

California Attorney General Escalates Corporate Practice Enforcement in Medical and Dental Care

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by Randall Hanson and Jamie McCarty



California has long maintained one of the country's more developed prohibitions on the Corporate Practice of Medicine ("CPOM") and the Corporate Practice of Dentistry ("CPOD"). Recent activity from California Attorney General Rob Bonta suggests that these doctrines are increasingly used as enforcement tools in arrangements involving management services

organizations ("MSOs"), dental service organizations ("DSOs"), professional corporations ("PCs"), and other health care businesses in California.

In the span of roughly three months, Attorney General Bonta took three notable actions in this area: he filed an amicus brief in *Art Center Holdings, Inc. v. WCE CA Art, LLC*; announced a settlement with Aspen Dental Management, Inc. involving California's ban on the CPOD; and announced a "first-of-its-kind" settlement with Carbon Health Technologies, Inc., affiliated medical groups, and Carbon's co-founder and former CEO, Eren Bali, involving California's CPOM doctrine.

This blog post provides a general overview of these recent California developments and what they may signal for regulated professional organizations operating in California.

Art Center: The Attorney General Targets Captive PC Replacement Rights

The Attorney General's *Art Center* [amicus brief](#) is a forceful restatement of California's CPOM doctrine as applied to "friendly PC" or "captive PC" structures. The brief identifies the relationship that "poses the greatest risk" as one in which an MSO has the sole

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authority to select a so-called “friendly” physician to serve as the PC’s nominal owner, while the MSO retains contractual tools that allow it to control the friendly physician-owner and, by extension, the PC.

The brief focuses on a common set of provisions often described as continuity agreements, succession agreements, assignable options, or stock transfer agreements. Under the arrangements described by the Attorney General, the physician-owner could not sell the physician’s interest in the PC without first obtaining the MSO’s approval. The MSO also retained the unilateral right to terminate its contract with the physician-owner. If the contract were terminated, the physician-owner’s ownership interest would transfer to another licensed physician selected by the MSO. According to the Attorney General, these provisions run the risk of giving the MSO “near complete control” over the PC.

The Attorney General’s core argument is that agreements giving a nonprofessional corporation the right to replace a PC’s physician-owner with a physician of its choosing violate California’s CPOM prohibition by giving the corporation undue control over a medical practice. The brief reasons that the ability to replace the physician-owner gives the nonprofessional corporation direct control over physician hiring and firing, and indirect control over all other aspects of the practice. That concern is heightened where the physician-owner has no corresponding right to replace the MSO without losing ownership of the PC.

Importantly, the brief does not state that every MSO-PC relationship is per se unlawful. It expressly notes that not all MSO-PC relationships give the MSO an impermissible degree of control and that, absent the problematic contractual terms at issue in this specific case, the legality of an MSO-PC relationship requires a totality-of-the-circumstances analysis. But the brief leaves little doubt that contractual rights allowing an MSO to replace a physician-owner are, in the Attorney General’s view, among the highest-risk features in a California MSO-PC structure.

Aspen Dental: Corporate Practice of Dentistry Enforcement

On May 7, 2026, the California Attorney General announced a settlement with Aspen Dental Management, Inc. for alleged violations of California’s ban on the CPOD and alleged false and misleading advertising. The settlement, which remained subject

to court approval at the time of announcement, included \$2 million in penalties and \$300,000 in restitution funds for certain patients.



The Attorney General alleged that Aspen Dental, a private equity-owned DSO, exceeded its role as a provider of business management and administrative services by interfering

with and unlawfully directing the practice, ownership, and management of dentistry in California. The Attorney General's [press release](#) also noted that Aspen Dental entered California in 2019 and opened 19 offices in the state, and alleged that Aspen selected, purchased, staffed, and advertised offices without clearly identifying independent dentist-owners.

The Aspen settlement is not Aspen Dental's first corporate practice-related enforcement matter. In 2015, the New York Attorney General announced a [settlement](#) requiring Aspen Dental Management to overhaul its New York business practices so that it would not dictate care provided by dentists and hygienists, split patient fees with clinics, or hold itself out to consumers as a provider of dental services.

The California Aspen Dental settlement includes a broad set of injunctive terms. Among other things, Aspen Dental agreed to restrictions including:

- Not replacing any practice owner with another dentist of its choosing.
- Not requiring practice owners to effectively give up ownership of any dental practices if they decide to terminate their contractual relationship with Aspen Dental.
- Not owning the property for any practice.
- Not practicing dentistry, including but not limited to owning or managing any dental office.
- Not basing service fees on revenue, sales, or profits.
- Not suggesting, directing, or encouraging any licensed clinician, other than a practice owner, to sell or increase revenue for any service or product.
- Not compensating any of its employees based on the sales or revenue of practices.
- Not paying any practice employees incentives based on practice sales, revenue, or profit, including the sale of a particular service or product.
- Discontinuing the use of and not enforcing any existing contractual provision that restricts where any licensed clinician may practice or be employed.
- Providing a written fee schedule for products and laboratory services.
- Registering with the Dental Board of California as a Dental Group Advertising and Referral Service.
- Clearly and conspicuously identifying the practice owner's name when creating, publishing, or disseminating advertisements.

Carbon Health: CPOM Enforcement Applied to the Friendly PC Model

On June 26, 2026, Attorney General Bonta announced a "first-of-its-kind" [settlement](#) with Carbon Health Technologies, Inc., affiliated medical groups, and Carbon's co-founder and former CEO, Eren Bali. The settlement, which remains subject to court approval, resolved allegations that Carbon Health violated California's prohibition on the CPOM, used unlawful consumer contracts, engaged in false advertising, and improperly billed patients and insurers.

According to the Attorney General, Carbon Health used a "friendly PC" model in which Carbon Health Technologies, a MSO, controlled clinic operations by contract. The challenged contracts allegedly allowed the MSO to replace the physician-owner with a

physician of its choosing, while preventing the physician-owner from replacing the management company without risking loss of ownership. The Attorney General also alleged that the structure allowed unlicensed officers to direct staffing, advertising, and insurance negotiations.

The proposed Carbon judgment would permanently enjoin the defendants from engaging in CPOM, including through:

- A management services agreement granting the MSO complete authority over advertising, payor negotiations, selection of medical equipment, and the hiring, firing, and compensation of licensed medical professionals;
- Granting an MSO any ownership interest in a professional corporation, including through an assignable option agreement giving the MSO the right to acquire such ownership interests for its own account; and
- A revolving credit agreement requiring affiliated professional corporations to seek financing exclusively from the MSO at an above-market rate, subject to certain conventional lender restrictions.

The judgment also addresses significant billing and consumer-protection issues, including automatic payment disclosures, overcharges to patients with health maintenance organization coverage, collection of amounts not owed, incorrect billing codes, and misrepresentations about clinics' in-network status. The proposed judgment imposes a \$4.4 million civil penalty claim against the Carbon Health entities in their bankruptcy cases and a separate \$100,000 civil penalty against Mr. Bali.

The proposed judgment does not state that every succession or continuity arrangement is unlawful by itself. Rather, it focuses on the specific combination of ownership, option, financing, and operational-control rights described above.

The Big Picture

California's recent activity fits within a broader state-level trend toward increased scrutiny of private investment and lay-entity influence in clinical care, including recent developments in Oregon and Vermont. California's approach is notable because the Attorney General is using existing professional practice and consumer protection authorities to challenge MSO-PC arrangements, rather than relying only on newly enacted legislation.

The takeaway is not that MSOs, DSOs, or private capital are categorically prohibited in California. Rather, California operators should assess whether their arrangements preserve genuine professional ownership and clinical independence, particularly where contract terms allow the management entity to influence who owns the practice, how the practice exits the relationship, or how clinical and patient-facing decisions are made.

Please contact the authors or your primary Dorsey attorney with any questions about how these developments could affect your current business model or any contemplated transactions.

Summer Associate Shen Wang provided substantial assistance with the drafting of this blog post/article.