CLIENT ALERTS & INSIGHTS

California AG's Carbon Health Settlement Raises the Stakes for MSO-PC Structures and Continuity Planning in California

JULY 16, 2026

Authors: Frank Carsonie, Scott P. Downing, Jason S. Greis, Nesko Radovic, Theresa Cross

Featured Practices: Healthcare

Key takeaways:

- The AG alleged that Carbon's MSO exercised "complete authority" over physician hiring, firing and compensation; held veto rights over routine PC actions; and used assignable options and security interests to control PC ownership-making the PC a "captive" entity wholly dependent on MSO discretion.
- The settlement permanently enjoins Management Services Agreements ("MSAs") giving the MSO complete authority over advertising, payor negotiations, equipment selection and clinician compensation; bars MSO ownership interests in PCs; and prohibits exclusive above-market financing.
- Operational conduct matters: board-level discussions of clinician staffing and compensation were cited as evidence of nonphysician control, even where the corporate structure was nominally physician-owned.

The California Attorney General's June 2026 settlement with Carbon Health marks the first-of-its kind resolution of an enforcement action directly targeting an MSO-PC structure under California's corporate practice of medicine ("CPOM") doctrine. The settlement arrives as *Art Center Holdings v. WCE CA ART*, No. B338625, tests whether Continuity Planning Agreements and similar provisions are facially invalid under CPOM. The Carbon Health settlement and *Art Center Holdings* appeal are connected-both involve the structural provisions-assignable options, share transfer rights and MSO consent requirements-that the AG views as giving nonphysicians unlawful control.

For healthcare companies, investors, and sponsors in California, the central lesson is that MSO-PC structures will be evaluated by whether the MSO's contractual rights and practices leave clinical control with licensed physicians.

The Complaint: A Broad Challenge to Carbon Health's Structure and Operations

The complaint, filed June 17, 2026, alleged that Carbon Health Technologies, Inc. ("the MSO") and co-founder Eren Bali violated California's CPOM prohibition by exercising unlawful control over affiliated PCs.

The AG identified several mechanisms that allegedly crossed from permissible management support into unlawful control-the MSA gave the MSO "complete authority" over advertising, billing, finances, patient records, equipment selection and-critically-hiring, firing and compensation of licensed professionals; the MSO held expansive veto rights over routine PC corporate actions; and the MSO used security interests and assignable options to control PC ownership, including the ability to unilaterally replace the physician shareholder under specified conditions.

The AG also cited operational conduct: the MSO's board discussed clinician staffing, payor contracting and physician compensation-matters California law reserves to licensed physicians.

The Settlement: Injunctive Relief with Structural Significance

On June 24, 2026, the parties stipulated to a final judgment and permanent injunction without admitting liability.

The judgment permanently enjoins MSAs giving the MSO complete authority over advertising, payor negotiations, equipment selection and clinician hiring/compensation; bars MSO ownership interests in PCs (including through assignable options); and prohibits exclusive above-market financing. The judgment imposes a $4.4 million penalty against the Carbon Health entities and $100,000 against Mr. Bali.

What This Means and What You Should Do Now

The AG's finding of control did not rest on any single mechanism in isolation. Rather, it was the *cumulative weight* of all the mechanisms Carbon had in place-assignable options, security interests, veto rights, financing dependency and operational involvement-that tipped the scale toward a finding of unlawful control. Certain individual elements, such as share transfer restrictions, may not be problematic standing alone. But when layered together, these mechanisms can convert a nominally physician-owned PC into a captive vehicle.

California participants should assume heightened risk where an MSO can effectively determine PC ownership, replace the physician shareholder, hold ownership interests, or use financing and consent rights to make the PC dependent on the MSO. Formal separateness is not enough if operating practices suggest otherwise. Board discussions involving clinician staffing, compensation and payor strategy can evidence nonphysician control.

Healthcare companies, investors and sponsors using California MSO-PC models should immediately review MSAs, equity and succession mechanics, financing arrangements, and governance protocols against the judgment's prohibitions. CPAs and related documents should be narrowly tailored to legitimate continuity objectives and should not give the MSO practical ability to dictate PC ownership or clinical governance.

Importantly, these cases involve extreme and atypical fact patterns. The Carbon Health allegations describe an outlier scenario featuring an unusually comprehensive suite of control mechanisms

deployed together. Most MSO enterprises operating in California are aware of these pitfalls and have moved to avoid the mechanisms under scrutiny. The fact patterns should not be read as representative of standard practice but rather as an end of the spectrum regulators are now policing. Nonetheless, California CPOM enforcement is intensifying-and for market participants that depend on California-friendly PC arrangements, the time to assess structure, governance, economics and operational authority through a CPOM lens is now.

The Benesch Healthcare team will continue to monitor developments and may provide additional updates as they become available. Please contact the authors of this article for additional information or if you have any questions.