CLIENT ALERTS & INSIGHTS

California Court Could Upend the Continuity Planning Agreements That Hold MSO-PC Structures Together

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Authors: Frank Carsonie, Nesko Radovic, Scott P. Downing, Jason S. Greis, Jake A. Cilek, Vince Nardone, Christopher DeGrande

Featured Practices: Healthcare, Healthcare Litigation, Dental/DSOs, Dialysis, Nephrology & Vascular Access, State Attorneys General Investigations & Enforcement, White Collar, Government Investigations & Regulatory Compliance

Key Takeaways

- A pending California appellate court case could fundamentally change how management services organizations and dental services organizations structure their relationships with affiliated professional corporations, with the court considering whether simply having the right to replace a physician-owner violates corporate practice of medicine rules.
- If the court rules that simply having a contractual right to replace a physician-owner violates California's corporate practice of medicine laws, nearly all MSO-PC and DSO-PC platforms in the state-and potentially beyond-could face significant legal and operational risk, especially as new state laws further restrict corporate involvement in medical practices.
- Proactive restructuring now can help mitigate risk ahead of the court's decision and anticipated regulatory scrutiny. MSO and DSO operators should immediately review and update their continuity agreements and governance structures to ensure compliance with evolving CPOM standards-especially at-will replacement rights-while including physician autonomy safeguards ahead of a likely shift in how regulators evaluate these models.

A case now pending before a California appellate court could directly threaten the contractual foundation that management services organization-professional corporation ("MSO-PC") and dental services organization-professional corporation ("DSO-PC") platforms rely on. The California Court of Appeal, Second Appellate District, is considering an appeal that could fundamentally reshape the enforceability of continuity planning agreements ("CPAs")-the provisions that virtually every management services organization ("MSO") and dental services organization ("DSO") uses to maintain alignment with its affiliated professional corporation ("PC") and ensure appropriately licensed professionals continue to own the equity of the PC as required by law. CPAs or similar alignment and succession-planning agreements are commonly used in a variety of private equity-backed and other arrangements.

The case, *Art Center Holdings, Inc. et al. v. WCE CA ART, LLC et al.*

, No. B338625, has attracted formal legal briefs from both the California Attorney General and the California Medical Association ("CMA"). They are weighing in on a question that no court has ever directly decided: does simply having a contractual right that allows an MSO to replace the physician-owner of a PC violate California's prohibition on the corporate practice of medicine ("CPOM")? The answer could reshape how every platform in the state-and beyond-is structured.

This is not a theoretical legal debate. CPAs, stock transfer restriction agreements and assignable option provisions are standard components of MSO-PC and DSO-PC operating structures. If the appellate court affirms the trial court's reasoning that the bare presence of such provisions-regardless of whether or how they are exercised-constitutes a CPOM violation, the implications reach virtually every PE-backed, hospital-affiliated, and investor-aligned physician or dental practice platform currently operating in California, and could provide courts and legislative bodies in other states with ammunition to consider similar positions.

Case Background

The dispute involves a scenario that will sound familiar to many MSO and DSO operators. A private equity-backed MSO acquired a successful medical practice and structured the arrangement through a friendly PC-a familiar model used by investor-led professional enterprises across the industry. The original physician-owner, Dr. Surrey, signed two key agreements: (1) a Consulting Agreement terminable by the MSO for any reason, and (2) a CPA empowering the MSO to replace Dr. Surrey with another physician of its choosing if the Consulting Agreement were terminated.

The arrangement deteriorated when Dr. Surrey and the MSO disagreed over a clinical personnel decision-specifically, the termination of a physician employee. When Dr. Surrey refused to act, the MSO exercised its contractual replacement right, installing a new physician-owner who carried out the MSO's directive.

The trial court found CPOM violations on two grounds. First, the MSO's actual exercise of the replacement right to impose its will on a clinical personnel decision constituted direct interference with the practice of medicine. Second-and more significantly for practitioners-the trial court concluded that "even the presence of such agreements violate California's ban on the unlicensed practice of medicine because medical doctors are placed in an untenable position-comply with the demands of their corporate partners even when involving medical decisions, or be removed and stripped of your ownership shares without any recourse."

The Attorney General's Position: Your Continuity Agreement Means You "Own" the Practice

The California Attorney General's brief, filed March 30, 2026, fully supports the trial court's conclusion-and goes further. The AG argues that "[w]hen an agreement gives an unlicensed corporation the right to replace the physician-owner of a medical practice with a different physician of its choice, the corporation effectively owns and controls all aspects of the practice." In other words, from the AG's perspective, any MSO or DSO with the contractual ability to swap out the physician-owner effectively owns the practice-which is exactly what CPOM prohibits.

The AG's argument rests on two pillars:

I. **A replacement right equals control over hiring and firing.** The AG contends that because continuity agreements permit the MSO to select and replace physician-owners, they give the corporation direct control over physician employment-conduct that both case law and the newly enacted Senate Bill 351 expressly prohibit, as discussed below. As the AG puts it, "[a]greements that permit nonprofessional corporations to handpick the doctors that own and operate a medical practice ensure that the dangers of divided loyalties are all but certain to materialize."

I. **The threat alone is enough.** The AG further argues that corporate control over physician-owners "deeply conflicts physicians' loyalties, regardless of whether the corporation ever exercises the control it reserves." This is the most alarming part for platforms: under this theory, it does not matter whether an MSO or DSO has ever actually invoked its replacement right. Simply having the provision in the agreements creates the violation.

CMA's Warning: Do Not Paint All Friendly PC Structures with One Brush

The California Medical Association's brief, filed April 29, 2026, agrees that the MSO's exercise of the replacement right under the facts of this case violated CPOM but urges the court not to adopt a blanket prohibition.

CMA acknowledges that "there appears to be no AG opinion or precedential authority supporting the trial court's apparent conclusion that a structural violation of CPOM results from a mere contractual right giving a manager the power to replace a friendly PC physician owner." CMA emphasizes that "almost every friendly PC arrangement depends on such a term in some form or another, and the Court's decision in this case can have widespread impact on most if not all friendly PC arrangements involving not only PE investors but other investors and stakeholders who may align with physicians, including many nonprofit hospitals and other community groups."

Rather than a one-size-fits-all ban, CMA advocates for "a principled, fact-dependent approach (rather than a categorical prohibition) to applying CPOM to friendly PC structures." CMA cautions that "[e]recting rigid barriers in the enforcement of CPOM could have the unintended consequence of stifling innovation and the evolution of healthcare, resulting in significant disruption to many current physician alignments."

Practical Import

MSO and DSO operators understand that continuity agreements are not some aggressive power grab-they are foundational to how the business works. These provisions exist to protect the platform's investment, ensure business continuity and address real-world scenarios where a physician-owner becomes incapacitated, loses licensure, breaches the management agreement or otherwise cannot fulfill ownership responsibilities.

As the AG's brief describes, these provisions "may be referred to as 'continuity agreements,' 'assignable options,' or 'stock transfer agreements.'" Under their typical structure, "the physician-owner is prohibited from selling their interest in the PC without first obtaining the MSO's approval. The MSO retains the unilateral right to terminate its contract with the physician-owner at

any time. If the contract is terminated, the physician-owner's ownership interest in the PC is transferred to another licensed physician chosen by the MSO."

What makes this case a potential inflection point for the industry is that the trial court did not limit its holding to situations involving egregious MSO overreach. It reasoned that the structure itself is the violation. If that reasoning holds on appeal, every MSO-PC and DSO-PC arrangement with a standard continuity agreement in California is potentially exposed.

California's Broader Legislative Posture: SB 351 and AB 1415

This appeal does not exist in a legislative vacuum. California has enacted two significant laws that further restrict corporate involvement in physician practices, creating a layered enforcement regime:

Senate Bill 351 (effective January 1, 2026). SB 351 codifies existing Medical Board guidance and explicitly bars private equity groups and hedge funds from interfering with or exercising control over the professional judgment of physicians. (For a detailed breakdown of SB 351's provisions, see our prior client alert: California Enacts SB 351: New Restrictions on Private Equity and Hedge Fund Involvement in Physician and Dental Practices.) Specifically, the law prohibits PE and hedge fund entities from:

- Interfering with physicians' judgment in making healthcare decisions (Health & Safety Code § 1191(a)(1))
- Exercising control over, or being delegated, functions reserved to licensed professionals-including the selection, hiring and firing of physicians based on clinical competency (Health & Safety Code § 1191(a)(2))
- Entering into agreements that would enable them to impermissibly interfere with doctors' professional judgment (Health & Safety Code § 1191(c)(1))

The law further provides that any contract terms violating these prohibitions are "void, unenforceable, and against public policy" (Health & Safety Code § 1191(c)(2)). Importantly, SB 351 authorizes the California Attorney General to seek injunctive relief and recover attorney's fees for violations.

Assembly Bill 1415 (effective October 2025). AB 1415 expands state oversight of healthcare transactions involving MSOs, PE investors and physician practice affiliations. The law requires advance notice (generally 90 days) to the Office of Health Care Affordability ("OHCA"), which reviews transactions for cost, affordability, competitive effects and access and quality risks. Transactions may be referred to the Attorney General for CPOM, antitrust or consumer protection review.

Together, SB 351's substantive prohibitions and AB 1415's pre-transaction scrutiny create a two-pronged regulatory framework: one restricts what MSOs can do contractually, and the other ensures the state knows about deals before they close.

What You Should Do Now

The *Art Center Holdings* appeal presents an issue of first impression. There is no existing precedent directly addressing whether the mere presence of a continuity agreement violates CPOM absent actual interference with clinical decision-making.

However, MSO and DSO operators should not wait for the appellate decision to act. The combination of the AG's aggressive posture, SB 351's statutory prohibitions, AB 1415's notification requirements and the Medical Board's longstanding guidance creates substantial enforcement risk right now for any platform with unfettered replacement rights in its agreements. The Medical Board identified as early as 2011 that restricting physicians "from voting, selling or transferring their ownership/shares in any professional corporation . . . without the employing corporation's permission" is a factor indicating the corporate practice of medicine.

Action items for MSO and DSO platforms:

- **Review existing continuity agreements now.** Platforms should pull their stock transfer restriction agreements, CPAs and assignable option provisions for any California-based PC. The key question: are replacement rights truly at-will, or are they limited by for-cause standards, notice requirements or physician governance protections? An unfettered, at-will replacement right is the exact provision at issue in this case.

- **Evaluate governance structures.** Platforms should assess whether safeguards are in place-such as independent clinical committees, physician-led boards or documented operational protocols-that insulate clinical decision-making from ownership changes. CMA's brief suggests such protections may help distinguish permissible from impermissible structures.
- **Restructure new deals thoughtfully.** For new acquisitions or affiliations, platforms should work with counsel to build replacement rights that include substantive limitations rather than at-will termination triggers, ensuring the physician-owner retains meaningful, documented autonomy over clinical affairs regardless of the MSO's contractual rights. The inclusion of an "independent physician" clause, which assigns an agreed-upon third party to select the successor friendly physician in a replacement scenario, can keep MSOs out of clinical decisions in such situations.
- **Watch this case closely.** The appellate decision will likely set the framework for how friendly PC structures are evaluated under California law-and will be closely watched by regulators in other states that are moving in the same direction.

The bottom line is that the era of regulators and courts treating friendly PC arrangements as largely unexamined pass-throughs is ending. Whether the court adopts the AG's categorical approach or CMA's fact-dependent framework, the days of boilerplate continuity agreements operating without meaningful limitations are numbered-at least in California. Platforms that get ahead of this shift will be in a far stronger position than those that wait for the ruling and react.

The Benesch Healthcare team actively monitors developments in CPOM enforcement, MSO-PC structuring, and state regulatory activity affecting physician and dental practice platforms. We will continue to provide updates as regulators and courts further define the

boundaries of permissible structures and as other states advance similar legislative and enforcement initiatives. Please contact the authors of this article for additional information or if you have any questions.