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California Attorney General and California Medical Association Advocate for Competing Interpretations of Corporate Practice of Medicine Laws That May Reshape PC/MSO Structures

Related People

- Paul A. Gomez
- Ashley N. Osak
- Matthew T. Lin

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Key Takeaways

- The pending *Art Center* case could significantly reshape California's "friendly PC" / PC-MSO model, particularly regarding whether MSOs can remove and replace physician shareholders.
- The California AG and CMA present competing interpretations of CPOM: the AG favors a strict prohibition on removal rights, while the CMA supports a fact-specific analysis focused on actual control over clinical decision-making.
- Health care stakeholders should proactively review and potentially revise PC/MSO agreements, as increased enforcement risk and evolving legal standards may render common provisions — especially physician removal rights — unlawful.

Two amicus briefs filed in a matter before the California Court of Appeal illustrate potential futures for the friendly PC structure and enforcement against the corporate practice of medicine (CPOM). On March 30, 2026, the California Attorney General (AG) filed an amicus brief in *Art Center Holdings, Inc., et al. v. WCE CA Art, LLC, et al.*, which is currently pending before the California Court of Appeal. The AG advocated for a strict approach to CPOM enforcement, arguing that any contractual right for a lay entity to replace the physician owner of a medical corporation is unlawful. On April 13, 2026, the California Medical Association (CMA) filed an amicus brief supporting a nuanced approach to determine if a lay entity's power to remove a physician owner constituted unlawful control over clinical decision-making. The outcome of the case could have a dramatic impact on current and future investments in California physician practices.

Background

Under California's CPOM prohibition, lay entities are broadly prohibited from practicing medicine through employed physicians, owning stock of professional corporations or otherwise controlling clinical decision making in the practice of medicine. In recent years, physicians often practice under arrangements known as the "friendly PC" or "PC/MSO" model, where physicians and professional corporations (PCs) contract with lay entities like

management services organizations (MSOs) to manage the non-clinical business aspects of the practice. PC/MSO structures are commonplace in many health care arrangements in California including, but not limited to, private equity investments in California physician practices.

PC/MSO structures often include an agreement commonly referred to as a "succession agreement," "stock transfer restriction agreement" or "continuity agreement." These agreements negotiated by the parties restrict the physician's ability to sell stock in the professional corporation and typically give the MSO a contractual right to direct the physician to sell stock in the professional corporation to another duly licensed physician. Examples of what may trigger such contractual rights may include (not exhaustive) the retirement of the physician, loss of the physician's license or exclusion from a government payor program, conviction of a crime, the physician's attempt to sell stock to an unauthorized third party, or otherwise upon notice from the MSO.

The *Art Center* case arises from a dispute between a fertility practice, its MSO and affiliated parties. The plaintiffs alleged that the MSO wrongfully forced a physician to transfer stock of the fertility practice's PC pursuant to a continuity agreement that gave the MSO absolute discretion to remove the physician shareholder and designate a new one at will. Importantly, the plaintiffs also alleged that the MSO terminated the physician shareholder in part due to the physician's refusal to terminate one or more clinicians' employment with the PC. In 2024, the trial court granted a pre-trial motion seeking appointment of a receiver to transfer ownership of the professional corporation back to the physician, finding that the MSO's sole and absolute discretion to remove the physician shareholder and designate a new one demonstrated undue control over the practice of medicine.[1] The parties appealed to the California Court of Appeal.

Amicus Briefs

The AG's amicus brief took a hard line on CPOM enforcement, arguing that agreements granting lay entities the right to replace a physician owner are inherently unlawful because they confer effective control over the medical practice. According to the AG, because the physician ultimately determines clinical policies and staffing, a lay entity can effectively dictate those decisions by replacing the physician at will. This, the AG contended, violates CPOM regardless of whether the removal right is ever exercised.

The AG further argued that such arrangements create "captive PCs," where physician ownership is nominal and real control rests with the MSO or investor. Even the mere existence of a removal right, in the AG's view, creates impermissible "divided loyalties," as physicians may feel pressure to align their clinical decisions with the financial interests of the controlling entity. Consistent with this approach, the AG supported the trial court's reasoning (in dicta) that contractual provisions allowing unilateral replacement of physician owners violate CPOM and should be deemed void as against public policy. The AG did acknowledge, however, that PC/MSO arrangements could be lawful if they did not grant the MSO the right to remove physician shareholders and designate new ones unilaterally, and should be assessed based on the totality of the circumstances of the arrangement.

The CMA advocated for a more nuanced evaluation of the level of control MSOs can exercise over physician practices. The court, the CMA argued, should consider the extent to which the authority to remove a physician shareholder and designate a new one constituted undue control and influence over clinical aspects of a medical practice and not purely business aspects of the practice.

The CMA agreed with the trial court's finding that the continuity agreement in *Art Center* was unlawful because (i) it gave the MSO absolute discretion to remove the physician and

(ii) the removal right was exercised to force the termination of clinical personnel over the objections of the physician shareholder. However, the CMA argued that a categorical prohibition on continuity agreements would be too blunt in light of CPOM case law and modernization of the health care industry. Instead, the CMA urged the court to apply a fact-intensive, context-driven analysis focused on whether the structure, in practice, results in undue control over clinical decision-making. Relevant considerations may include the scope of the removal right, whether the removal right is used to influence hiring and firing decisions over clinical personnel, the presence of governance safeguards insulating clinical functions, the identity and incentives of the non-physician actors and whether the arrangement affects patient care.

Takeaways

The Court of Appeal's decision in *Art Center* could dramatically impact current and future PC/MSO arrangements in California. If the court agrees with the AG and the trial court, MSOs or other lay entities could be prohibited from removing physician shareholders of friendly PCs in any circumstances. If the court aligns more closely with the CMA, it may adopt a more nuanced fact-based approach that limits the circumstances under which an MSO may remove a physician shareholder and designate a new one while preserving the physician's control over clinical decision-making. The court may also consider recent legislative history that suggests that the ability to remove a physician shareholder and designate a new one does not necessarily constitute a CPOM violation. Bills seeking to bar authority to remove physician shareholders have failed in the past, and legislation addressing CPOM in recently enacted SB 351 restricts management authority of MSOs over clinical matters without restricting the ability to remove physician shareholders and designate new ones.

The AG's amicus brief also signals the hard line approach the AG may take in future investigations and enforcement actions against friendly PC arrangements. Investigations into friendly PC arrangements — especially (but not limited to) those with MSOs backed by private equity — may center on the circumstances in which the MSO is allowed by contract to remove the physician shareholder of a friendly PC.

Stakeholders that utilize PC/MSO arrangements in California should monitor developments in *Art Center* and evaluate current agreements with physicians to determine whether they could be characterized as unlawful control over clinical operations under the potential outcomes of the case. Specifically, agreements should be reviewed to ensure that they do not grant effective control over clinical judgment and decision making in light of potentially more aggressive CPOM enforcement and stricter interpretations of related legal requirements, even where such agreements may have withstood scrutiny previously. Stakeholders should also explore whether management services agreements standing alone, without authority to remove and designate a new physician shareholder create appropriate alignment between the MSO and PC while making clear distinctions between control over clinical and non-clinical aspects of the arrangement.

[1] The trial court refused to appoint a receiver over the non-clinical portions of the practice that were provided via contract by the MSO to the PC.