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California's Corporate Practice Crackdown: What Carbon Health, Aspen Dental, and SB 351 Mean for Healthcare Investors and Operators

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California has long maintained one of the country's most stringent prohibitions against the corporate practice of licensed professions, including medicine and dentistry. Under that doctrine, only licensed professionals may own and operate their practices. So, to participate in the practice, non-professional investors have historically utilized the so-called "friendly PC" model in which a management services organization (MSO) owned by non-professionals provides administrative, operational, and business management services to a physician- or dentist-owned professional corporation (PC), while the licensed professional serves as its nominal owner.

But a new state law recently expanded the California Attorney General's (AG) authority over private equity and hedge fund involvement in medical and dental practices. And, in a remarkable series of actions over the first year of the law's implementation, the AG turned the theoretical risk of enforcement into aggressive, precedent-setting interventions that should command the attention of healthcare organizations operating under this model in California. As detailed below, these developments include the AG's landmark settlements with Carbon

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Health and Aspen Dental, and an amicus brief in a pending appeal challenging captive-PC arrangements.

Recent California Legislation

Senate Bill 351 (Cal. Health & Safety Code §§ 1191–1192), which took effect on January 1, 2026, strengthens California's corporate practice ban by authorizing the AG to investigate and take action against private equity firms and hedge funds that unlawfully interfere in the physician-patient relationship. Indeed, the AG's complaint against Aspen Dental, as discussed further below, included several alleged violations of SB 351. The law prohibits private equity and hedge fund entities from interfering with physicians' and dentists' clinical judgment, exercising control over functions reserved to such licensed professionals (including hiring and firing), and entering agreements that would enable such interference. Contract terms violating the statute are declared void, unenforceable, and against public policy.

Carbon Health

The State's Complaint

On June 17, 2026, California AG Rob Bonta filed a complaint against Carbon Health Technologies, Inc. (CHTI), its affiliated professional corporations, and its co-founder Eren Bali (collectively, Carbon Health). The AG alleged that the Carbon Health defendants allowed unlicensed persons to unlawfully direct the practice of medicine. In particular, the complaint noted that Bali is an engineer with no medical training and no medical license. Additionally, the AG alleged that Carbon Health engaged in false and misleading advertising and used unconscionable billing practices.

The complaint detailed how CHTI, through its management services agreements (MSAs) with affiliated PCs, allegedly wielded undue and unlawful

control over the PCs, effectively making them into truly captive PCs that were wholly dependent upon CHTI's discretion. Specifically, the AG pointed to the following provisions, among others:

- Consent requirements mandating CHTI's consent for the PCs to make asset purchases of more than $1,000, incur debts of more than $1,000, enter into contracts valued at more than $1,000, amend their articles of incorporation or bylaws, or issue shares, pay dividends on shares, reclassify stock, or engage in a consolidation, conversion, merger, or stock/share exchange
- A security interest in the physician-owners' shares in the PCs that required the physician-owners to transfer their shares to a physician of CHTI's choosing in the event of a breach or default of the MSA, or upon the termination of the MSA for any reason
- Assignable options that would allow CHTI to immediately transfer ownership of the PCs to physicians of CHTI's choosing upon the termination, expiration, or nonrenewal of the MSAs, or if CHTI determined, in its sole discretion, that the physician shareholders' continued ownership of the professional corporation would impair CHTI's ability to provide management services under the MSA
- Exclusive-management provisions requiring the PCs to receive management services from CHTI alone and granting CHTI complete authority over advertising, payor negotiations, selection of medical equipment, and the hiring, firing, and compensation of licensed medical professionals associated with the "Carbon Health" brand name

The AG alleged that these facts violated California's corporate practice of medicine prohibition and therefore constituted unlawful, unfair, or fraudulent business acts or practices under California's Unfair Competition Law, for which the court could assess civil penalties of $2,500 per violation.

The Settlement

On June 26, 2026, the AG announced a first-of-its-kind settlement requiring the Carbon Health defendants to dismantle this structure, ensure physicians control medical decisions, and pay $4.4 million in penalties (plus $100,000 from Bali personally). Among other things, the settlement permanently enjoins the Carbon Health defendants from:

1. Having complete authority over advertising, payor negotiations, selection of medical equipment, and the hiring, firing, and compensation of licensed medical professionals;
2. Obtaining any ownership interest in a PC, including through an assignable option agreement which grants the MSO the right to acquire such ownership interests for its own account; and
3. Entering into revolving credit agreements that require affiliated PCs to seek financing exclusively from the MSO at an above-market rate, provided that the MSO will be permitted to take a first priority lien in certain assets with conventional lender restrictions.

Aspen Dental

The State's Complaint

On May 1, 2026, AG Bonta sued Aspen Dental Management, Inc. (Aspen Dental), accusing the private equity-owned company of de facto operation of dental offices that Aspen Dental claims it was merely supporting administratively. According to the complaint, Aspen Dental chose office locations, built and furnished them, bought the equipment, and controlled billing and staffing without identifying the independent dentist-owners on the storefront or on its website. The AG alleged that Aspen Dental's practices violated California's prohibition on the unlicensed practice of dentistry and the state's new prohibitions against certain private equity

involvement in physician and dental practices. The complaint also included allegations regarding misleading ads with respect to Aspen Dental's ownership of the dental practices operating under its brand name, free exam offers, "accepts all insurance" claims, undisclosed fees, and claims about crafting dentures in on-site laboratories. The state sought penalties and a court order stopping these practices.

The Settlement: Operational Restrictions, Restitution, and a Compliance Monitor

On May 7, 2026, the AG announced a settlement with Aspen Dental for violations of the corporate practice of dentistry and false advertising laws. Among other things, the $2.3 million settlement (including $300,000 in restitution) permanently enjoins Aspen Dental from the following practices:

- Requiring practice owners to effectively give up ownership of any dental practices if they decide to terminate their contractual relationship with Aspen Dental
- Owning the property for any practice
- Practicing dentistry, including but not limited to owning or managing any dental office
- Basing service fees on revenue, sales, or profits
- Suggesting, directing, or encouraging any licensed clinician, other than a practice owner, to sell or increase revenue for any service or product
- Compensating any of its employees based on the sales or revenue of practices
- Paying any practice employees incentives based on practice sales, revenue, or profit, including the sale of a particular service or product
- Contractually restricting where any licensed clinician may practice or be employed

Additionally, the settlement requires Aspen Dental to register with the Dental Board of California as a Dental Group Advertising and Referral Service and to clearly and conspicuously identify the practice owner's name when creating, publishing, or disseminating advertisements.

The settlement also directs $300,000 in restitution to affected patients, including those who paid full price for a "Problem Focused Exam," qualified for the advertised free exam and x-rays for uninsured new patients, or purchased an electric toothbrush as part of a bundle. Any restitution funds that remain unclaimed will be directed to the State and, ultimately, to the Victims of Corporate Fraud Compensation Fund.

Strikingly, the settlement installs an independent compliance monitor to oversee Aspen Dental's adherence to the injunction's key terms for a 36-month oversight period, with the cost borne by Aspen Dental.

Amicus Brief

In March 2026, the AG filed an amicus brief in *Art Center Holdings, Inc., et al. v. WCE CA Art, LLC, et al.*, a dispute between a physician-owner and a private equity-backed MSO, that is pending before the California Court of Appeal, Second Appellate District, Division Three. The brief argued that arrangements giving a non-professional corporation the right to replace the physician-owner of a PC with a physician of its choosing violates California's prohibition on the corporate practice of medicine by conferring undue control over an effectively captive medical practice. Further, the AG contends that arrangements where the physician-owner does not have a right to replace its MSO without losing ownership of the PC are tantamount to the MSO owning the medical practice and, therefore, violate that prohibition. The brief characterized physician ownership in such arrangements as a fiction designed to shield parties from corporate practice

liability, and cited research linking private equity healthcare acquisitions to higher costs and increased patient mortality and adverse events. The case is still pending before the court.

Legal and Compliance Implications

Taken together, these California actions signal a fundamental shift in enforcement posture that creates several categories of risk for organizations operating under the friendly PC model:

1. **Structural vulnerability.** The AG has identified specific contractual provisions that cross the line: assignable options, MSO consent requirements for ownership transfers, unilateral termination-and-replacement rights, and broad management authority over physician hiring, compensation, and clinical staffing. California entities whose MSAs contain these provisions face direct enforcement exposure regardless of whether control has actually been exercised. As the AG argued in the amicus brief, the "division of loyalties" inherent in such arrangements persists even if the MSO never exercises its contractual rights.
2. **Expanded enforcement authority.** SB 351 significantly broadens the AG's toolkit by explicitly authorizing investigations of private equity and hedge fund involvement in healthcare. Previously, corporate practice enforcement was pursued primarily through the Medical Board or private litigation. The AG now has statutory authority to investigate proactively, seek injunctive relief, and recover attorney's fees.
3. **Contractual voidability.** Under both SB 351 and the common law, as articulated in the amicus brief, contractual provisions that violate California's corporate practice prohibition are void and unenforceable. This creates acute uncertainty for investors and lenders who have relied on MSAs as the structural foundation for healthcare platform investments. The Carbon Health settlement's prohibition on above-market

MSO financing arrangements further constrains the economic architecture of these deals.

4. **Cross-professional applicability.** Although SB 351 only applies to physician and dental practices, the Carbon Health settlement demonstrates that these principles extend, by implication, to other licensed professions with similar corporate practice prohibitions. Organizations in podiatry, optometry, and other fields should take note.

Practical Takeaways

Although the parties in the cases discussed above did not admit guilt and the terms of the settlements are not themselves binding law, organizations operating or planning to operate under a friendly PC model in California should consider taking the following steps:

- **Conduct a structural audit.** Review all MSO agreements, stock option agreements, and governance documents against the terms of the settlements discussed above and, in cases where the platform has outside investment, against the requirements of SB 351.
- **Ensure physician autonomy is documented.** Verifythat decisions related to hiring, termination, compensation, and clinical decision-making are reserved for licensed professionals.
- **Evaluate the "captive" nature of the arrangement.** Contractual terms that give the MSO the right to select, replace, or control the physician-owner are now identified as unlawful and may introduce enforcement risk.
- **Assess private equity exposure.** If private equity or hedge fund capital is involved in the ownership structure, SB 351 creates a separate and independent basis for AG enforcement. Evaluate whether the investment structure involves direct or indirect interference with clinical judgment or control over reserved professional functions.

- **Monitor ongoing developments.** The *Art Center Holdings* case remains pending. The appellate court's ruling is likely to address the enforceability of captive PC provisions directly and could further define the boundaries of permissible MSO-PC relationships. Organizations should track this case closely.

California's enforcement actions, and the passage of SB 351, represent some of the most significant challenges to the friendly PC model. Organizations that proactively evaluate their structure and the terms of their agreements will be best positioned to navigate this evolving landscape. Those outside of California should also take note because, as is often the case, "as California goes, so goes the nation." For instance, Oregon recently enacted a law strengthening its prohibition on the corporate practice of medicine by, among other things, restricting MSOs from exercising de facto control over administrative, business, or clinical operations of a professional medical entity. Accordingly, we urge those utilizing the MSO-PC model to carefully review their structure and relevant governing documents for compliance with applicable state and federal laws and regulations.
