 percent on the tasks it can do.[304–308] The tasks it does best are the grinder layer: the first drafts, the review, the diligence summaries the VLAIR scorecard already showed it winning. A partnership monetizes that work at a multiple of its cost. When the cost falls toward zero, so does the multiple, and the base of the pyramid stops funding the top. The compressed stack in the figure is what remains. A thin associate tier sits over a layer of AI systems that is owned rather

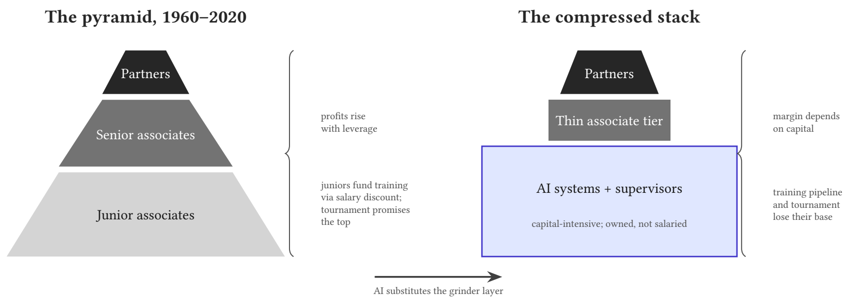

Figure 19.3: The partnership pyramid and the stack that replaces its base. Junior associates once funded their own training and the partners' margin; when software absorbs the grinder layer, the margin depends on owned capital and the training pipeline loses its floor.

than salaried, and the partners' margin now depends on capital instead of cheap labor. The training pipeline that the base used to pay for loses its floor, and the tournament loses the prize it was selling.

There is a second casualty in that sentence, quieter than the profit math. The grinder work was never only a profit center. It was school. A young lawyer learned the shape of a merger by reviewing ten thousand documents, learned what a covenant did by drafting a bad one and watching a partner fix it. Hand that work to a machine and the associate bills fewer wasted hours, which the client likes. The associate also stops serving the apprenticeship that made the next partner. Nobody has decided to close the school. It is being defunded task by task, by the same tools that make the quarter look good.

19.3 Two Clocks

Before declaring the machines the winners, read the counter-evidence, and read it from the company with the most to gain by hiding it. In May 2026, Harvey open-sources its own Legal Agent Benchmark and, weeks later, publishes the results.[309,310] Under a strict standard that a complex, multi-step legal task counts only if the system completes every step correctly, the best frontier models finish fewer than 10 percent of the work end to end. Anthropic's Claude Opus 4.7 leads at 7.1 percent. Its smaller sibling manages 5.4, and one competing model just 2.1.[310] The same software that routs a lawyer on a single extraction task falls apart across a whole matter, where the steps compound and one wrong turn ruins the file. The grinder tasks are falling. The assembled work product is not, yet. That jagged frontier is what the productivity studies keep describing: brilliant at the piece, unreliable at the whole.

The pieces are enough to sell, though. On 11 June 2026, Eve, the plaintiffs'-firm platform, ships an operating system with a large promise attached. It says a single attorney can carry three times the caseload, settle for roughly a third more, and close cases about half as fast.[311] Whether those numbers survive an audit is beside the point for the argument here. A firm that believes them will hire one lawyer where it used to hire three, and the two it does not hire are the base of the pyramid.

The economists have not seen displacement either. The cleanest economy-wide study, built on Danish administrative records across eleven occupations most exposed to AI, finds effects on earnings and hours that round to nothing two years after the tools arrived.[312] That null is the genuine hostage of this whole story. If it holds through the late 2020s while adoption saturates, the timing is wrong and the partners have years, not quarters. The transition thesis does not need mass unemployment. It needs only that the marginal associate hour stop being the profit engine, and the capital in the last section is already priced as if it has.

Which is why the last number in the chapter is the one that gives the game away. On 1 July 2026, Milbank raises the starting salary for a first-year associate from $225,000 to $235,000, with the scale rising to $455,000 by the eighth year.[313] It is the first movement in the industry pay scale in three years, flat since 2023, and within days McDermott, Quinn Emanuel, and Hueston Hennigan match it.[313,314] The tournament prize is still going up, on schedule, exactly as it has for decades.

Ask who is meant to collect the windfall if the bet pays. Not the first-years chasing the raised scale, whose prize is a salary, and salaries do not compound into ownership. Not the salaried partners, now a majority who hold a title and no equity. The gain, if it comes, accrues to whoever owns the machine and whoever owns the shrinking equity tier when the work finally reprices. That is a small room, and it is the same small room the last two passages emptied money into. Norm Ai already fields lawyers who bill on outcomes rather than hours, for clients that between them manage more than thirty trillion dollars in assets.[302] The billable hour, the unit the whole pyramid was built to sell, is being quoted out of existence by a three-year-old firm.

So two clocks run in the same building, and they no longer keep the same time. One is the salary scale: the human tournament, its prize escalating by ten thousand dollars a rung, promising every first-year that the base of the pyramid still leads somewhere. The other is the capital, compounding at a speed no salary scale has ever matched, pricing the base of the pyramid as a cost to be engineered away. The same firm that just raised a first-year's salary by ten thousand dollars is, in the same quarter, paying a subscription to the company building that first-year's replacement.

Here is the beat, then, laid on the sequence the book has traced from 1970. The grinder layer is being bought, not by a rival firm but by capital that means to own the work instead of renting it from juniors. The machines have arrived, and they have taken the tasks the pyramid was built to sell, while the tasks that make a partner a partner remain, for now, on the human side of the line. Nobody has cashed out. Every valuation is an entry price, and the equity tier the grinder used to fund is already thinning from the top. The vote has not been called. But the associates in the room, drafting the memos a machine now writes for a few cents, are funding a tournament whose prize is being quietly repriced while they compete for it.

CHAPTER TWENTY

The Mechanism

In the summer of 2008, the partners of Booz Allen Hamilton did the one thing a professional firm is not supposed to do on purpose. They cut their own firm in half.

The cut was clean and deliberate. On one side went the scaled business: technology and management services sold to the United States government at volume, the kind of work that grows with headcount and systems and capital. That half was sold to the private-equity house Carlyle. On the other side stayed the partners themselves and the work only they could do, the strategy advice a chief executive buys from a particular person whose judgment he trusts. The partners kept that half for themselves.

Then the two halves lived out their futures in public, and the futures were not the same. Carlyle's government business listed on the New York Stock Exchange in 2010 and prospered as a public company. The partner-owned strategy half struggled to reach scale, cast around for a home, and sold itself to the accounting firm PwC within six years.[315] One firm, one century of accumulated name, split in a single boardroom into the two shapes this book has followed through banking and accounting and now law.

What makes Booz Allen the cleanest possible illustration is what it lacked. Consulting never had an ownership rule. No statute kept outside capital out, no equivalent of the old exchange bylaw or Rule 5.4 stood between the partners and a buyer. So when the firm sorted itself, it sorted on the economics and nothing else. It split exactly where the economics said it should: capital and technology took the volume end, and human judgment kept the other. The firm drew, by hand and in one summer, the line that every profession in this book has been redrawn along. This chapter is about that line, and about why it falls where it does.

20.1 The Same Sequence

Lay the three industries side by side and they run through the same six stages. Put yourself in the room while they run: if you had been a partner, at which stage would you have known the firm was going to be sold? The honest answer is later than you would want, because the stages that decide the outcome look least like a crisis while they happen. They are analytical, not a calendar; they interleave and double back. What repeats is the repertoire, and so does the order in which it takes a partner's choices away.

It begins with a dam. A rule, written or merely customary, holds outside capital out: the stock exchange's member rule, the accountants' majority-ownership statutes, the lawyers' ban on outside owners (Chapter 3). Behind the dam the partnership's economics run quietly, and the returns are high and invisible. Donaldson, Lufkin & Jenrette earned better than fifty cents on every dollar of partner capital in the 1960s, and that number had no public price until the day a prospectus disclosed it (Chapter 4). A closed firm keeps its own scorecard.

Then something moves the dials. Call the first dial capital intensity: how much money the work needs behind each partner. Call the second codification: how much of the value comes from procedures and systems and data rather than from a person's tacit skill. In banking both moved at once: the paperwork crisis made the back office ravenous for capital while Black-Scholes turned trading into mathematics a computer could run. In accounting the shock was the consulting opportunity, which demanded technology the audit annuity could not fund. Later came a plainer fact: a generation of partners wanted to retire, with no one inside able to buy them out. In law the two shocks arrive together, artificial intelligence and the same retirement overhang, and that coincidence is most of what this book is about.

With the dials moving, capital probes the dam for cracks, and it probes where the rules are thinnest. A firm announces a public offering in defiance of the exchange. An accounting network charters a law firm in the one country whose rules allow it. Litigation funders buy quiet stakes in London practices, and investors assemble ownership one careful ethics opinion at a time. The experiments cluster in the most permissive jurisdiction available, which is why a small state can matter far beyond its size. Arizona and its open door (Chapter 17), England and Wales and their licensed firms (Chapter 16): these are where the industry runs its pilots before it commits.

When a first mover survives, the wave follows, and among the firms free to sell it runs in order. It starts with the most capital-hungry, most codified work and ends with the least. Banking is the clean case. After 1970 every firm could float or sell, and the order held: the settlement-choked retail houses went first, the traders next, and the pure advisers last. Goldman Sachs held out until 1999 (Chapter 7), in a sequence the economists later modeled almost exactly.[2] Accounting is the qualified case. Its mid-market sold first while the Big Four, the most codified and capital-hungry firms of all, stayed unconverted. For them no clean sale existed: too large to buy, and unable to separate the regulated audit franchise from the salable rest, as EY discovered when it tried (Chapter 13). Law, on the same logic, should convert its volume work first and its bet-the-company advice last, and the 2025 movers, personal-injury shops and contracting platforms, are consistent with it.

Incumbents and regulators react, sometimes by accommodating and sometimes by fighting. The exchange amended its own constitution once the shift was plainly irreversible. Texas blessed the management-services structure. Where a coalition could still hold the dam, it blockaded: the American Bar Association voted 314 to 106 against multidisciplinary practice in 2000, and California killed its own reform bill in 2025. The blockades are real, and they set the transition's map and its pace. In neither completed case did they hold the economics back for good. They only redirected the capital into engineered structures and friendlier jurisdictions.

What settles at the end is not the partnership's extinction. It is a ***barbell***. At one end sit scaled, capital-backed, technology-heavy platforms owning the volume work. At the other end, small partnerships where judgment still beats capital persist and command premium pay, the way elite advisory boutiques run on compensation ratios north of sixty percent of revenue.[110,111] The casualties gather in the middle, in the firms too big to live on judgment alone and too small to buy the platform.

Which answers the question the section opened with. A partner watching for the crisis would have caught it at the wave, stage four, when the rivals began to sell. By then the dam had already cracked and the dials had already moved. The firm's fate was set two stages earlier, before anyone in the room would have used the word.

20.2 The Threshold

The whole sequence turns on those two dials, and the turn has a threshold. Below it the partnership pays. Above it, outside capital wins. Push capital intensity and codification far enough, together, and the form that ran the profession for a century stops making sense to the people who own it.

To see why, ask what the partnership was ever *for*, since a corporation can raise money and hire talent perfectly well. It does four jobs a balance sheet cannot. Partners who share unlimited liability are careful whom they let sign the firm's name, and a client who cannot judge the work directly reads that care as a signal.[23] They teach the young the part of the craft that lives in no manual, by binding them to the old for years. They watch each other the way only peers can, because only another partner knows whether the job was done right.[22,24] And each one posts a bond: a partner's own wealth and future rents stand behind the work, which is what makes the promise to a client credible.[28] That bond was already partial by the 1990s, when the move to limited-liability partnerships capped what a partner could lose to capital and career rather than the family home. Each of those jobs loses value as the dials move. When quality becomes observable and skill becomes codified, the first two jobs are worth less. The financing advantage of outside ownership, which grows with the capital the work needs, finally outweighs what the partnership uniquely provides.

Figure 20.1 draws the line that results. Plot every kind of practice on two axes, codification along the bottom and capital intensity up the side, and a frontier cuts across the plane. Work above and to the right of it has converted or is converting. Work in the low corner has not.

The low corner is where the partnership survives, and it survives for a reason the figure only half shows. Add a third condition to low capital and low codification: clients who cannot verify the work even with all the procurement machinery in the world. Wachtell, Lipton sits there. Nobody mounts a takeover of Wachtell, because there is nothing to buy but the partners' judgment, and judgment does not transfer with a stock purchase. The merger boutiques sit there. So does the tax-controversy practice that lives a rung above the commoditized compliance work. This is the barbell's judgment end, and on present evidence it holds indefinitely.

So what does the current shock actually move? Mostly one dial, hard. Artificial intelligence raises codification directly by taking over drafting, review, and research. The experimental record is consistent: the productivity gains land heaviest on junior and lower-skilled work, the exact layer the pyramid was built to sell.[304–306] That is the pattern the organizational economists predicted a generation ago, when they argued that machines answering the routine questions leave an organization needing fewer layers and fewer juniors per senior.[316] The client's ability to verify quality, the last and stickiest dial, has begun to move too. Since early 2025, public benchmarks have scored commercial legal software and human lawyers against the same rubrics, which makes professional work product comparable across providers for the first time. Vendors now advertise their measured results.[286,287] No corporate client has yet started machine-grading its own firms' deliverables in a systematic way. Until one does, verifiability stays the least-moved dial.

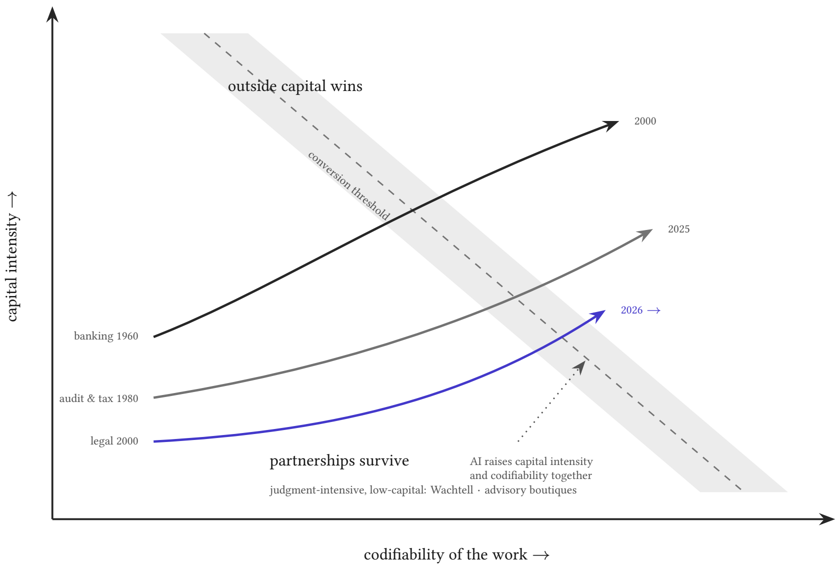

Figure 20.1: The conversion frontier. A practice crosses over when codification and capital intensity carry it past the line. The regulatory toll shifts the line outward, which is why law's volume work sat below it until Arizona, the management-services structure, and cheap machine drafting arrived together. Positions are illustrative, not measured.

20.3 The Ledger and the Casualties

When a profession crosses the threshold, the accounts settle the same way every time. It pays to read the ledger in advance, because every party now bargaining over law's future has a counterpart who already lived it.

The converting generation of seniors captures the windfall. They do not sell one year's profit. They sell the capitalized rents of every generation that built the firm before them, released all at once to whoever holds the equity when the music stops. The sellers line up across the three trades: Goldman's partners in 1999, the accounting partners who cashed out from 2021 on, the law-firm founders now quietly hiring investment banks. Clients gain, on price and on choice, and take on something they did not have before, an agency exposure, because someone else's return target now sits inside the advisory relationship. The client was never passive in this, either. Over a generation the buyer built its own power. In banking, institutions' share of American equity climbed from under a tenth in 1950 to about two-thirds by the late 2000s; in law, the corporate client grew the same way.[317] The buyer that could benchmark and unbundle was the quiet engine under all three stories, and the epilogue counts what it cost in full (Chapter 22).

The juniors lose. The *tournament* financed their training: they accepted discounted pay for apprenticeship and a shot at the top, and clients paid for the learning through billed hours.[36,37] It comes apart when those hours vanish. The tool and platform vendors, meanwhile, take a cut nobody budgets for at the start. An information layer has captured durable rents in every prior transition, and the software layer will do the same. The public gains access and efficiency, and pays for the gap between the new form and the old rules.

That gap is where the casualties gather, and they rhyme across the three industries because they share one missing part. Sort them by mechanism rather than by trade and three families appear, each of them a story about risk appetite cut loose from personal liability.

The first family died of speed. Firms used outside capital to grow faster than their own governance could digest. Slater & Gordon, the first law firm to sell shares to the public, destroyed close to a billion Australian dollars of value chasing acquisitions its systems could not absorb.[212] Axiom Ince swelled from eighty staff to fourteen hundred in two years and then imploded, leaving a hole in client money put at roughly £64 million.[224] The pattern had a forgotten ancestor: the physician practice-management roll-ups of the 1990s, publicly funded consolidations of a licensed profession that collapsed together at the decade's end when acquisition accounting outran the work of actually integrating the practices.[318] The signature is the growth rate, and outside capital is the accelerant that makes the fatal speed reachable.

The second family died when the bond stopped being posted. These are the firms whose quality-assuring rents were competed or regulated away while their exposure to risk stayed exactly where it was. Arthur Andersen is the type case: by the end its partners' incentives had migrated to consulting revenue while the audit signature still carried the old liability. When the failure came it was total, because the asset that failed was credibility itself (Chapter 11).[130] The investment banks that broke in 2008 tell the same story from the other side of the conversion: Bear Stearns and Lehman Brothers took risks with shareholders' money that partners had once priced against their own. When the rents that fund honesty shrink, the bond quietly lapses, and no one notices until the day it is called.

The third family was watched by the wrong regulator. Supervisors kept their eyes on the old form while the risk had already moved into the new one. Britain's solicitors' regulator had tagged Axiom Ince high-risk and moved too late anyway. The Securities and Exchange Commission ran a program of consolidated supervision over the investment banks and abandoned it as broken in the very week the banks collapsed. In case after case the transition outran the supervisor's tooling by roughly a decade, and that lag, more than outside ownership itself, is what the record most consistently convicts.

20.4 What Is Different This Time

Everything so far is the completed pattern, run twice and readable. Three things about the present are genuinely new, and they are why law's volume work looks likely to convert on the clock of accounting's five-year sale phase rather than banking's thirty-year arc.

The earlier shocks worked from the top. They made a firm's work capital-hungry or made a senior's skill codifiable, and the partnership adjusted around the edges. This shock works from the bottom. Machine drafting substitutes for the base of the pyramid directly, the grinder layer of first drafts and document review the tournament existed to sell. It does so cheapest exactly where the pyramid was widest.[306] A profession can survive the commoditization of its junior work. Tax did. It survives only by rebuilding training on some other footing, and this is the second new thing: the financing of professional formation breaks. Juniors bought tomorrow's partnership with today's discounted hours, and clients paid for the learning inside those hours. Automate the hours and both sides of that contract default at once. Who pays to train the next generation, when clients will not and the tournament cannot, is the least-solved problem of the whole transition.

The third difference is speed. Capital now moves faster than any prior generation of it, priced and deployed on a clock the old partnerships never faced. The honest hostage here is the labor data: the most careful economy-wide study, on Danish records across the most exposed occupations, finds effects on pay and hours that round to nothing two years in.[312] If that null holds while adoption saturates, the partners have years rather than quarters. The thesis does not need mass unemployment, though. It needs only the junior hour to stop carrying the margin, and the money is already priced as if it has.

So place the beat where it belongs. Banking faced no ownership rule after 1970 and still took three decades to finish. Accounting's mid-market sale phase took about five years. Law's volume segments are on the shorter clock now, its judgment segments holding in the low corner where clients still cannot check the work and capital still cannot buy the skill. The mechanism is the one that cut Booz Allen in half in a single summer, drawn slower and against more resistance but along the identical line. The partnership's genius was to make a person's judgment worth more than a balance sheet. The machine's argument is that, for most of the work, it no longer is. Where that argument is wrong, in Wachtell's corner and the boutique's, the partnership will keep its price. Everywhere else, the sellers are choosing their bankers.

CHAPTER TWENTY-ONE

What Happens Next

On 16 July 2026, in Darien, Connecticut, three men who used to work together at a middle-market buyout shop close a fund. Will Hausberg is forty-two, Doug Rosenstein thirty-nine, Brad Skaf thirty-eight. Their new firm, Uplift Investors, has spent a year raising money against a thesis. The thesis has just cleared its hard cap: $670 million, the most anyone has committed to buying pieces of American professional-services firms in a single dedicated pool.[285] These are not gray eminences cashing in a lifetime of relationships. They are mid-career dealmakers who looked at a fragmented industry, saw the same arbitrage twice, and built a machine to run it a third time.

The flagship platform inside the fund is called Orion Legal. It began in January, when Orion took the back office of Dudley DeBosier, a Louisiana personal-injury firm, and left the lawyers holding their practice and a minority stake in the management company.[278] By the fund's close it holds two more plaintiff shops the same way: Hughes & Coleman across Kentucky and Tennessee, and John Foy & Associates in Atlanta.[285] Three law firms, one owner for the plumbing underneath them, and now a dedicated fund whose investors expect the roster to keep growing. Uplift pitches legal services as one of five fragmented industries worth rolling up, the language of an asset class rather than a favor.[285] The side door that a handful of firms had been quietly building through 2025 and 2026 has its own capital now. The lawyers who walk through it take the money for the back office and keep the practice, the cleanest version of the trade this book keeps describing.

It happens one day before this book's present tense. That is the useful thing about the date: it lets the reader watch a prediction turn into a fact in real time, which is what the rest of this chapter is about. Everything so far in these pages has been history, some of it thirty years finished. Now the book has to do the harder thing and say what comes next, in a way concrete enough to be wrong.

The method is the one the whole book has been building toward. Law is running a passage that banking and accounting have already run to the end, and the finished runs are calibrated clocks. Lay law's 2026 over the banking timeline and it reads one hour; lay it over the accounting timeline and it reads another. Where the two agree, the forecast is firm. Where they disagree, the disagreement is itself information. So before the bets, the two clocks.

21.1 1975 and 2021

Start with banking, which took about thirty years from first defection to finished conversion. Dan Lufkin took DLJ public in 1970; Goldman, the last holdout that mattered, voted to convert in 1998 and went public the next year. The turning point in the middle was May Day, 1 May 1975, the morning the fixed commission died and the price of a trade began its long fall toward zero. Placed on that clock, legal services in 2026 sits at roughly 1975. Law's 1970 was 2020, the year Arizona became the first state to scrap the rule against nonlawyer ownership of a firm.[240,241] And law's May Day is arriving now, in the form of software that does to the billable associate hour what deregulation did to the fixed commission: turns a protected price into a falling one. The largest firms remain unconverted and insist they always will be, which is exactly what the bulge bracket, the handful of top-tier underwriting banks, said in 1975.

Now lay law over accounting. That passage took about thirty-five years end to end, from the merger wave that made the Big Eight into the Big Six in 1989 to the private-equity rollups of the mid-2020s. But its capital phase, once outside money finally arrived, ran in roughly five. On that clock, law sits at about 2021, the year outside capital first arrived at platform scale. The tell is the structure. Accounting's investors did not get in by repealing the rule that auditors must own audit firms. They got in through the alternative practice structure: a split that put the regulated work in a licensed shell and the capital in the company beside it. That is close enough to take the profit and far enough to satisfy the rulebook. Law has imported the same device and given it a new name, the management-services organization. By the summer of 2025 a single advisory firm could count more than a dozen law-firm MSO deals already done.[277] The count is doubling off a small base, which is where the accounting curve sat the year before its own wave broke.

The structure spreads the way accounting's did, by accumulation rather than by any single repeal. Texas blessed the law-firm MSO in a 2025 ethics opinion, while barring the management fee from running on a percentage of revenue.[276] California wrote the workaround into statute the same year, exempting the flat-fee MSO even as it blockaded other routes.[250] Each opinion, each carve-out, each closed deal makes the next one routine. That is how the legal barrier falls: not by fifty states striking Rule 5.4 at once, but by the slow manufacture of precedent that turns a prohibited thing into a structured one. Read together, the two clocks put law in the same place from both directions, mid-pricing-shock on one and first-capital-wave on the other.

Where the clocks disagree, they disagree about speed, and the disagreement runs one way. Banking's shock in 1975 was a price: the fixed commission fell, and the firms that lived on it had to find a new model. Accounting's shock was structural: mergers and outside capital reshaped who owned the work. Law is taking both at once, and it is taking a third thing neither predecessor faced at its moment of conversion. The billable hour is losing its protected price to deregulation. At the same time the task underneath it is becoming codifiable, done by software that can be owned rather than by juniors who must be paid. Capital and codification arrive in the same decade. So do not average the two clocks. Expect law to run its passage faster than either banking or accounting did, and to cut deeper into the pyramid before it is done. The following expectations run from 2026 to about 2035, and they are calibrated to that compression.

21.2 Five Bets

A forecast that cannot lose is worthless, so each of these carries the condition that would break it. Five predictions, each stamped with a date it comes due and a fact that would prove it wrong; read them as bets, not as forecasts dressed up as certainty. You can start scoring them now. The first half of 2026 is in, and the early returns run with the model without proving it.

The first bet: the volume end of law converts first and fast. Personal injury, immigration, consumer work, high-volume contracting, the retail brokerages of the profession, should reach majority outside ownership or MSO capitalization within five to seven years, by roughly 2032. The engine is succession. About forty percent of American law-firm partners expect to retire within a decade, and in most states the MSO is the only liquidity event on the table.[17] The 2026 evidence is the personal-injury wave itself: the Phoenix MSO deal, Morgan & Morgan's billion-dollar stake exploration, and Uplift's own fund all landed in the months before this book's present tense (Chapter 18). On track. Personal injury is playing the part that banking's retail brokerages played in 1970 and 1971. They converted first because they held the least judgment premium to protect and the most routine volume to industrialize. This bet fails if the volume segments are still majority lawyer-owned at the end of the decade.

The second bet: the middle gets squeezed and the top splits into a barbell. Mid-market full-service firms have too little judgment premium to run as boutiques and too little capital to build platforms, which is the fate the middle of the banking market met in the 1980s. Expect rising merger activity and the first distressed consolidations. At the top, expect a handful of the largest firms to take platform capital through MSOs. The true bet-the-company advisory shops stay private on premium partnership economics, the way Goldman's advisory franchise converted last and Wachtell has not converted at all. The logic is the same one that spared banking's boutiques. Where the product is genuine judgment about a particular deal, capital cannot buy the margin: it lives in a handful of partners' heads and walks out the door if you squeeze it. Everything below that line is a platform business waiting for a balance sheet. So far, partial. McDermott Will & Schulte, at nearly $3 billion in 2025 revenue, is openly exploring a private-equity structure, the first firm of its size to do so.[13,14] But it has not closed, merger activity among mid-sized firms is climbing rather than surging, and no distressed consolidation has yet arrived. The squeeze is on schedule; the crack has not come. The bet fails if the decade ends with no elite-firm MSO deal and no capital-driven collapse among the mid-market firms caught between boutique economics and platform scale.

The third bet: the regulatory map splits in two, then re-converges through structure. Expect five to ten more states to liberalize in some form by 2030, and a comparable wave of blockades, with the capital redirected rather than stopped. Both sides are moving on schedule. Colorado enacted a fee-sharing ban aimed squarely at private equity in June 2026. Illinois sent its own restrictions on law-firm investors to the governor's desk that June, after both chambers passed them over the spring. California advanced a follow-on bill through its Assembly.[254,255,258] On the other side, Arizona's alternative-business-structure regime keeps issuing licenses, and KPMG has stood up a growing United States legal practice under one. The antitrust staff of the Federal Trade Commission and the Justice Department formally urged Tennessee to open its market on competition grounds.[243,248,260] The blockades redirect the money toward the flat-fee MSO, which is why that structure, not the licensed outside-ownership firm, is becoming the American default. This bet fails if the liberalizing count stalls below five, or if a blockade actually stops the capital instead of rerouting it.

The fourth bet is the grim one, and it is not yet due. If the British record generalizes, the American market should see its first serious failure of a capital-backed firm within about five years of the wave's start, by roughly 2030. The cause will be one of two: an accumulator that grew past its own governance, or a breach of the client money a firm holds in trust. Whether it becomes law's Axiom Ince, a scandal that tightens supervision, or law's Andersen, a collapse that remakes the rules, depends on whether state supervision has been rebuilt for entity-level risk by then. On present evidence it has not. A state bar is built to answer a complaint about one lawyer: to suspend a license, to sanction a filing, to police the conduct of a person. It is not built to read a platform's balance sheet, to watch a management company's growth velocity, or to notice that client funds pooled across forty acquired offices are thinner than they should be. Both finished transitions failed at exactly this seam. The regulator held the tools to discipline individuals and watched an institution outrun them. Across the record assembled from these three histories, velocity rather than ownership is the best single predictor of collapse. Nothing has failed yet. Not yet due. This bet cannot be scored until the horizon arrives; if 2030 passes with no failure at all, the claim that the British pattern travels is simply wrong.

The fifth bet: the training problem surfaces by mid-decade. Entry-level legal hiring should follow the trajectory of the bank analyst class with a lag of two or three years, visible compression now and a structural redesign of the first-year role by 2028 to 2030. Banking is the leading indicator, and banking is already moving. Major banks are cutting junior cohorts and thinning staffing ratios on explicit artificial-intelligence grounds. One large firm plans to move from six juniors per senior toward four, and some entry-level classes are cut by as much as two thirds.[319] Legal compression lags, exactly as the lag predicts. When it arrives in force, some institution will have to pay for the professional formation the pyramid used to fund out of cheap junior hours. No firm, school, or platform has yet stepped forward to do it. Not one. The bet fails if entry-level legal hiring holds its shape through the decade and the first-year associate job looks in 2030 the way it looks today.

21.3 Weather and Climate

Six months is weather, not climate. Five bets scored across a single half-year prove direction, not destination. The whole forecast rests on one premise the evidence has not yet settled: that the marginal associate hour is ceasing to be the profit engine of a law firm. If that premise is wrong, the timing is wrong, and the partners have years instead of quarters.

The premise has a genuine hostage. The Danish null from Chapter 19 has not moved: in the occupations most exposed, the measured effect of the tools on earnings and hours still rounds to zero.[312] If it stays at zero through the late 2020s while adoption saturates, the capital now priced for a fast transition is priced wrong. The counter-evidence runs the same direction, and it comes from an awkward source. Harvey, the most richly valued firm in legal software, publishes a benchmark showing that the best frontier models complete fewer than ten percent of complex, multi-step legal matters end to end under a strict standard.[310] The machines take the grinder tasks and still fail the assembled work product. The transition thesis does not need them to succeed at everything. It needs only that cheap junior time stop paying for the top of the pyramid, and the capital in the Uplift fund is already betting that it has.

There is a first crack, and it is worth reading carefully because it could be either thing. The private-equity deal pace in accounting, which had doubled year on year since 2021, decelerated in the spring of 2026 for the first time.[191] Read one way, that is a market maturing on schedule, the early multiple arbitrage used up and the buyers turning selective. Read another way, it is the first sign of indigestion in the profession furthest along the passage, the one whose clock law is trying to read. A deceleration is not a failure. But the fourth bet says a failure is coming, and decelerations are where failures start.

One caveat belongs in every version of this forecast, and it is the same one the investors keep stepping around. Every valuation marked on an AI-native legal firm is an entry price. As of this writing, no such firm has exited at anything close to the numbers on its own cap table. The money has arrived before the proof, which is the defining feature of a wave still cresting and the reason the fourth bet, the one about failure, is the one to watch. The returns booked so far are the returns of succession liquidity and multiple arbitrage, real but front-loaded. The durable returns, if the banking precedent holds, will go to whoever actually rebuilds how the work gets done, not to whoever finances the old pyramid at a markup. No one yet knows which of the funded firms that will be. And the British record, which ran this experiment a decade early, supplies the risk memo the American enthusiasm keeps skipping. Governance capacity, integration pace, and control over client money separated the platforms that survived there from the ones that became a scandal.

So place the beat where it belongs on the sequence this book has traced since 1970. Banking ran the passage in thirty years and finished; the partners in that last Goldman room kept the money. Accounting ran it in thirty-five and finished; Andersen is the headstone and the Big Four are the survivors. Law is somewhere around its own 1975, or its own 2021, depending on which finished clock you trust. The machine that both ran is visible now in a Connecticut fund, a Phoenix back office, and a Danish payroll file that has not yet moved. These are bets, not prophecy, each one stamped with the date it comes due and the fact that would prove it false. The reader who wants to know whether the book was right does not have to wait for the end of the story. The clock is running while the page is being read, and the next domino leans a little further with each quarter's deals.

CHAPTER TWENTY-TWO

Who Pays

On 7 June 2026, Fortune and Bloomberg report that the banks have begun laying the groundwork. JPMorgan plans to staff its deals with four junior analysts instead of six, and to offshore roughly half of what remains. Across Wall Street, entry cohorts are being cut by as much as two-thirds, and the reason given on the record is artificial intelligence.[319] The number that gives the moment its shape sits one line down in the same reporting. Junior staff make up about 62 percent of the banks' own AI talent. The people being cut are the people building the thing that cuts them.

The tournament had a prize. For a century it was the organizing promise of every professional pyramid. Grind through your twenties at wages below what your hours were worth, and buy a lottery ticket on a partner's share of the rents. Juniors bore the cost today for a claim on tomorrow, and the firm's clients paid for the juniors' learning through the markup on their billed hours.[36,37] Automating the base of the pyramid breaks both sides of that bargain in one stroke. The firm no longer needs the hours; the juniors no longer get the apprenticeship the hours paid for. What is being cancelled in the Fortune report is not a class of jobs. It is the prize.

The juniors are the one constituency the sources barely name. Goldman's selling partners have biographies; the founders now taking outside money sit for interviews; the investors issue press releases. The analyst whose cohort is two-thirds smaller appears in the record as a ratio. Never a name. The reckoning the rest of the book was building toward starts with them, because in all three transitions they paid the most and were counted the least.

22.1 The Ledger

Across banking, accounting, and now law, the accounts settle the same way. Somebody captures a windfall, somebody trades a bond for a price, and somebody pays to train the next generation or nobody does. Set the constituencies side by side and the transfer becomes legible.

The generation of seniors who sell leave with the windfall: the capitalized value of every generation of restraint before them, released all at once to whoever happens to hold the equity when the music stops. Goldman's partners voted their private franchise onto the public market in 1998; when it listed, 221 former partners held 48.3 percent of the firm.[9] Accounting's mid-market partners sold to private equity from 2021 on, and in 2026 the law-firm founders took their turn (Chapter 18). The timing is not an accident. Roughly 40 percent of American law-firm partners expect to retire within a decade, and for most of them the outside investor is the only buyer their equity will ever have.[17] Each seller monetizes rents that took decades and predecessors to build.

Clients gained price and choice, and traded away a bond they had not priced. The old partnership sold to a person: a chief executive with a trusted adviser, a board that took the audit on faith, an investor who took the broker's quoted price. Over two generations that buyer acquired staff, procurement machinery, and data, until it stopped being a person at all. Ben Heineman had shown the way. He pulled sitting partners in-house at General Electric and made the legal department the seat of judgment, the model he later named the inside-counsel revolution.[320] The American in-house bar roughly tripled in a generation, until the corporate legal department rivaled the Am Law 200's own domestic lawyer headcount.[321] The institutional buyer benchmarked price and competed the relationship down to its parts. What it accepted in exchange was a new exposure: somebody else's return target now sits inside the advisory relationship, where a partner's own wealth used to sit. The adviser answered to an owner.

The public gained access and efficiency and inherited the supervisory gap. Audit shows the cleanest version. In late 2024 the accounting regulator finally adopted firm-by-firm quality metrics, over the profession's long objection that audit quality could not be reduced to numbers.[322] Months later it withdrew them, unapproved, after Washington's leadership changed.[323] Legal quality is now measured the same contested way: since February 2025 independent benchmarks have scored commercial legal AI and human lawyers on the same rubrics, making professional work commensurable for the first time.[286] Access to justice runs the other direction and lands in the same place. The 2025–26 blockade wave that began in California and Colorado was written to keep outside capital out of law firms. It mostly redirected the capital into engineered structures.[254] The dam leaked. In every completed case the new form ran for about a decade under rules built for the old one, and the public carried the difference.

22.2 What Replaces the Bond

Under all of this sits the thing the book has called the partnership bargain, and it did three jobs at once. It posted a bond, it paid for tuition, and it enforced a restraint. A conversion settles the first two in cash and leaves the third to whoever comes next. The third is the hard one. Take them in turn, because the professions are answering them at very different speeds.

The bond was a promise to the client, secured by the partners' own wealth and the rents that wealth protected. When the stream of quality rents that funded honesty shrank, the bond quietly stopped being posted, and the failure, when it came, was total, because the asset was credibility.[28] Arthur Andersen is the epitaph. By 2001 its partners were paid on consulting while the signature on the audit still carried the liability. Eighty-five thousand people lost their firm over a document-shredding conviction the Supreme Court later reversed.[148] The bond was never perfect, and it had already been softened from within. The move to limited-liability partnerships in the 1990s capped what a partner could lose to capital and career rather than the family house. The new firms know the vacancy is there, and they market a replacement: compounding proprietary data and a human verification layer, institutional memory that does not walk out the door at night. Whether accumulated data can bond quality the way a partner's house once did is the transition's largest untested claim. The first capital-backed failure will price it.

Tuition, the second job, has no replacement at all. The apprenticeship the pyramid financed ran on a simple exchange: the client overpaid for junior hours, and the overpayment trained the juniors. Strip the junior hours out and the training loses the money that paid for it, which is precisely what the staffing cuts in the opening scene describe. When machines answer the routine questions, the efficient firm needs fewer layers and fewer juniors per senior, and the productivity gains land hardest on exactly the bottom rung the pyramid used to monetize.[2,306] Tax already proved a profession can outlast the automation of its junior work. It survives only by rebuilding formation on some other basis, and no industry has found the basis yet. Goldman's trading floor already ran the experiment to its end. The analyst class that once learned the business by doing the execution work machines now perform has been shrunk and re-tasked, its apprenticeship gone with the hours that paid for it.[324] Which institution will pay to make a senior professional when clients will not is the least- solved problem in all three of these histories.

The restraint is the subtlest of the three, and the one the reader should watch. Partners policed one another because each carried the others' liability, and that mutual exposure compounded across generations into a culture of not doing the profitable, dangerous thing. The exposure was the discipline. Conversion hands that accumulated restraint to shareholders who own the stock but not the clients, and to regulators whose tools lag the new form by about a decade. The honest counterweight belongs here: when advertising ran this experiment, outside ownership left the quality of large agencies and their creative product measurably unchanged.[325] Public capital did not automatically destroy the work. What it removed was the particular discipline of people whose own fortunes were the bond, and nothing has been proven to sit in its place except supervision that has never once arrived on time. The last time publicly funded roll-ups consolidated a licensed profession at speed was the 1990s, in physician practice management. Those companies collapsed almost together at the decade's end, when acquisition accounting outran the integration it was paying for.[318] The accelerant was capital; the fuse was velocity; and the discipline that might have caught it in time lived in a form that no longer existed.

* * *

So the accounts are not balanced; they are transferred. The seniors who converted carried the money out. Clients hold a stock price where a promise used to be. The juniors lost the tournament and its financed apprenticeship and were offered nothing yet in return. A cheaper, wider, faster profession went to the public, along with a decade-long window in which the new machine runs on the old rules. That is what it costs to sell a partnership, and the bill does not come due to the people who signed the deal. Someone else pays it. Not every practice sells; the judgment boutiques that survived banking's conversion still command premium economics at the narrow end of the barbell, and law's will too.[110,111] What does not survive is the pyramid that stood in the middle, and the tournament it ran.

The book has watched this happen twice with the outcome known and is watching it a third time with the outcome still open. Which returns the question to the only profession that matters to the person holding this book: your own. The thesis was never really about Goldman or Andersen or the founders now hiring bankers in Phoenix. It was that when capital and technology break the economics of a human-capital partnership, the partners sell the firm and the generation in the room keeps the money. The question is not whether your profession restructures. It is who will be sitting in the room when it does, and whose name lands on the windfall. It is who pays to train the people who come after, and what will stand in for the promise the old form made to the people it served.

Somewhere tonight the room is booked and the chairs are set. The partners file in. The vote is on the agenda, and the paperwork is already filed.

Author's Note on Method

This is a desk study, not reportage. I did not interview the principals; I read what they left behind — published histories, academic papers, regulatory and court records, the financial press, and the firms' own numbers. No scene in this book is invented. Where a room, a vote, or a quotation appears, an identified source put it there, and the Sources section says which one. Where credible sources disagree, and on market sizes, deal values, and private-company valuations they usually do, the text says so and gives the range rather than picking the flattering end.

* * *

Portions of this book were drafted and edited with the assistance of AI tools. All facts, citations, and final language were reviewed and verified by the author.

* * *

The research report this book grew from, its data files, and the scripts behind every chart are preserved alongside the manuscript; each chart's sources are identified in the data inventory. If you find an error, I want to know about it, and future printings will carry the fix.

Acknowledgments

This book started as a research report with footnotes and no people in it. The people got in anyway. My debts run to the historians, economists, and journalists cited in the Sources, who did the hard archival work decades before I needed it; to the regulators and courts whose files preserve what the firms would rather have forgotten; and to colleagues across law, accounting, and finance who spent twenty years arguing with me about where all this was heading. Some of them were right.

* * *

The errors that survive are mine.

About the Author

Michael J. Bommarito II is an entrepreneur, researcher, and advisor working at the intersection of law, finance, and computation. He co-founded LexPredict, one of the first legal analytics companies (acquired in 2018), and 273 Ventures, and his research on the legal profession, legal complexity, and artificial intelligence has been cited in academic literature, in the press, and before regulators. He has spent two decades building, studying, and advising professional services firms — which is to say, watching the events of this book's final chapters from the inside.

Publisher inquiries may be directed to Michael J. Bommarito II.

Sources

[1] Goldman Sachs. ***In a Paradigm Shift, Goldman Sachs Decides to Go Public.*** Goldman Sachs official firm history. 2026. URL: https://www.goldmansachs.com/our-firm/history/moments/1999-ipo (visited on 07/17/2026).

[2] Alan D. Morrison and Jr. Wilhelm William J. "The Demise of Investment Banking Partnerships: Theory and Evidence." In: *Journal of Finance* 63.1 (2008), pp. 311–350. DOI: 10.1111/j.1540-6261.2008.01317.x.

[3] Program on Negotiation, Harvard Law School. *The Story of Goldman Sachs: Negotiating a Vision.* Secondary summary of the December 1986 partners' retreat. 2026. URL: https://www.pon.harvard.edu/daily/business-negotiations/the-story-of-goldman-sachs-negotiating-a-vision/ (visited on 07/17/2026).

[4] Charles D. Ellis. *The Partnership: The Making of Goldman Sachs.* New York: Penguin Press, 2008.

[5] CBS News. *Goldman Partners Back IPO.* 1998. URL: https://www.cbsnews.com/news/goldman-partners-back-ipo/ (visited on 07/17/2026).

[6] CBS News. *Goldman Sachs Cancels IPO.* 1998. URL: https://www.cbsnews.com/news/goldman-sachs-cancels-ipo/ (visited on 07/17/2026).

[7] The Baltimore Sun. *Corzine Yields Reins at Goldman Sachs.* 12 January 1999; Bromberg "palace revolt" quote. 1999. URL: https://www.baltimoresun.com/news/bs-xpm-1999-01-

12-9901120160-story.html (visited on 07/17/2026).

[8] Associated Press. *Goldman Sachs Raises $3.66 Billion in IPO*. AP wire via Deseret News, 4 May 1999. 1999. URL: https://www.deseret.com/1999/5/4/19443479/goldman-sachs-raises-3-66-billion-in-ipo-br-last-big-private-wall-street-firm-finally-goes-public/ (visited on 07/17/2026).

[9] Wikipedia contributors. *Goldman Sachs*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Goldman_Sachs (visited on 07/17/2026).

[10] U.S. Department of Justice. *Deputy Attorney General Transcript News Conference — Arthur Andersen Indictment*. March 14, 2002. https://www.justice.gov/archive/dag/speeches/2002/031402newsconferncearthurandersen.htm. 2002. (Visited on 07/17/2026).

[11] EisnerAmper. *EisnerAmper Announces Investment by TowerBrook Capital Partners*. PR Newswire, August 2, 2021. https://www.prnewswire.com/news-releases/eisneramper-announces-investment-by-towerbrook-capital-partners-301346101.html. 2021.

[12] CPA Practice Advisor. *Citrin Cooperman's PE-Backed Ownership Flips From New Mountain Capital to Blackstone in 'Monumental' Deal*. January 7, 2025. https://www.cpapracticeadvisor.com/2025/01/07/citrin-coopermans-pe-backed-ownership-flips-from-new-mountain-capital-to-blackstone-in-monumental-deal/154011/. 2025.

[13] Law.com. *McDermott Considers Taking on Private Equity Investment*. Law.com, November 12, 2025. 2025.

[14] The American Lawyer. *In 'Defining Year' for McDermott, Revenue Reaches Nearly $3B*. Law.com, January 23, 2026. https://www.law.com/americanlawyer/2026/01/23/in-defining-year-for-mcdermott-revenue-reaches-nearly-3b/. 2026.

[15] Reuters. *Law Firm Morgan & Morgan Explores Stake Sale, Eyes Long-Term IPO, Sources Say*. June 5, 2026. 2026.

[16] Bloomberg Law. *Arizona Law Firm Severs Back Office for $125 Million Investment*. April 2026. https:

//news.bloomberglaw.com/business-and-practice/arizona-law-firm-severs-back-office-for-125-million-investment. 2026.

[17] Kaye Wiggins and Stephen Foley. *US Personal Injury Firms Lead Effort to Bring Private Equity into Legal Sector*. Financial Times, November 26, 2025. https://www.ft.com/content/474697db-e84f-49ce-9099-eb9d7d2d04b7. 2025.

[18] Norm Ai. *Norm Ai Announces $50 Million Blackstone Investment, Launch of New AI-Native Law Firm Norm Law*. PR Newswire, November 20, 2025. 2025.

[19] Goldman Sachs. *A Future Iconic Leader Begins Work as a Janitor's Assistant*. Goldman Sachs official firm history. 2024. URL: https://www.goldmansachs.com/our-firm/history/moments/1907-sidney-weinberg (visited on 07/17/2026).

[20] Goldman Sachs. *Sidney Weinberg Leads the Firm for More than Three Decades*. Goldman Sachs official firm history. 2024. URL: https://www.goldmansachs.com/our-firm/history/moments/1930-sidney-weinberg-leads (visited on 07/17/2026).

[21] Wikipedia contributors. *Sidney Weinberg*. Tertiary; cross-check only. 2024. URL: https://en.wikipedia.org/wiki/Sidney_Weinberg (visited on 07/17/2026).

[22] Armen A. Alchian and Harold Demsetz. "Production, Information Costs, and Economic Organization." In: *American Economic Review* 62.5 (1972), pp. 777–795.

[23] Jonathan Levin and Steven Tadelis. "Profit Sharing and the Role of Professional Partnerships." In: *Quarterly Journal of Economics* 120.1 (2005), pp. 131–171. DOI: 10.1162/0033553053327506.

[24] Eugene F. Fama and Michael C. Jensen. "Separation of Ownership and Control." In: *Journal of Law and Economics* 26.2 (1983), pp. 301–325. DOI: 10.1086/467037.

[25] Goldman Sachs. *Goldman Sachs Trading Corporation Bears Full Brunt of 1929 Crash*. Goldman Sachs official firm history. 2024. URL: https://www.goldmansachs.

com/our-firm/history/moments/1928-goldman-sachs-trading-corporation (visited on 07/17/2026).

[26] Goldman Sachs. *Penn Central Bankruptcy Sends Shock Waves Through Commercial Paper Market*. Goldman Sachs official firm history. 2024. URL: https://www.goldmansachs.com/our-firm/history/moments/1970-penn-central-bankruptcy (visited on 07/17/2026).

[27] Wikipedia contributors. *Gus Levy*. Tertiary; cross-check only. 2024. URL: https://en.wikipedia.org/wiki/Gus_Levy (visited on 07/17/2026).

[28] Benjamin Klein and Keith B. Leffler. "The Role of Market Forces in Assuring Contractual Performance." In: *Journal of Political Economy* 89.4 (1981), pp. 615–641. DOI: 10.1086/260996.

[29] David H. Maister. *Managing the Professional Service Firm*. New York: Free Press, 1993.

[30] David H. Maister. "Balancing the Professional Service Firm." In: *Sloan Management Review* 24.1 (1982), pp. 15–29.

[31] Alan D. Morrison and Jr. Wilhelm William J. "Partnership Firms, Reputation, and Human Capital." In: *American Economic Review* 94.5 (2004), pp. 1682–1692. DOI: 10.1257/0002828043052367.

[32] Wikipedia contributors. *Paul Cravath*. Tertiary; cross-check only. 2024. URL: https://en.wikipedia.org/wiki/Paul_Cravath (visited on 07/17/2026).

[33] Cravath, Swaine & Moore LLP. *The System's History*. 2024. URL: https://www.cravath.com/the-cravath-system/the-system-s-history.html (visited on 07/17/2026).

[34] Wikipedia contributors. *Cravath System*. Tertiary; cross-check only. 2024. URL: https://en.wikipedia.org/wiki/Cravath_System (visited on 07/17/2026).

[35] Encyclopedia.com. *Cravath, Swaine & Moore*. Hoyt Moore "no light on" quote; Cravath firm-size figures. 2024. URL: https://www.encyclopedia.com/books/politics-and-business-magazines/cravath-swaine-moore (visited on 07/17/2026).

[36] Marc Galanter and Thomas Palay. *Tournament of Lawyers: The*

Transformation of the Big Law Firm. Chicago: University of Chicago Press, 1991.

[37] Ronald J. Gilson and Robert H. Mnookin. "Coming of Age in a Corporate Law Firm: The Economics of Associate Career Patterns." In: *Stanford Law Review* 41.3 (1989), pp. 567–595.

[38] Goldman Sachs. *New Partners Reflect the Firm's Evolving Partnership*. Goldman Sachs official firm history; first woman (Jeanette Loeb) and first Black partner (Garland Wood). 2024. URL: https://www.goldmansachs.com/our-firm/history/moments/1986-new-partners.html (visited on 07/17/2026).

[39] Goldman Sachs. *Goldman Sachs Operates Briefly as a Joint Stock Association*. Goldman Sachs official firm history. 2024. URL: https://www.goldmansachs.com/our-firm/history/moments/1922-joint-stock-association.html (visited on 07/17/2026).

[40] New York Stock Exchange. *Crisis in the Securities Industry: A Chronology, 1967–1970*. Tech. rep. Filed 30 July 1971; hearing 2 August 1971 (Chairman John E. Moss). Full text mined for ch03. Prepared for the Subcommittee on Commerce, Finance, Committee on Interstate, and Foreign Commerce, U.S. House of Representatives, 1971. URL: https://www.sechistorical.org/collection/papers/1970/1971_0730_NYSECrisis.pdf (visited on 07/17/2026).

[41] Wyatt Wells. "Certificates and Computers: The Remaking of Wall Street, 1967 to 1971." In: *Business History Review* 74.2 (2000). Full text mined for ch03. Also via Cambridge Core., pp. 193–235. URL: https://gwern.net/doc/economics/automation/2000-wells.pdf (visited on 07/17/2026).

[42] Carola Frydman and Eric Hilt. *Partnerships vs. Corporations in Investment Banking: Evidence from the Back Office Crisis in the 1960s*. Working Paper. https://egc.yale.edu/sites/default/files/Economic%20History%20Conferences/2021-11/7%20Hilt%20ada-ns.pdf. Yale Economic Growth Center economic history conference, 2021.

[43] John Brooks. *The Go-Go Years: The Drama and Crashing Finale of Wall Street's Bullish 60s*. Cited via Wells (2000) on the Robinson & Co./First Devonshire/Plohn & Co. failures; not independently retrieved in the 2026-07-17 pass. New York: Weybright and Talley, 1973.

[44] U.S. Securities and Exchange Commission. *Study of Unsafe and Unsound Practices of Brokers and Dealers*. Tech. rep. Cited via Wells (2000) and Frydman/Hilt; source of the "as high as $400 million" securities-theft estimate. H.R. Doc. No. 92-231, 92nd Cong., 1st Sess., 1971. URL: http://3197d6d14b5f19f2f440-5e13d29c4c016cf96cbbfd197c579b45.r81.cf1.rackcdn.com/collection/papers/1970/1971_1201_SECUnsafe_01.pdf.

[45] Arthur M. Louis. "Ross Perot Moves onto Wall Street—Fast." In: *Fortune* (July 1971). Cited via Wells (2000); not independently retrieved in the 2026-07-17 pass.

[46] Securities Investor Protection Corporation. *About SIPC — History and Track Record*. 2024. URL: https://www.sipc.org/about-sipc/history (visited on 07/17/2026).

[47] Institutional Investor. *The Pioneers*. https://www.institutionalinvestor.com/article/2btfmc2gaedb5m5wvlc74/home/the-pioneers. 2019.

[48] Wikipedia contributors. *Richard Jenrette*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Richard_Jenrette (visited on 07/17/2026).

[49] FundingUniverse. *History of Donaldson, Lufkin & Jenrette, Inc*. 2026. URL: https://www.fundinguniverse.com/company-histories/donaldson-lufkin-jenrette-inc-history/ (visited on 07/17/2026).

[50] Encyclopedia.com. *Donaldson, Lufkin & Jenrette, Inc*. 2026. URL: https://www.encyclopedia.com/books/politics-and-business-magazines/donaldson-lufkin-jenrette-inc (visited on 07/17/2026).

[51] Harvard Business School, Baker Library. *William Donaldson*. Entrepreneurs Collection. 2026. URL: https://www.library.hbs.edu/

Entrepreneurs/resources/persons/william-donaldson (visited on 07/17/2026).

[52] Harvard Business School, Baker Library. *Dan Lufkin*. Entrepreneurs Collection. 2026. URL: https://www.library.hbs.edu/Entrepreneurs/resources/persons/dan-lufkin (visited on 07/17/2026).

[53] Terry Robards. *Big Board Defied by Member Firm*. The New York Times, 23 May 1969: DLJ's announcement of intent to sell shares to the public. Title/date/byline (Terry Robards) confirmed via direct nytimes.com fetch 2026-07-17. 1969. URL: https://www.nytimes.com/1969/05/23/archives/big-board-defied-by-member-firm-donaldson-lufkin-planning-public.html (visited on 07/17/2026).

[54] The Lufkin Foundation. *About Dan Lufkin*. 2026. URL: https://lufkinfoundation.com/en/about-Dan-Lufkin.php (visited on 07/17/2026).

[55] Donaldson, Lufkin & Jenrette, Inc. *Form 10-K405 for Fiscal Year 1999*. SEC EDGAR. The company describes itself as the first publicly owned NYSE member firm. https://www.sec.gov/Archives/edgar/data/29646/000100547700002441/0001005477-00-002441-d1.html. 2000.

[56] Company-Histories.com. *Merrill Lynch & Co., Inc. — Company History*. 2026. URL: https://www.company-histories.com/Merrill-Lynch-Co-Inc-Company-History.html (visited on 07/17/2026).

[57] Wikipedia contributors. *Donald Regan*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Donald_Regan (visited on 07/17/2026).

[58] Begin To Invest. *July 27th — This Day in Stock Market History*. Merrill Lynch's 27 July 1971 NYSE self-listing at $38.25. 2026. URL: https://www.begintoinvest.com/july-27/ (visited on 07/17/2026).

[59] Money. "How the Chairman of Merrill Lynch Invests." In: *Money* (Oct. 1972). Source for Donald Regan's 167,130-share stake (4.2% of Merrill's 1971 issue). URL: https://money.com/archives/1970s/1972/october/how-the-chairman-of-merrill-

lynch-invests/ (visited on 07/17/2026).

[60] Jason Zweig. *How May Day Remade Wall Street*. The Wall Street Journal (author's archive), May 2015. https://jasonzweig.com/how-may-day-remade-wall-street/. 2015.

[61] Wikipedia contributors. *1975 Stock Brokerage Commission Deregulation*. Tertiary; cross-check only. 1975. URL: https://en.wikipedia.org/wiki/1975_Stock_Brokerage_Commission_Deregulation (visited on 07/17/2026).

[62] III Miller James C. and Jeffrey Eisenach. *Price Competition on the NYSE*. Regulation, February 1981 (American Enterprise Institute). 1981.

[63] Charles Schwab Corporation. *What to Know About "May Day" and Chuck Schwab's Vision*. 2025. URL: https://www.aboutschwab.com/mss/story/what-to-know-about-may-day (visited on 07/17/2026).

[64] Wikipedia contributors. *Big Bang (Financial Markets)*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Big_Bang_(financial_markets) (visited on 07/17/2026).

[65] City A.M. *Inside Big Bang: The Chaotic October Morning That Created the Modern City*. Goodison and Scannell quotes. 2016. URL: https://www.cityam.com/inside-big-bang-chaotic-october-morning-created-modern-city/ (visited on 07/17/2026).

[66] Bank of England. *Change in The Stock Exchange and Regulation of the City*. Bank of England Quarterly Bulletin, 1987 Q1. https://www.bankofengland.co.uk/quarterly-bulletin/1987/q1/change-in-the-stock-exchange-and-regulation-of-the-city. 1987.

[67] U.S. Securities and Exchange Commission. *Federal Court Approves Global Research Analyst Settlement*. Litigation Release LR-18438, October 31, 2003. https://www.sec.gov/enforcement-litigation/litigation-releases/lr-18438. 2003.

[68] Wikipedia contributors. *Global Analyst Research Settlements*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Global_Analyst_

Research_Settlements (visited on 07/17/2026).

[69] Wikipedia contributors. *Jack Grubman*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Jack_Grubman (visited on 07/17/2026).

[70] Wikipedia contributors. *Henry Blodget*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Henry_Blodget (visited on 07/17/2026).

[71] Time. *Pumping and Dumping: Top 10 Regrettable E-Mails*. Blodget "POS" email on Lifeminders (LFMN). 2009. URL: https://content.time.com/time/specials/packages/article/0,28804,1907771_1907778_1907820,00.html (visited on 07/17/2026).

[72] CNBC. *Analysts Flee Wall Street with Gallows Humor as Research Changes Loom*. November 17, 2017. https://www.cnbc.com/2017/11/17/analysts-flee-wall-street-with-gallows-humor-as-research-changes-loom.html. 2017.

[73] United Press International. *Phibro to Acquire Salomon Brothers*. 4 Aug 1981; $554M price/date corroboration. 1981. URL: https://www.upi.com/Archives/1981/08/04/Phibro-to-acquire-Salomon-Brothers/5221365745600/ (visited on 07/17/2026).

[74] Fortune. *Behind the Salomon Brothers Buyout*. Tarrytown scene; per-partner payout figures; "What does it mean for me?" 1981. URL: https://fortune.com/article/salomon-brothers-buyout/ (visited on 07/17/2026).

[75] Encyclopedia.com. *Salomon Inc*. Billy Salomon payout "exceeding $10 million"; deal mechanics. International Directory of Company Histories. 2026. URL: https://www.encyclopedia.com/social-sciences-and-law/economics-business-and-labor/businesses-and-occupations/salomon-inc (visited on 07/17/2026).

[76] Fortune. *The Man Who Seized the Throne at Phibro-Salomon*. Gutfreund $32M payout; "I didn't set out to be No. 1"; "I'm a foreigner in that culture". 1984. URL: https://fortune.com/article/john-gutfreund-phibro-salomon/ (visited on 07/17/2026).

[77] Michael Lewis. *Liar's Poker: Rising Through the Wreckage on Wall Street*. New York:

W.W. Norton & Company, 1989.

[78] Wikipedia contributors. *Lehman Brothers*. Tertiary; Schwarzman “dysfunctional” quote; $360M sale. 2026. URL: https://en.wikipedia.org/wiki/Lehman_Brothers (visited on 07/17/2026).

[79] Ken Auletta. *Greed and Glory on Wall Street: The Fall of the House of Lehman*. New York: Random House, 1986.

[80] Wikipedia contributors. *Peter G. Peterson*. Tertiary; Lehman tenure dates. 2026. URL: https://en.wikipedia.org/wiki/Peter_G._Peterson (visited on 07/17/2026).

[81] United Press International. *American Express Buys Lehman Bros.* 10 Apr 1984; $360M Lehman sale. 1984. URL: https://www.upi.com/Archives/1984/04/10/American-Express-buys-Lehman-Bros/4295450421200/ (visited on 07/17/2026).

[82] NNDB. *Shearson Lehman Brothers*. Lehman partners’ $180M convertible debt + $180M subordinated notes. 2026. URL: https://www.nndb.com/company/126/000125748/ (visited on 07/17/2026).

[83] Encyclopedia.com. *Bear Stearns Companies Inc.* Bear 20% IPO stake; capital $46M (1978) -> $517M (1985) -> $1.4B (1989). International Directory of Company Histories. 2026. URL: https://www.encyclopedia.com/social-sciences-and-law/economics-business-and-labor/businesses-and-occupations/bear-stearns-companies-inc (visited on 07/17/2026).

[84] Wikipedia contributors. *Morgan Stanley*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Morgan_Stanley (visited on 07/17/2026).

[85] Timepath. *Morgan Stanley Timeline: Key Milestones and Historical Overview*. Secondary; Morgan Stanley IPO date/price DISPUTED against the chapter spine – verify. 2026. URL: https://timepath.org/morgan-stanley (visited on 07/17/2026).

[86] Wikipedia contributors. *S. Parker Gilbert*. Tertiary; Morgan Stanley chairman 1983-90; equity $207M -> $2B+. 2026. URL: https://en.wikipedia.org/wiki/S._Parker_Gilbert (visited on 07/17/2026).

[87] Fortune. *A Pride of Newly Public Investment Banks*. May 12, 1986. https://archive.fortune.com/magazines/fortune/fortune_archive/1986/05/12/67527/index.htm. 1986.

[88] Lisa J. Endlich. *Goldman Sachs: The Culture of Success*. Definitive interior account of Goldman's IPO debates; chapter titles per Internet Archive include "1986: The Road Less Traveled" and "1995–1998: The Road to IPO". Full text not retrieved in the 2026-07-17 research pass. New York: Alfred A. Knopf, 1999. ISBN: 978-0-679-45080-1.

[89] William D. Cohan. *Money and Power: How Goldman Sachs Came to Rule the World*. New York: Doubleday, 2011.

[90] The Washington Post. *Goldman Sachs IPO Raises $3.66 Billion*. The Washington Post, May 4, 1999. 1999.

[91] CNN Money. *Goldman Sachs Jumps in First Day of Trading*. May 4, 1999. https://money.cnn.com/1999/05/04/markets/goldman/. 1999.

[92] Michael Lewis. *The End*. Condé Nast Portfolio, November 11, 2008. 2008.

[93] Financial Crisis Inquiry Commission. *The Financial Crisis Inquiry Report*. U.S. Government Printing Office, January 2011. https://www.govinfo.gov/content/pkg/GPO-FCIC/pdf/GPO-FCIC.pdf. 2011.

[94] Laurence Ball. *The Fed and Lehman Brothers: Introduction and Summary*. NBER Working Paper 22410, July 2016. https://www.nber.org/papers/w22410. 2016.

[95] Wikipedia contributors. *Net Capital Rule*. Tertiary; secondary summary of Erik Sirri's 9 April 2009 SEC speech disputing the "12-to-1 cap lifted" narrative. 2026. URL: https://en.wikipedia.org/wiki/Net_capital_rule (visited on 07/17/2026).

[96] Wikipedia contributors. *Bear Stearns*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/Bear_Stearns (visited on 07/17/2026).

[97] Andrew Ross Sorkin. *Too Big to Fail: The Inside Story of How Wall Street and Washington Fought to Save the Financial System*. Standard scene-level account of the September 2008 Lehman weekend; recommended primary for

ch08 scene C. New York: Viking, 2009.

[98] Wikipedia contributors. *Bankruptcy of Lehman Brothers*. Tertiary; scene beats to be cross-checked against Sorkin (2009) or FCIC. 2026. URL: https://en.wikipedia.org/wiki/Bankruptcy_of_Lehman_Brothers (visited on 07/17/2026).

[99] Board of Governors of the Federal Reserve System. *Board Approves, Pending a Statutory Five-Day Antitrust Waiting Period, the Applications of Goldman Sachs and Morgan Stanley to Become Bank Holding Companies*. Press release, September 21, 2008. https://www.federalreserve.gov/newsevents/pressreleases/bcreg20080921a.htm. 2008.

[100] Board of Governors of the Federal Reserve System. *Goldman Sachs and Morgan Stanley Transactions May Be Consummated Immediately*. Follow-up to the 9/21/2008 BHC approval; waives the five-day antitrust wait. 2008. URL: https://www.federalreserve.gov/newsevents/pressreleases/orders20080922a.htm (visited on 07/17/2026).

[101] Goldman Sachs. *Goldman Sachs Becomes a Bank Holding Company*. Goldman Sachs official firm history; Blankfein quote. 2008. URL: https://www.goldmansachs.com/our-firm/history/moments/2008-bank-holding-company (visited on 07/17/2026).

[102] Greg Smith. *Why I Am Leaving Goldman Sachs*. The New York Times (op-ed), March 14, 2012. 2012.

[103] The Week. *Why I Left Goldman Sachs: Is the Bank's Most Famous Quitter a Con Man?* Documents the credibility dispute around Greg Smith. 2012. URL: https://theweek.com/articles/471202/why-left-goldman-sachs-banks-most-famous-quitter-con-man (visited on 07/17/2026).

[104] Stanford Magazine. *Leaving Goldman: An Analysis of the Resignation Heard 'Round the World*. 2012. URL: https://stanfordmag.org/contents/leaving-goldman-an-analysis-of-the-resignation-heard-round-the-world (visited on 07/17/2026).

[105] Wikipedia contributors. *Frank Quattrone*. Tertiary; cross-check only. 2026. URL:

https://en.wikipedia.org/wiki/Frank_Quattrone (visited on 07/17/2026).

[106] Institutional Investor. *Takeover Veteran Paul Taubman Aims High with PJT Partners*. Fetched via summary only in the 2026-07-17 pass; read directly before quoting. 2015. URL: https://www.institutionalinvestor.com/article/b14ywvkrp31kmq/takeover-veteran-paul-taubman-aims-high-with-pjt-partners (visited on 07/17/2026).

[107] Wikipedia contributors. *PJT Partners*. Tertiary; cross-check only. 2026. URL: https://en.wikipedia.org/wiki/PJT_Partners (visited on 07/17/2026).

[108] Dealogic. *Are M&A Boutiques After the Big Banks' Lunch?* Dealogic Insight, May 23, 2017. https://dealogic.com/insight/ma-boutiques-big-banks-lunch/. 2017.

[109] Fortune. *Centerview Partners: Small Bank, Big Influence*. 2012. URL: https://fortune.com/2012/08/27/centerview-partners-small-bank-big-influence/ (visited on 07/17/2026).

[110] Evercore Inc. *Evercore Reports Fourth Quarter and Full Year 2023 Results*. Business Wire, January 30, 2024. 2024.

[111] Moelis & Company. *Annual Report on Form 10-K for Fiscal Year 2023*. SEC EDGAR. 2024.

[112] Walter Andrews. *Merger Forms World's Largest Accounting Firm*. UPI, May 19, 1989. https://www.upi.com/Archives/1989/05/19/Merger-forms-worlds-largest-accounting-firm/2657611553600/. 1989. (Visited on 07/17/2026).

[113] FundingUniverse. *History of Ernst & Young*. Company history reprinted from International Directory of Company Histories (St. James Press, 1999). https://www.fundinguniverse.com/company-histories/ernst-young-history/. 1999. (Visited on 07/17/2026).

[114] U.S. General Accounting Office. *Public Accounting Firms: Mandated Study on Consolidation and Competition*. GAO-03-864, July 30, 2003. https://www.gao.gov/assets/gao-03-864.pdf. 2003.

[115] *Peat Marwick, KMG Forming Largest Accounting Firm*. UPI, September 3, 1986. https://www.upi.com/Archives/1986/09/03/Peat-Marwick-KMG-forming-largest-accounting-firm/7663526104000/. 1986. (Visited on 07/17/2026).

[116] FundingUniverse. *History of KPMG International*. Company history reprinted from International Directory of Company Histories (St. James Press, 2000). https://www.fundinguniverse.com/company-histories/kpmg-international-history/. 2000. (Visited on 07/17/2026).

[117] Charles W. Wootton and Carel M. Wolk. "The Development of "The Big Eight" Accounting Firms in the United States, 1900 to 1990." In: *Accounting Historians Journal* 19.1 (1992), pp. 1–27. DOI: 10.2308/0148-4184.19.1.1.

[118] Wikipedia. *Reinhard Goerdeler*. https://en.wikipedia.org/wiki/Reinhard_Goerdeler. Research aid; replace with primary source in manuscript. 2026. (Visited on 07/17/2026).

[119] Charles W. Wootton, Carel M. Wolk, and Carol Normand. "An Historical Perspective on Mergers and Acquisitions by Major US Accounting Firms." In: *Accounting History* 8.1 (2003), pp. 25–60. DOI: 10.1177/103237320300800103.

[120] FundingUniverse. *History of Deloitte Touche Tohmatsu International*. Company history reprinted from International Directory of Company Histories (St. James Press). https://www.fundinguniverse.com/company-histories/deloitte-touche-tohmatsu-international-history/. 1999. (Visited on 07/17/2026).

[121] *2 Accounting Firms Will Be Merged Oct. 1*. Deseret News, July 3, 1989. https://www.deseret.com/1989/7/3/18813918/2-accounting-firms-will-be-merged-oct-1-s-l-management-still-to-be-selected/. 1989. (Visited on 07/17/2026).

[122] Mary W. Sullivan. "The Effect of the Big Eight Accounting Firm Mergers on the Market for Audit Services." In: *Journal of Law and Economics* 45.2 (2002), pp. 375–399. DOI: 10.1086/340812.

[123] *Newsflash: Coopers & Lybrand and Price Waterhouse to Merge*. Accountancy Age, September 18, 1997. https://accountancyage.com/1997/09/18/newsflash-coopers-lybrand-and-price-waterhouse-to-merge/. 1997. (Visited on 07/17/2026).

[124] *And Then There Were Five: Merger of Coopers, Price to Create Accounting Giant*. The Spokesman-Review, September 19, 1997. https://www.spokesman.com/stories/1997/sep/19/and-then-there-were-five-merger-of-coopers-price/. 1997. (Visited on 07/17/2026).

[125] *Coopers & Lybrand and Price Waterhouse*. Journal of Accountancy, December 1997. https://www.journalofaccountancy.com/issues/1997/dec/profiss-dec-1997/. 1997. (Visited on 07/17/2026).

[126] Going Concern. *Learn Your Big 4 Lore: The Failed Merger of Ernst & Young and KPMG*. https://www.goingconcern.com/tbt-failed-merger-ernst-young-and-kpmg/. 2019. (Visited on 07/17/2026).

[127] *KPMG Won't Merge With Ernst & Young*. The Washington Post, February 14, 1998 (headline/date only; full text blocked). https://www.washingtonpost.com/archive/business/1998/02/14/kpmg-wont-merge-with-ernst-young/36e34315-2899-461b-831b-37feeb933a6e/. 1998. (Visited on 07/17/2026).

[128] Encyclopedia.com. *PricewaterhouseCoopers*. https://www.encyclopedia.com/books/politics-and-business-magazines/pricewaterhousecoopers. 2026. (Visited on 07/17/2026).

[129] The Daily Record (Maryland). *Bitter Battle Ends Between Arthur Andersen, Andersen Consulting*. August 7, 2000. https://thedailyrecord.com/2000/08/07/bitter-battle-ends-between-arthur-andersen-andersen-consulting/. 2000. (Visited on 07/17/2026).

[130] PLC Global Counsel. *Andersen: What's in a Name?* Thomson Reuters Practical Law. https://uk.practicallaw.thomsonreuters.com/0-101-7617. 2002.

[131] Wikipedia contributors. *George Shaheen*. Tertiary; cross-check only. Shaheen CEO of Andersen Consulting 1989–1999, revenue $1.1bn to $8.3bn, Webvan employment agreement signed 1999-09-19, "missed out on the windfall of the Accenture initial public offering." 2026. URL: https://en.wikipedia.org/wiki/George_Shaheen (visited on 07/17/2026).

[132] Steven B. Harris. *The Rise of Advisory Services in Audit Firms*. Speech, Practising Law Institute, November 24, 2014. PCAOB. https://pcaobus.org/news-events/speeches/speech-detail/the-rise-of-advisory-services-in-audit-firms_544. 2014.

[133] U.S. Securities and Exchange Commission. *Final Rule: Revision of the Commission's Auditor Independence Requirements*. Release No. 33-7919, November 21, 2000. https://www.sec.gov/rules/final/33-7919.htm. 2000.

[134] Arthur Levitt. *The Numbers Game*. Speech, NYU Center for Law and Business, September 28, 1998. https://www.sec.gov/news/speech/speecharchive/1998/spch220.txt. 1998.

[135] CNN Money. *Accenture IPO Raises $1.7B*. July 18–19, 2001. https://money.cnn.com/2001/07/18/deals/accenture/. 2001.

[136] Accenture Ltd. *Form S-1/A Registration Statement (History of the Arthur Andersen Arbitration)*. SEC EDGAR. https://www.sec.gov/Archives/edgar/data/0001134538/000095013001502267/ds1a.htm. 2001.

[137] FundingUniverse. *History of Cap Gemini Ernst & Young (International Directory of Company Histories)*. https://www.fundinguniverse.com/company-histories/cap-gemini-ernst-young-history/. 2004.

[138] The Washington Post. *KPMG Consulting IPO Gets Mixed Reviews*. February 8, 2001. 2001.

[139] IBM Corporation. *Form 10-K for Fiscal Year 2002 (PwC Consulting Acquisition)*. SEC EDGAR. Acquisition closed October 1, 2002, for $3,474 million. https://www.sec.gov/Archives/edgar/data/0000051143/000104746903008194/a2102367zex-13.htm. 2003.

[140] C. William Thomas. *The Rise and Fall of Enron*. Journal of Accountancy, April 2002. https://www.journalofaccountancy.com/issues/2002/apr/theriseandfallofenron/. 2002.

[141] U.S. House Committee on Energy and Commerce. *Destruction of Enron-Related Documents by Andersen Personnel*. Congressional hearing CHRG-107hhrg77569. https://www.govinfo.gov/content/pkg/CHRG-107hhrg77569/html/CHRG-107hhrg77569.htm. 2002. (Visited on 07/17/2026).

[142] CBS News. *Duncan Explains His Guilty Plea*. https://www.cbsnews.com/news/duncan-explains-his-guilty-plea/. 2002. (Visited on 07/17/2026).

[143] ABA Journal. *Of Motives and Memos*. ABA Journal. http://www.abajournal.com/magazine/article/of_motives_and_memos. 2002. (Visited on 07/17/2026).

[144] Sherron Watkins. *Memo to Kenneth Lay: Potential Severe Impact on Enron*. Hagley Digital Archives. https://digital.hagley.org/08-15-01_SherronWatkinsMemo. 2001. (Visited on 07/17/2026).

[145] Forbes. *Berardino Resigns From Andersen*. https://www.forbes.com/2002/03/26/0326berardino.html. 2002. (Visited on 07/17/2026).

[146] The Washington Post. *Enron Auditor Admits Crime*. https://www.washingtonpost.com/archive/politics/2002/05/14/enron-auditor-admits-crime/a4ff9081-1697-4e9c-94e9-23d049ba6082/. 2002. (Visited on 07/17/2026).

[147] Wiggin and Dana LLP. *Lawyer for a Lost Cause: He Shouted, He Pouted, He Defended Arthur Andersen — and He Nearly Won*. https://www.wiggin.com/news/lawyer-for-a-lost-cause-he-shouted-he-pouted-he-defended-arthur-andersen-and-he-nearly-won/. Publication date not confirmed; retrospective profile of Rusty Hardin. 2013. (Visited on 07/17/2026).

[148] Supreme Court of the United States. *Arthur Andersen LLP v. United States, 544 U.S. 696*. https://supreme.justia.com/cases/federal/us/544/696/. 2005.

[149] Grant Thornton. *History of Grant Thornton*. https://www.grantthornton.com/about-us/history-of-grant-thornton. 2002. (Visited on 07/17/2026).

[150] Supreme Court of the United States. *Arthur Andersen LLP v. United States, Opinion of the Court*. Cornell Legal Information Institute. https://www.law.cornell.edu/supct/html/04-368.ZO.html. 2005. (Visited on 07/17/2026).

[151] The White House. *Remarks by the President at Signing of H.R. 3763, the Sarbanes-Oxley Act of 2002*. July 30, 2002. https://georgewbush-whitehouse.archives.gov/news/releases/2002/07/20020730-1.html. 2002. (Visited on 07/17/2026).

[152] U.S. Congress. *Sarbanes-Oxley Act of 2002*. Pub. L. No. 107-204, 116 Stat. 745 (July 30, 2002). https://www.govinfo.gov/content/pkg/PLAW-107publ204/pdf/PLAW-107publ204.pdf. 2002.

[153] PwC. *PwC Completes Its Acquisition of Booz & Company*. Press release, April 2014 (deal announced Oct. 30, 2013; partner vote Dec. 23, 2013). https://www.pwc.in/press-releases/2014/pwc-completes-its-acquisition-of-booz-and-company.html. 2014. (Visited on 07/17/2026).

[154] Dain C. Donelson et al. "The Revival of Large Consulting Practices at the Big 4 and Audit Quality." In: *Accounting, Organizations and Society* 87 (2020), p. 101157. DOI: 10.1016/j.aos.2020.101157.

[155] Deloitte. *Deloitte Completes Acquisition of Monitor's Global Strategy Consulting Business*. PR Newswire, January 11, 2013. https://www.prnewswire.com/news-releases/deloitte-completes-acquisition-of-monitors-global-strategy-consulting-business-186564461.html. 2013. (Visited on 07/17/2026).

[156] Consultancy.uk. *EY Buys Strategy Consulting Firm The Parthenon Group*. July 2014. https://www.consultancy.uk/news/484/ey-advisory-buys-strategy-firm-the-parthenon-group. 2014. (Visited on 07/17/2026).

[157] H&R Block. *Our Founders: Henry & Richard Bloch*.

https://www.hrblock.com/corporate/founders/. 2024.

[158] UPI. *Intuit to Buy ChipSoft for $225 Million*. UPI Archives, September 2, 1993. https://www.upi.com/Archives/1993/09/02/Intuit-to-buy-ChipSoft-for-225-million/7842746942400/. 1993. (Visited on 07/17/2026).

[159] Justin Elliott and Paul Kiel. *Inside TurboTax's 20-Year Fight to Stop Americans From Filing Their Taxes for Free*. ProPublica, October 17, 2019. https://www.propublica.org/article/inside-turbotax-20-year-fight-to-stop-americans-from-filing-their-taxes-for-free. 2019.

[160] Wolters Kluwer. *Acquisition of Commerce Clearing House (CCH)*. Tender offer November 27, 1995, $55.50/share ($1.9 billion); SEC EDGAR SC 14D1/SC 14D9 for CCH Inc. https://www.sec.gov/cgi-bin/browse-edgar?action=getcompany&CIK=0000022366&type=SC+14D. Direct EDGAR document fetch failed (403); triangulated. Re-verify before print. 1995. (Visited on 07/17/2026).

[161] ValueNotes. *Offshoring Tax Returns Preparation to India*. Market research report summary. https://www.valuenotes.biz/insights-publications/publications/offshoring-tax-returns-preparation-to-india/. 2006. (Visited on 07/17/2026).

[162] The CPA Journal. *Considerations for Tax Return Preparers Outsourcing Overseas*. August 26, 2025. https://www.cpajournal.com/2025/08/26/considerations-for-tax-return-preparers-outsourcing-overseas/. 2025.

[163] TechCrunch. *Thomson Reuters Acquires Tax Automation Company SurePrep for $500M*. November 11, 2022. https://techcrunch.com/2022/11/11/thomson-reuters-acquires-tax-automation-company-sureprep-for-500m/. 2022. (Visited on 07/17/2026).

[164] PwC. *PwC Global Revenues Rise to US$55.4 Billion*. Press release, October 29, 2024. https://www.pwc.com/gx/en/news-room/press-releases/2024/pwc-global-

revenues-rise-to-us-55-4-billion.html. 2024.

[165] Deloitte Global. ***Deloitte Reports FY2024 Revenue of $67.2 Billion***. Press release, September 12, 2024. https://www.deloitte.com/cy/en/about/press-room/global-revenue-announcement.html. 2024.

[166] R. Mithu Dey and Lesia Quamina. ***Surveying a Shifting Landscape: The Big Four and the Rising Tide of Advisory Services***. July 24, 2024. https://www.cpajournal.com/2024/07/24/surveying-a-shifting-landscape/. 2024.

[167] The Irish Times. ***EY Scraps Break-Up Plan After Months of Internal Dissent***. April 11, 2023. https://www.irishtimes.com/business/financial-services/2023/04/11/ey-scraps-break-up-plan-after-months-of-internal-dissent/. 2023. (Visited on 07/17/2026).

[168] Consultancy.eu. ***EY Calls Off Global Audit and Consulting Split — For the Time Being***. https://www.consultancy.eu/news/8697/ey-calls-off-global-audit-and-consulting-split-for-the-time-being. 2023. (Visited on 07/17/2026).

[169] International Tax Review. ***This Week in Tax: EY Announces Post-Everest Job Cuts***. https://www.internationaltaxreview.com/article/2bj7bjfv1vdqt0h7867ls/this-week-in-tax-ey-announces-post-everest-job-cuts. 2023. (Visited on 07/17/2026).

[170] ERP Today. ***EY Split Halted as Project Everest Climb Proves Too Steep — For Now***. April 13, 2023. https://erp.today/ey-split-halted-as-project-everest-climb-proves-too-steep-for-now/. 2023. (Visited on 07/17/2026).

[171] Accountancy Age. ***The Rise and Fall of EY's Project Everest***. February 13, 2024. https://accountancyage.com/2024/02/13/the-rise-and-fall-of-eys-project-everest/. 2024.

[172] Reuters. ***EY's Greater China Member Firms Say They Won't Take Part in Firm's Global Break-Up***. September 9, 2022. https://www.reuters.com/business/eys-greater-china-member-firms-say-they-wont-take-part-firms-global-break-

up-2022-09-09/. 2022. (Visited on 07/17/2026).

[173] Financial Times. *EY Israel Rejects Break-Up Plan Pushed by Global Bosses*. October 25, 2022. https://www.ft.com/content/a19654d2-5633-4d37-b552-f432779509a3. 2022. (Visited on 07/17/2026).

[174] South China Morning Post. *Big Four Accounting Giant EY Calls Off Plan to Split Its Audit and Consulting Units*. April 12, 2023. https://www.scmp.com/business/banking-finance/article/3216738/big-four-accounting-giant-ey-calls-plan-split-its-audit-and-consulting-units-after-partners-fail. 2023. (Visited on 07/17/2026).

[175] Going Concern. *EY Split Update: There's a Battle Royale Going Down This Week*. March 28, 2023. https://www.goingconcern.com/ey-split-update-theres-a-battle-royale-going-down-this-week/. 2023. (Visited on 07/17/2026).

[176] Michael O'Dwyer. *EY Split Paused Amid Partner Infighting Over Fate of Tax Experts*. Financial Times, March 9, 2023. https://www.ft.com/content/7d2cddf6-5d5a-4011-b860-7e8d2705d7e4. 2023. (Visited on 07/17/2026).

[177] CFO Brew. *EY's Global Head to Retire in Wake of Failed Split*. June 16, 2023. https://www.cfobrew.com/stories/2023/06/16/ey-s-global-head-to-retire-in-wake-of-failed-split. 2023. (Visited on 07/17/2026).

[178] CFO Dive. *EY CEO's Retirement Sounds New Leadership Alarm*. https://www.cfodive.com/news/ey-ceos-retirement-sounds-new-leadership-alarm/653251/. 2023. (Visited on 07/17/2026).

[179] Going Concern. *It's the Dawn of a New Era at EY Today*. https://www.goingconcern.com/its-the-dawn-of-a-new-era-at-ey-today/. 2023. (Visited on 07/17/2026).

[180] Going Concern. *EY's Gonna Borrow Money and Do Some Accounting Tricks to Spare Partner Payouts From Everest Fallout*. April 21, 2023. https://www.goingconcern.com/ey-to-borrow-money-after-everest-failure/. 2023. (Visited on 07/17/2026).

[181] The Irish Times. *Debts on EY's Failed Project Everest Took Longer Than Expected*

to Clear. January 13, 2025. https://www.irishtimes.com/business/2025/01/13/debts-on-eys-failed-project-everest-took-longer-than-expected-to-clear/. 2025. (Visited on 07/17/2026).

[182] Blackstone. *Citrin Cooperman to Receive Significant Investment as Blackstone Acquires Stake from New Mountain Capital*. January 7, 2025. https://www.blackstone.com/news/press/citrin-cooperman-a-leading-professional-services-firm-to-receive-significant-investment-as-blackstone-acquires-stake-from-new-mountain-capital/. 2025. (Visited on 07/17/2026).

[183] Paige Hagy. *Citrin Gets New PE Owner as Blackstone Buys Stake*. Accounting Today, January 7, 2025. https://www.accountingtoday.com/news/citrin-cooperman-transfers-pe-stake-to-blackstone. 2025. (Visited on 07/17/2026).

[184] EisnerAmper. *Charly Weinstein Talks TowerBrook, RTO, SPACs and More on CNBC*. August 2021. https://www.eisneramper.com/weinstein-towerbrook-rto-spacs-cnbc-news-0821/. 2021. (Visited on 07/17/2026).

[185] Journal of Accountancy. *Private Equity Eyes Accounting Firms Large and Small*. Journal of Accountancy, February 2023. 2023.

[186] New Mountain Capital. *New Mountain Capital & Citrin Cooperman Announce Strategic Partnership*. April 11, 2022. https://www.newmountaincapital.com/new-mountain-capital-citrin-cooperman-announce-strategic-partnership/. 2022. (Visited on 07/17/2026).

[187] Accounting Today. *PE Firm Buys Majority Stake in Citrin Cooperman*. April 11, 2022. https://www.accountingtoday.com/news/pe-firm-buys-majority-stake-in-citrin-cooperman. 2022. (Visited on 07/17/2026).

[188] Baker Tilly US, LLP. *Baker Tilly Secures Strategic Investment Led by Hellman & Friedman*. February 5, 2024. https://www.bakertilly.com/news/baker-tilly-secures-strategic-investment-led-by-hellman. 2024. (Visited on 07/17/2026).

[189] Grant Thornton. *New Mountain Capital and Grant Thornton Close Growth Investment*. Press release, May 31, 2024. 2024.

[190] CPA Trendlines. *Cornerstone Dealflow Timeline: Private Equity Investments in CPA and Accounting Firms 2020–2025*. CPA Trendlines, November 18, 2025. 2025.

[191] CPA Trendlines Research. *CPA PE Deal Tracker: 10 Years, 466 Deals*. June 9, 2026 (and May 7, 2026 and February 16, 2026 updates). https://cpatrendlines.com/2026/06/09/cpa-pe-deal-tracker-10-years-466-deals/. 2026.

[192] Baker Tilly. *Baker Tilly and Moss Adams to Combine*. Press release, April 21, 2025. https://www.bakertilly.com/news/baker-tilly-and-moss-adams-to-combine. 2025.

[193] Paul Munter. *Auditor Independence and Ethical Responsibilities: Critical Points to Consider When Contemplating an Audit Firm Restructuring*. SEC statement, August 29, 2022. https://www.sec.gov/newsroom/speeches-statements/munter-statement-auditor-independence-ethical-responsibilities-082922. 2022.

[194] Paul Munter. *Fostering a Healthy "Tone at the Top" at Audit Firms*. SEC statement, May 15, 2024. https://www.sec.gov/newsroom/speeches-statements/munter-statement-audit-firms-051524. 2024.

[195] Journal of Accountancy. *AICPA Proposes Changes to Independence Guidelines Related to Private Equity*. December 19, 2025. https://www.journalofaccountancy.com/news/2025/dec/aicpa-proposes-changes-to-independence-rules-related-to-private-equity/. 2025.

[196] Journal of Accountancy. *Navigating Outside Investors: Safeguarding Ethics and Independence in Evolving Practice Structures*. October 24, 2025. https://www.journalofaccountancy.com/issues/2025/oct/navigating-outside-investors-safeguarding-ethics-and-independence-in-evolving-practice-structures/. 2025. (Visited on 07/17/2026).

[197] EisnerAmper. *EisnerAmper Announces Continuation Vehicle Transaction with TowerBrook*. March 26, 2026. https://www.eisneramper.com/about-us/news/continuation-vehicle-transaction-with-towerbrook-0326/. 2026. (Visited on 07/17/2026).

[198] CPA Trendlines. *PE Deal Tracker Update: Alan Whitman Plants a Flag in the Private Equity Landscape*. February 16, 2026. https://cpatrendlines.com/2026/02/16/cornerstone-pe-deal-tracker-pe-update-alan-whitman-plants-a-flag-in-the-private-equity-landscape-2020-2026/. 2026. (Visited on 07/17/2026).

[199] Laurel S. Terry. "The Work of the ABA Commission on Multidisciplinary Practice." In: *Multidisciplinary Practices and Partnerships: Lawyers, Consultants and Clients*. Ed. by Stephen J. McGarry. New York: Law Journal Press, 2002.

[200] Robert Saavedra Teuton. "One Small Step and a Giant Leap: Comparing Washington, D.C.'s Rule 5.4 with Arizona's Rule 5.4 Abolition." In: *Arizona Law Review* 65 (2023), p. 223. URL: https://arizonalawreview.org/pdf/65-1/65arizlrev223.pdf (visited on 07/17/2026).

[201] Lawrie Holmes. *Accountants: Counter Strike*. Law Gazette. Feb. 2018. URL: https://www.lawgazette.co.uk/features/accountants-counter-strike/5064729.article (visited on 07/17/2026).

[202] Eduardo Reyes. *Been There Done That*. Law Gazette. Profile of Tony Williams. Mar. 2024. URL: https://www.lawgazette.co.uk/people/been-there-done-that/5118934.article (visited on 07/17/2026).

[203] David B. Wilkins and María J. Esteban Ferrer. "The Integration of Law into Global Business Solutions: The Rise, Transformation, and Potential Future of the Big Four Accountancy Networks in the Global Legal Services Market." In: *Law & Social Inquiry* 43.3 (2018), pp. 981–1026. DOI: 10.1111/lsi.12311.

[204] Randy Myers. "Lawyers and CPAs: How the Landscape Is Changing." In: *Journal of Accountancy* (Feb. 2000). URL: https://www.journalofaccountancy.com/

issues/2000/feb/lawyersandcpashowthelandscapeischanging/ (visited on 07/17/2026).

[205] Michael A. Cooper. "Farewell Address: Annual Meeting of the Association." In: *The Record (Association of the Bar of the City of New York)* 55.4 (July 2000). Address delivered May 23, 2000; published July/August 2000, pp. 466–471. URL: https://www2.nycbar.org/Publications/record/10.%20july-august00pp.1.pdf (visited on 07/17/2026).

[206] John S. Dzienkowski and Robert J. Peroni. "Multidisciplinary Practice and the American Legal Profession: A Market Approach to Regulating the Delivery of Legal Services in the Twenty-First Century." In: *Fordham Law Review* 69.1 (2000), pp. 83–208.

[207] Bryant G. Garth. "Multidisciplinary Practice After Enron: Eliminating a Competitor But Not the Competition." In: *Law & Social Inquiry* 29.3 (2004), pp. 591–595. DOI: 10.1111/j.1747-4469.2004.tb01001.x.

[208] Jr. Coffee John C. *Gatekeepers: The Professions and Corporate Governance*. Oxford: Oxford University Press, 2006.

[209] Sam Skolnik. *D.C. Nonlawyer Partner Rule Spurs Interest as States Mull Change*. Bloomberg Law. Oct. 2019. URL: https://news.bloomberglaw.com/us-law-week/d-c-nonlawyer-partner-rule-spurs-interest-as-states-mull-change (visited on 07/17/2026).

[210] Nicholas Bruch. *Elephants in the Room, Part I: The Big Four's Expansion in the Legal Services Market*. ALM Intelligence, September 13, 2017. 2017.

[211] Harvard Law School Center on the Legal Profession. *The Reemergence of the Big Four in Law*. https://clp.law.harvard.edu/article/the-reemergence-of-the-big-four-in-law/. 2018.

[212] Law Society Gazette. *Slater and Gordon Share Price Plunges 46% as Crisis Mounts*. March 1, 2016. https://www.lawgazette.co.uk/practice/slater-and-gordon-share-price-plunges-46-as-crisis-mounts/5053936.article. 2016. (Visited on 07/17/2026).

[213] Law Society Gazette. *Slater and Gordon Warns of Billion-Dollar Trading Loss*. https://www.lawgazette.co.uk/news/slater-and-gordon-warns-of-billion-dollar-trading-loss/5057245.article. 2016.

[214] David Clementi. *Review of the Regulatory Framework for Legal Services in England and Wales: Final Report*. December 2004. https://www.legal-services-review.org.uk/content/report/foreword. 2004. (Visited on 07/17/2026).

[215] Law Society Gazette. *Judgement Day*. https://www.lawgazette.co.uk/analysis/judgement-day/1676.article. 2005. (Visited on 07/17/2026).

[216] UK Parliament. *Legal Services Act 2007, c. 29, Part 5 (Alternative Business Structures)*. https://www.legislation.gov.uk/ukpga/2007/29/contents. 2007.

[217] Legal Services Board. *History of the Reforms*. https://legalservicesboard.org.uk/about-us/history-of-the-reforms. Sir David Edmonds appointed first LSB chair 2008; Board fully operational 1 January 2010. 2010. (Visited on 07/17/2026).

[218] Solicitors Regulation Authority. *Research on Alternative Business Structures (Executive Report)*. https://www.sra.org.uk/sra/research-publications/research-abs-executive-report/. 2014.

[219] Legal Services Board. *Evaluation: ABS and Investment in Legal Services 2011/12–2016/17*. https://legalservicesboard.org.uk/research/reports/evaluation-abs-and-investment-in-legal-services. 2017.

[220] Legal Services Board. *Technology and Innovation Survey 2022*. https://legalservicesboard.org.uk/wp-content/uploads/2023/06/20230425-Tech-and-Innov-survey-2022-Designed.pdf. 2023.

[221] Law Society Gazette. *Private Equity Reshapes UK Law Firms with Record Investments*. https://www.lawgazette.co.uk/news/private-equity-reshapes-uk-law-firms-with-record-investments/5122494.article. 2025.

[222] Law Society Gazette. *Slater and Gordon Chief Grech Quits as Lenders Take Control*. June 2017. https://www.lawgazette.co.uk/practice/slater-and-gordon-chief-grech-quits-as-lenders-take-control/5061782.article. 2017. (Visited on 07/17/2026).

[223] Law.com International. *Australian Firm Slater & Gordon Set for Private Equity Takeover*. February 24, 2023. https://www.law.com/international-edition/2023/02/24/australian-firm-slater-gordon-set-for-private-equity-takeover/. 2023. (Visited on 07/17/2026).

[224] LawCareers.Net. *Costly Shutdown of Axiom Ince by SRA*. October 6, 2023. https://www.lawcareers.net/Explore/News/Costly-shutdown-of-Axiom-Ince-by-SRA-06102023. 2023. (Visited on 07/17/2026).

[225] John Hyde. *Legal Services Board Slams SRA Failings in Damning Report*. Law Society Gazette, March 31, 2025. https://www.lawgazette.co.uk/news/legal-services-board-slams-sra-failings-in-damning-report/5122856.article. 2025.

[226] Legal Futures. *Exclusive: Axiom Ince Director Drops Challenge to SRA Intervention*. https://www.legalfutures.co.uk/latest-news/exclusive-axiom-ince-director-drops-challenge-to-sra-intervention. 2023. (Visited on 07/17/2026).

[227] Legal Lens. *The SRA's Axiom Ince Debacle: Hypocrisy and Systemic Failure*. https://legallens.org.uk/the-sras-axiom-ince-debacle-hypocrisy-and-systemic-failure/. Secondary/commentary source; corroborate "accumulator" designation and January 2023 risk-flag date against LSB's primary October 2024 review before final draft. 2024. (Visited on 07/17/2026).

[228] Legal Futures. *Axiom Ince: SRA Faces Enforcement Action by LSB Following Damning Report*. October 2024. https://www.legalfutures.co.uk/latest-news/axiom-ince-sra-faces-enforcement-action. 2024. (Visited on 07/17/2026).

[229] Law Society Gazette. *Government Strips SRA of Anti-Money Laundering Powers*.

https://www.lawgazette.co.uk/news/government-strips-sra-of-anti-money-laundering-powers/5124827.article. 2025. (Visited on 07/17/2026).

[230] RollOnFriday. *SRA Censured for Missing Red Flags Before SSB Group's £200m Collapse*. https://www.rollonfriday.com/news-content/sra-censured-missing-red-flags-ssb-groups-ps200m-collapse. 2025. (Visited on 07/17/2026).

[231] Law Society Gazette. *Parabis: Unsecured Creditors Set to Lose £46m as Scale of Collapse Laid Bare*. https://www.lawgazette.co.uk/practice/parabis-unsecured-creditors-set-to-lose-46m-as-scale-of-collapse-laid-bare/5052858.article. 2016. (Visited on 07/17/2026).

[232] Legal Futures. *Exclusive: Saga Exits Legal Services – For Now*. https://www.legalfutures.co.uk/latest-news/exclusive-saga-exits-legal-services-now. 2016. (Visited on 07/17/2026).

[233] Law Society Gazette. *AA Confirms Effective Closure of Legal Business*. https://www.lawgazette.co.uk/practice/aa-confirms-effective-closure-of-legal-business/5053139.article. 2016. (Visited on 07/17/2026).

[234] Keystone Law Group plc. *Final Results for the Year Ended 31 January 2025 (LSE:KEYS)*. RNS, May 1, 2025. https://www.investegate.co.uk/announcement/rns/keystone-law-group--keys/final-results/9542828. 2025.

[235] Knights Group Holdings plc. *Double Digit Growth: Results for the 2025 Financial Year*. September 15, 2025. https://www.knightsplc.com/knights-news/2025/double-digit-growth-results-for-the-2025-financial-year/. 2025.

[236] Investcorp. *Investcorp Acquires Stowe Family Law*. September 2024. https://www.investcorp.com/investcorp-acquires-stowe-family-law/. 2024.

[237] Lawfront. *Neil Lloyd – Leadership*. https://www.lawfront.com/leadership/neil-lloyd/. 2025. (Visited on 07/17/2026).

[238] Legal IT Insider. *Lawfront Acquires Trethowans, Taking Group Fee-Income to Over*

£130m. May 20, 2025. https://legaltechnology.com/2025/05/20/lawfront-acquires-trethowans-taking-group-fee-income-to-over-130m/. 2025.

[239] Legal Futures. *Scotland: English Invasion 'Shows Need for Urgent ABS Action'*. March 18, 2026. https://www.legalfutures.co.uk/latest-news/scotland-english-invasion-shows-need-for-urgent-abs-action. 2026. (Visited on 07/17/2026).

[240] Arizona Supreme Court. *Administrative Order No. 2020-186: Establishment of the Committee on Alternative Business Structures*. https://www.azcourts.gov/orders/Administrative-Orders-Index/2020-Administrative-Orders. 2020.

[241] Robert Ambrogi. *Arizona Is First State To Eliminate Ban On Nonlawyer Ownership Of Law Firms*. LawSites, August 2020. https://www.lawnext.com/2020/08/arizona-is-first-state-to-eliminate-ban-on-nonlawyer-ownership-of-law-firms.html. 2020. (Visited on 07/17/2026).

[242] David Freeman Engstrom, Lucy Ricca, and Natalie Knowlton. *Regulatory Innovation at the Crossroads: Five Years of Data on Entity-Regulation Reform in Arizona and Utah*. June 2, 2025. https://law.stanford.edu/2025/06/02/regulatory-innovation-at-the-crossroads-five-years-of-data-on-entity-regulation-reform-in-arizona-and-utah/. 2025.

[243] Arizona State Law Journal. *Arizona's Alternative Business Structures: Innovation Meets Neighboring Resistance*. January 27, 2026. https://arizonastatelawjournal.org/2026/01/27/arizonas-alternative-business-structures-innovation-meets-neighboring-resistance/. 2026.

[244] Holland & Knight. *So You Want to Start an Arizona Alternative Business Structure?* Holland & Knight Insights, December 2025. https://www.hklaw.com/en/insights/publications/2025/12/so-you-want-to-start-an-arizona-alternative-business-structure. 2025. (Visited on 07/17/2026).

[245] Bloomberg Law. *Heavyweight Investors Line Up for Law Firm Ownership Ventures*. https://news.bloomberglaw.com/business-and-practice/heavyweight-investors-line-up-for-law-firm-ownership-ventures. 2026. (Visited on 07/17/2026).

[246] ABA Journal. *Nearly 30 Legal Entities May Leave Utah's Regulatory Sandbox After State Tightens Rules*. March 4, 2025. https://www.abajournal.com/news/article/nearly-30-legal-entities-may-leave-utahs-regulatory-sandbox-after-state-tightens-rules. 2025. (Visited on 07/17/2026).

[247] Robert Ambrogi. *KPMG Becomes First of Big Four To Practice Law in U.S., As Arizona Approves Its ABS License*. LawSites, February 27, 2025. https://www.lawnext.com/2025/02/breaking-kpmg-becomes-first-of-big-four-to-practice-law-in-u-s-as-arizona-approves-its-abs-license.html. 2025.

[248] KPMG LLP. *KPMG Names Christian Athanasoulas to Lead Growing US Legal Services Practice*. Press release, February 27, 2026. https://kpmg.com/us/en/media/news/athanasoulas-to-lead-kpmg-us-legal.html. 2026.

[249] PR Newswire. *Justpoint Law Becomes First AI-Native, Mass Tort Law Firm Approved Under Arizona's ABS*. February 10, 2026. https://www.prnewswire.com/news-releases/justpoint-law-becomes-first-ai-native-mass-tort-law-firm-approved-under-arizonas-abs-302683247.html. 2026. (Visited on 07/17/2026).

[250] California Legislature. *Assembly Bill 931 (Kalra), 2025–2026 Regular Session (signed October 10, 2025)*. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB931. 2025.

[251] Holland & Knight. *Regulatory Retrenchment in California: What AB 931 Means for ABS and MSO-Supported Law Firms*. Holland & Knight Insights, September 2025. https://www.hklaw.com/en/insights/publications/2025/09/regulatory-retrenchment-in-

california-what-ab-931-means. 2025.

[252] Reuters. *California Law Sets Up New Contingency Fee Sharing Roadblock*. October 16, 2025. https://www.reuters.com/legal/government/california-law-sets-up-new-contingency-fee-sharing-roadblock-2025-10-16/. 2025. (Visited on 07/17/2026).

[253] American Bar Association House of Delegates. *Resolution 402 (adopted August 9, 2022)*. https://www.americanbar.org/content/dam/aba/administrative/news/2022/08/hod-resolutions/402.pdf. 2022.

[254] Clark Hill. *Colorado Fee-Sharing Ban Targets Private Equity in Law Firms: HB26-1421 Explained*. June 11, 2026. https://www.clarkhill.com/news-events/news/colorado-hb26-1421-fee-sharing-ban-private-equity-law-firms/. 2026.

[255] JDJournal. *Illinois Approves New Law Firm Investor Restrictions*. June 1, 2026. https://www.jdjournal.com/2026/06/01/illinois-law-firm-investor-restrictions-bill/. 2026.

[256] Illinois General Assembly. *Bill Status for HB5487, 104th General Assembly*. Accessed July 2026. https://www.ilga.gov/Legislation/BillStatus?DocNum=5487&GAID=18&DocTypeID=HB&SessionID=114&GA=104. 2026. (Visited on 07/17/2026).

[257] Holland & Knight. *HB 5487 Passes, Ushering in New Regulation of MSOs, ABS Models and Law Firm Operations*. Holland & Knight Insights, June 2026. https://www.hklaw.com/en/insights/publications/2026/06/hb-5487-passes-ushering-in-new-regulation-of-msos-abs-models. 2026. (Visited on 07/17/2026).

[258] California Legislature. *Assembly Bill 2305, 2025–2026 Regular Session (passed the Assembly April 6, 2026)*. https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=202520260AB2305. 2026.

[259] Court of Justice of the European Union (Grand Chamber). *Case C-295/23, Halmer Rechtsanwaltsgesellschaft UG v. Rechtsanwaltskammer München, Judgment of December 19, 2024*.

https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:62023CJ0295. 2024.

[260] Federal Trade Commission and U.S. Department of Justice. *Joint Staff Letter to the Tennessee Supreme Court re Docket No. ADM2025-01403*. April 30, 2026. https://www.ftc.gov/system/files/ftc_gov/pdf/FTCDOJLettertoTennesseeSupremeCourt.pdf. 2026.

[261] Tennessee Supreme Court. *Comments on Potential Regulatory Reforms to Increase Access to Quality Legal Representation (Docket No. ADM2025-01403)*. Tennessee Courts, accessed July 2026. https://www.tncourts.gov/rules/proposed/comments-potential-regulatory-reforms-increase-access-quality-legal-representation. 2026. (Visited on 07/17/2026).

[262] Amarillo Globe-News (wire syndication). *Brandon B. Rafi Launches Rafi Law Services, Secures Strategic $125 Million Investment to Elevate Client Service and Support Growth*. Press release, April 6, 2026 (Phoenix dateline). https://www.amarillo.com/press-release/story/113667/brandon-b-rafi-launches-rafi-law-services-secures-strategic-125-million-investment-to-elevate-client-service-and-support-growth/. Corroborating source for announcement date/dateline only; title and dateline confirmed via search snippet this session, full body could not be fetched (site blocked direct WebFetch). Deal specifics (valuation, advisors) rest on the existing key bloomberg2026rafi. 2026. (Visited on 07/17/2026).

[263] U.S. Court of Appeals for the Second Circuit. *Lola v. Skadden, Arps, Slate, Meagher & Flom LLP, 620 F. App'x 37 (2d Cir. 2015)*. 2015.

[264] U.S. District Court, S.D.N.Y. *Da Silva Moore v. Publicis Groupe, 287 F.R.D. 182 (S.D.N.Y. 2012)*. 2012.

[265] ComplexDiscovery. *Complete Look: ComplexDiscovery's 2024–2029 eDiscovery Market Size Mashup*. January 19, 2025. https://complexdiscovery.com/buyers-guide/complete-look-complexdiscoverys-2024-2029-ediscovery-market-size-mashup/. 2025.

[266] PR Newswire. *Relativity Announces Strategic*

Investment from Silver Lake. March 18, 2021. https://www.prnewswire.com/news-releases/relativity-announces-strategic-investment-from-silver-lake-301250508.html. 2021.

[267] Axiom. *Axiom Announces Strategic Investment from the Permira Funds*. Press release, September 5, 2019. https://www.axiomlaw.com/resources/press-releases/axiom-announces-strategic-investment-from-the-permira-funds. 2019.

[268] CVC Capital Partners. *CVC Capital Partners Announces a Majority Interest Investment in UnitedLex*. Business Wire, September 20, 2018. https://www.businesswire.com/news/home/20180920005562/en/. 2018.

[269] PR Newswire. *Thomson Reuters Acquires Pangea3*. November 2010. https://www.prnewswire.com/news-releases/thomson-reuters-acquires-pangea3-109038544.html. 2010.

[270] PR Newswire. *EY to Expand Legal Services Offerings Globally with Acquisition of the Pangea3 Business from Thomson Reuters*. April 3, 2019. https://www.prnewswire.com/news-releases/ey-to-expand-legal-services-offerings-globally-with-acquisition-of-the-pangea3-business-from-thomson-reuters-300824120.html. 2019.

[271] Reuters. *Online Legal Services Firm LegalZoom Jumps 31% in Debut, Valued at $7 Billion*. June 30, 2021. 2021.

[272] Georgetown Law and Thomson Reuters Legal Executive Institute. *Alternative Legal Service Providers: Understanding the Growth and Benefits of These New Legal Providers*. https://www.law.georgetown.edu/news/specialized-expertise-often-more-important-than-cost-in-use-of-alternative-legal-service-providers/. 2017.

[273] Thomson Reuters Institute, Georgetown Law, and Saïd Business School. *Alternative Legal Services Providers 2025: Strong Growth amid Signs of a Bifurcating Market*. January 2025. https://www.thomsonreuters.com/en-us/posts/legal/alsp-report-2025/. 2025.

[274] ABA Journal. *RIP Clearspire: Is This an Ominous Sign for*

NewLaw? https://www.abajournal.com/legalrebels/article/rip_clearspire_is_this_an_ominous_sign_for_newlaw. 2014.

[275] TechCrunch. *$75M Legal Startup Atrium Shuts Down, Lays Off 100*. March 3, 2020. https://techcrunch.com/2020/03/03/atrium-shuts-down/. 2020.

[276] Texas Professional Ethics Committee. *Opinion 706 (February 2025)*. https://www.legalethicstexas.com/resources/opinions/opinion-706/. 2025.

[277] Holland & Knight. *Restructuring Law Firms Through Management Service Organizations*. Holland & Knight Insights, July 10, 2025. https://www.hklaw.com/en/insights/publications/2025/07/restructuring-law-firms-through-management-service-organizations. 2025.

[278] Uplift Investors. *Uplift Investors Launches and Closes First Investment, Forming Orion Legal MSO with Dudley DeBosier Injury Lawyers*. Business Wire, January 22, 2026. https://www.businesswire.com/news/home/20260122313960/en/. 2026.

[279] Law.com / The American Lawyer. *Weil PE Partner Heads to McDermott to Co-Head Practice*. July 13, 2026. https://www.law.com/americanlawyer/2026/07/13/weil-pe-partner-heads-to-mcdermott-to-co-head-practice-/. Headline/snippet renders the firm as "McDermott Will & Emery," conflicting with the verified spine's "McDermott Will & Schulte" (cf. law2026mcdermott3b) — unresolved, flagged for the lead. 2026. (Visited on 07/17/2026).

[280] U.S. Government Accountability Office. *Third-Party Litigation Financing: Market Characteristics, Data, and Trends*. GAO-23-105210, December 20, 2022 (publicly released January 19, 2023). https://www.gao.gov/products/gao-23-105210. 2022.

[281] Burford Capital. *Burford Capital and PCB Litigation Announce Innovative Portfolio Financing and Equity Transaction*. Press release, June 24, 2020. https://investors.burfordcapital.com/news/news-

details/2020/Burford-Capital-And-PCB-Litigation-announce-innovative-portfolio-financing-and-equity-transaction/default.aspx. 2020.

[282] Reuters. ***Can Investors Buy in to Big Law? Burford Capital Bets on It***. August 21, 2025. Confirmed via Google News RSS syndication this session (title/source/date); full body not independently fetched. Companion coverage the same week: Financial Times, August 16, 2025, "Burford Capital seeks to buy equity stakes in US law firms"; Bloomberg Law, August 18, 2025, "Burford Aims to Buy Stakes in US Law Firms, Rival Private Equity"; and Bloomberg Law, September 3, 2025, "Big Law Firms Cool to Idea of Bringing on Burford's Billions." 2025. (Visited on 07/17/2026).

[283] TechCrunch. ***AI Law Startup Norm Raises $120M, Hits Unicorn Valuation***. July 7, 2026. https://techcrunch.com/2026/07/07/ai-law-startup-norm-raises-120m-hits-unicorn-valuation/. 2026.

[284] Artificial Lawyer. ***NewMod Norm Law Hires Ex-Ropes & Gray Partner Bill Mone***. April 9, 2026. https://www.artificiallawyer.com/2026/04/09/newmod-norm-law-hires-ex-ropes-gray-partner-bill-mone/. 2026. (Visited on 07/17/2026).

[285] John Hyatt. ***Buyout Firm Uplift Investors Raises $670 Million to Invest in Legal and Other Services***. Forbes, July 16, 2026. https://www.forbes.com/sites/johnhyatt/2026/07/16/buyout-firm-uplift-investors-raises-670-million-to-invest-in-legal-and-other-services/. Cross-checked against a Yahoo Finance/Business Wire syndication of the same underlying press release (same figures: $670M hard cap; founders Will Hausberg, Doug Rosenstein, Brad Skaf, ex-Gridiron Capital; Darien, CT; Orion Legal MSO roster: Dudley DeBosier, Hughes & Coleman Injury Lawyers, John Foy & Associates; IMS Legal Strategies vertical). 2026. (Visited on 07/17/2026).

[286] Vals AI. ***Vals Legal AI Report***. February 27, 2025. https://www.vals.ai/industry-reports/vlair-2-27-25. 2025.

[287] Vals AI. ***Legal Research Report***. October 14, 2025.

https://www.vals.ai/industry-reports/vlair-10-14-25. 2025.

[288] Ashley Capoot. *Legal AI Startup Harvey Valued at $11 Billion in Funding Round*. CNBC, March 25, 2026. https://www.cnbc.com/2026/03/25/legal-ai-startup-harvey-raises-200-million-at-11-billion-valuation.html. 2026.

[289] GIC. *Harvey Raises at $11 Billion Valuation from GIC and Sequoia to Scale Agents Across Law Firms and Enterprises*. March 25, 2026. https://www.gic.com.sg/newsroom/all/harvey-raises-at-11-billion-valuation-to-scale-agents-across-law-firms-and-enterprises/. Confirms GIC and Sequoia as co-lead investors; other participants Andreessen Horowitz, Coatue, Conviction Partners, Elad Gil, Evantic, Kleiner Perkins. 2026. (Visited on 07/17/2026).

[290] TechCrunch. *Harvey Reportedly Raising at $11B Valuation Just Months After It Hit $8B*. February 9, 2026. https://techcrunch.com/2026/02/09/harvey-reportedly-raising-at-11b-valuation-just-months-after-it-hit-8b/. 2026. (Visited on 07/17/2026).

[291] Fortune. *Legal AI Startup Harvey Lands Fresh $300 Million in Sequoia-Led Funding at $3 Billion Valuation*. February 12, 2025. https://fortune.com/2025/02/12/legal-ai-startup-harvey-300-million-series-d-funding-3-billion-valuation-sequoia/. Baseline round immediately prior to the funding wave covered in this chapter; useful for showing the pace of re-rating ($3bn to $11bn in about 13 months). 2025. (Visited on 07/17/2026).

[292] Business Insider. *Harvey's CEO Explains Why It's Raised so Much Money It Hasn't Touched*. March 2026. https://www.businessinsider.com/harvey-ceo-winston-weinberg-200-funding-round-2026-3. Winston Weinberg quote: Harvey "hasn't touched the majority of rounds" raised. 2026. (Visited on 07/17/2026).

[293] Sacra. *Harvey: Revenue, Valuation & Funding*. https://sacra.com/c/harvey/. Sacra estimate: Harvey ARR $300M as of May 2026, up

from $195M end of 2025; 1,500 customers across 60+ countries, roughly half the Am Law 100 – treat as a third-party estimate, not an audited or company-disclosed figure. 2026. (Visited on 07/17/2026).

[294] PR Newswire. *Clio Completes Landmark $1B vLex Acquisition and Announces $500M Series G Funding Round at $5B Valuation*. November 10, 2025. https://www.prnewswire.com/news-releases/clio-completes-landmark-1b-vlex-acquisition-and-announces-500m-series-g-funding-round-at-5b-valuation-302609582.html. Series G led by NEA; $350M debt facility led by Blackstone and Blue Owl Capital; quotes from CEO Jack Newton and CFO Curt Sigfstead. 2025. (Visited on 07/17/2026).

[295] Bloomberg. *Legal AI Startup Legora Raises $550 Million for US Expansion*. March 10, 2026. https://www.bloomberg.com/news/articles/2026-03-10/legal-ai-startup-legora-raises-550-million-for-us-expansion. 2026.

[296] EO Magazine. *$550 Million Says Legora Isn't Chasing Harvey. It's Betting on a Different Question*. https://www.eomag.io/article/legora-max-junestrand. Co-founder Max Junestrand on Legora's positioning versus Harvey; describes the $550M round as a 241x revenue multiple at announcement. 2026. (Visited on 07/17/2026).

[297] Eudia. *Eudia Secures up to $105M in Series A Funding, Led by General Catalyst*. PR Newswire, February 13, 2025. 2025.

[298] Reuters. *Legal AI Startup Eudia Opens Law Firm Under Arizona Program*. September 3, 2025. https://www.reuters.com/legal/legalindustry/legal-ai-startup-eudia-opens-law-firm-under-arizona-program-2025-09-03/. CEO Omar Haroun quote on Eudia Counsel, launched under Arizona ABS license approved June 2025. 2025. (Visited on 07/17/2026).

[299] Artificial Lawyer. *Legal Tech Raised $2.3B in Q1 '26, But 3 Companies Dominate*. April 13, 2026. https://www.artificiallawyer.com/2026/04/13/legal-tech-raised-2-3b-in-q1-26-but-3-companies-dominate/. 2026.

[300] Reuters. *Legal AI Startup Eve for Plaintiffs' Lawyers Hits $1 Billion Valuation with New Funding*. September 30, 2025. https://www.reuters.com/legal/legalindustry/legal-ai-startup-eve-plaintiffs-lawyers-hits-1-billion-valuation-with-new-2025-09-30/. $103M Series B led by Spark Capital, with a16z, Lightspeed, Menlo participating. 2025. (Visited on 07/17/2026).

[301] Law.com Legaltech News. *Legal Contracting Startup Crosby Secures $60M in Series B Round*. March 31, 2026. https://www.law.com/legaltechnews/2026/03/31/legal-contracting-startup-crosby-secures-60m-in-series-b-round/. Lux Capital and Index Ventures co-lead, with Sequoia, 01 Advisors, Elad Gil, Bain Capital Ventures participating; corroborated by Forbes (Mar 31, 2026) and Crosby's own blog post "Series B and Planting our Flag". 2026. (Visited on 07/17/2026).

[302] PR Newswire. *Norm Ai Raises $120 Million at a $1.2 Billion Valuation Led by Khosla Ventures to Deliver the Full-Stack Model for Legal AI*. July 7, 2026. https://www.prnewswire.com/news-releases/norm-ai-raises-120-million-at-a-1-2-billion-valuation-led-by-khosla-ventures-to-deliver-the-full-stack-model-for-legal-ai-302819152.html. Founder/CEO John Nay quote; Norm Law chaired by Mike Schmidtberger, former Executive Committee Chair at Sidley Austin; client base described as institutions representing over $30 trillion AUM. 2026. (Visited on 07/17/2026).

[303] Legal.io. *The 2025 Am Law 100: By the Numbers*. https://www.legal.io/articles/5609720/The-2025-Am-Law-100-By-the-Numbers. 2025.

[304] Shakked Noy and Whitney Zhang. "Experimental Evidence on the Productivity Effects of Generative Artificial Intelligence." In: *Science* 381.6654 (2023), pp. 187–192. DOI: 10.1126/science.adh2586.

[305] Fabrizio Dell'Acqua et al. *Navigating the Jagged Technological Frontier: Field Experimental Evidence of the Effects of Artificial Intelligence on Knowledge Worker Productivity and*

Quality. Working Paper 24-013. Harvard Business School, 2023.

[306] Erik Brynjolfsson, Danielle Li, and Lindsey Raymond. "Generative AI at Work." In: *Quarterly Journal of Economics* 140.2 (2025), pp. 889–942. DOI: 10.1093/qje/qjae044.

[307] Jonathan H. Choi, Amy B. Monahan, and Daniel Schwarcz. "Lawyering in the Age of Artificial Intelligence." In: *Minnesota Law Review* 109.1 (2024), pp. 147–218.

[308] Daniel Schwarcz et al. "AI-Powered Lawyering: AI Reasoning Models, Retrieval Augmented Generation, and the Future of Legal Practice." In: *Journal of Law & Empirical Analysis* 3.1 (2026). DOI: 10.1177/2755323X261427048.

[309] Artificial Lawyer. *Harvey Launches 'Legal Agent Bench'*. May 6, 2026. https://www.artificiallawyer.com/2026/05/06/harvey-launches-legal-agent-bench/. Launch date for Harvey's open-source Legal Agent Benchmark (LAB); corrects an informal "June 2026" date used in prior project materials. 2026. (Visited on 07/17/2026).

[310] Harvey. *Initial Results on Legal Agent Benchmark*. May 26, 2026. https://www.harvey.ai/blog/legal-agent-benchmark-initial-results. Under LAB's strict all-pass standard, frontier models complete fewer than 10% of complex legal tasks end-to-end (Claude Opus 4.7 led at 7.1%); counter-evidence to a simple "AI has already won" reading, complementing the VLAIR results. 2026. (Visited on 07/17/2026).

[311] Business Wire. *Eve Launches EveOS, the AI-Native Operating System Transforming Plaintiff Law Firms*. June 11, 2026. https://www.morningstar.com/news/business-wire/20260611528924/eve-launches-eveos-the-ai-native-operating-system-transforming-plaintiff-law-firms. Claims 3x attorney capacity, 30% higher settlements, 50% faster case cycles; company site (eve.legal) describes itself as "trusted by 1,200+ firms" as of this pass, vs. "1,400+" cited elsewhere – see CONFLICTS in narrative.md. 2026. (Visited on 07/17/2026).

[312] Anders Humlum and Emilie Vestergaard. *Still Waters, Rapid Currents: Early Labor Market Transformation under Generative AI*. Working Paper 33777. National Bureau of Economic Research, 2025.

[313] Sartori Global. *BigLaw Salary Scale 2026: $235K–$455K by Class Year*. https://sartoriglobal.com/insights/salary/biglaw-associate-salary-scale-2026/. Milbank raised first-year base from $225,000 (flat since summer 2023) to $235,000 effective July 1, 2026; McDermott, Quinn Emanuel, and Hueston Hennigan matched within days. 2026. (Visited on 07/17/2026).

[314] ABA Journal. *Cravath Kicks Off Associate Bonus Season and Other Firms Follow*. November 19, 2025. https://www.abajournal.com/news/article/cravath-kicks-off-associate-bonus-season-and-other-firms-follow. Confirms $225,000 first-year base salary (class of 2025) and bonus scale unchanged since 2021. 2025. (Visited on 07/17/2026).

[315] The Washington Post. *Booz Allen Hamilton Share Price Set at $17 for IPO*. November 17, 2010. https://www.washingtonpost.com/archive/national/2010/11/17/booz-allen-hamilton-share-price-set-at-17-for-ipo/5253d472-f25d-11df-8ff1-e7ff824c48af/. 2010.

[316] Luis Garicano. "Hierarchies and the Organization of Knowledge in Production." In: *Journal of Political Economy* 108.5 (2000), pp. 874–904. DOI: 10.1086/317671.

[317] Alicia Davis Evans. *A Requiem for the Retail Investor?* Virginia Law Review 95:1105 (2009). https://repository.law.umich.edu/facarticles/118/. 2009.

[318] Uwe E. Reinhardt. "The Rise and Fall of the Physician Practice Management Industry." In: *Health Affairs* 19.1 (2000), pp. 42–55. DOI: 10.1377/hlthaff.19.1.42.

[319] Meg Short. *Banks Lay Groundwork for Mass Workforce Cuts as AI Takes Hold*. Fortune (with Bloomberg), June 7, 2026. https://fortune.com/2026/06/07/banks-mass-workforce-cuts-ai-entry-level-jobs-junior-analysts/. 2026.

[320] Jr. Heineman Ben W. *The Inside Counsel Revolution: Resolving the Partner-Guardian Tension*. Chicago: Ankerwycke (American Bar Association), 2016.

[321] William D. Henderson. *In-House Is Bigger than BigLaw (262)*. Legal Evolution, September 2021. https://www.legalevolution.org/2021/09/in-house-is-bigger-than-biglaw-262/. 2021.

[322] Public Company Accounting Oversight Board. *PCAOB Adopts New Requirements To Standardize Disclosure of Firm and Engagement Metrics and To Modernize the PCAOB's Reporting Framework*. November 21, 2024. https://pcaobus.org/news-events/news-releases/news-release-detail/pcaob-adopts-new-requirements-to-standardize-disclosure-of-firm-and-engagement-metrics-and-to-modernize-the-pcaob-s-reporting-framework. 2024.

[323] U.S. Securities and Exchange Commission. *Notice of Withdrawal of Proposed Rules on Firm Reporting and Firm and Engagement Metrics and Related Amendments to PCAOB Standards*. Release No. 34-102399, February 11, 2025. https://www.sec.gov/files/rules/pcaob/2025/34-102399.pdf. 2025.

[324] Nanette Byrnes. *As Goldman Embraces Automation, Even the Masters of the Universe Are Threatened*. MIT Technology Review, February 7, 2017. https://www.technologyreview.com/2017/02/07/154141/as-goldman-embraces-automation-even-the-masters-of-the-universe-are-threatened/. 2017.

[325] Andrew von Nordenflycht. "Is Public Ownership Bad for Professional Service Firms? Ad Agency Ownership, Performance, and Creativity." In: *Academy of Management Journal* 50.2 (2007), pp. 429–445. DOI: 10.5465/AMJ.2007.24634774.

Colophon

This book was designed and typeset with LuaLaTeX from a single-source template: metadata, trim, typography, and edition structure all derive from one configuration file, and every output format—print interior, bleed variant, and ebook—builds from the same LaTeX sources.

The text is set in EB Garamond, with a companion humanist sans for titling accents and Noto Sans Mono for code, at a base size of 11pt on a 6.0in by 9.0in trim.

Interior architecture: a modular preamble with a four-layer color system, semantic callout boxes, and micro-typographic protrusion tuned per typeface. Citations are managed with biblatex and biber.

Michael J. Bommarito II · 2026