California Attorney General Blasts "Share Transfer Restriction Agreements" in Friendly PC Model

Insights 04.22.26

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The California Attorney General ("AG") recently filed an amicus brief denouncing the use of a share transfer restriction agreement between a management services organization ("MSO") and a professional medical corporation ("PC") that allowed the MSO to unilaterally require the sole physician shareholder (often called a "friendly physician") to sell his shares to a successor chosen by the MSO. Although non-binding in nature, this brief signals where his office intends to focus its attention as part of a growing movement to strengthen oversight of corporate influence in the delivery of care.

Filing on behalf of neither party in *Art Center Holdings, Inc. v. WCE CA Art, LLC* on March 30, 2026, but instead as part of his authority to enforce consumer protection laws, including the prohibition on the corporate practice of medicine, the AG asserted that the share transfer restriction used in this case violated California's corporate practice of medicine ("CPOM") doctrine, which is a doctrine broadly prohibiting lay entities, such as an MSO, from owning or controlling medical practices. The AG opined that a contractual right that allows MSOs to require physicians to sell their shares in a PC at any time effectively gives an MSO unilateral control over a PC, because physicians know they can be divested of their shares at any moment unless they abide by the wishes of the MSO.

The AG's brief has drawn widespread attention amongst the legal and corporate community because the friendly PC model is widely used throughout California, and nationally, by a multitude of health care organizations, entrepreneurs, and other lay entities to allow providers access to capital and professional management while allowing the physician's attention to remain the provision of care. Properly structured, this model can bridge the gap between the clinical and business side of medicine that limits many practices. Many (but not all) of these common MSO/PC arrangements also include contractual rights that permit the MSO to replace the physician shareholder with another physician chosen by the MSO under certain circumstances.

Given the attention and even anxiety the AG's amicus brief has brought to the widely used friendly PC model, it is important to understand the AG's positions:

- If the MSO can unilaterally force the physician to divest as shareholder at any time, then the MSO "effectively owns and controls all aspects of the medical practice."

- If the physician shareholder cannot replace the MSO as manager, then the MSO "has undue control over the practice."
- An MSO's "ability to control physician hiring and firing – including of a PC's professional owner – indicates that it is engaging in the unlicensed practice of medicine."

Although the AG's positions on these types of contractual provisions should be given careful consideration by the parties to any MSO/friendly PC arrangements and those who advise these parties, there are also some countervailing considerations. Most importantly, the AG's positions do not have the force of law. Notably, the AG does not condemn all MSO/PC arrangements, nor does the AG necessarily condemn all shareholder transfer restriction agreements. For example, the AG does not say that an MSO should ***never*** have a right to require physician shareholders to sell their shares to another physician. It might be considered reasonable under certain circumstances, *e.g.*, if the physician dies, becomes disabled, or materially breaches the terms of the management agreement.

Furthermore, although the AG objected to provisions allowing the MSO to replace the physician shareholder if the physician shareholder terminated the management agreement, the AG did not assert that the physician must always be able to terminate a management agreement unilaterally, without cause, on short notice. Given the substantial time and resources invested by a typical MSO in managing a medical practice, it would seem reasonable to have some limitations on a physician's rights to terminate the relationship.

Finally, it must be remembered that this is the AG's position as set forth in an amicus brief in a single case. The AG's views, which are entitled to respect and must be taken seriously, are not binding on any court nor on any regulatory agency or law enforcement authority. However, they come at a time when California and Oregon recently enacted legislation aimed at limiting the influence of corporate interest, specifically private equity groups and hedge funds. Furthermore, national groups such as the Federation of State Medical Boards are considering recommendations that encourage medical boards to cooperate with attorneys general and other entities towards greater oversight and enforcement of corporate practice of medicine statutes. Only time will tell how much the AG's views on this case will have on the myriad MSO/PC relationships in California and beyond but the signal is clear that health systems, physician practices, and investors should review existing PC/MSO arrangements mindful of the potential for increased oversight.

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