

California Attorney General's Corporate Practice of Medicine (CPOM) Settlement With Carbon Health: Takeaways for the Friendly PC Model

Insights

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On June 26, 2026, California Attorney General Rob Bonta announced a [settlement](#) (subject to court approval) with Carbon Health Technologies, Inc. (the "Carbon Health MSO"), twelve affiliated professional corporations ("PCs"), and CHTI's co-founder and former CEO, Eren Bali, resolving [allegations](#) that Carbon Health's "friendly PC" model violated California's prohibition on the corporate practice of medicine ("CPOM"), along with related false advertising and consumer protection claims. The proposed judgment imposes \$4.4 million in civil penalties against the Carbon Health entities and a \$100,000 civil penalty against Mr. Bali individually, and it permanently enjoins Carbon Health from operating under several contractual arrangements the AG considers impermissible.

The settlement is not a judicial ruling on the merits. The parties stipulated to entry of the judgment as a compromise of disputed claims, without any admission of liability, and the settlement is subject to approval by both the Los Angeles Superior Court and the U.S. Bankruptcy Court for the Southern District of Texas, where Carbon Health recently confirmed its Chapter 11 reorganization plan. Even so, the judgment gives health care providers, investors, and management services organizations ("MSOs") a clearer picture of which contractual terms the AG considers problematic under CPOM.

Read together with the AG's [amicus brief](#) in *Art Center v. WCE CA Art, LLC* and the AG's May 2026 settlement with Aspen Dental over alleged violations of the corporate practice of dentistry and related issues, the Carbon Health settlement demonstrates that the AG views CPOM enforcement as a priority.

What the Complaint Alleged

According to the AG, Carbon Health's friendly PC arrangement gave the MSO control over the PCs that went well beyond the administrative and business functions that California law permits an MSO to perform. Specifically, the AG alleged:

- **Overbroad MSO Authority:** The management services agreements gave the Carbon Health MSO "complete authority over advertising; payor negotiations; selection of medical equipment; and the hiring, firing, and compensation" of the PCs' licensed clinicians.

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The AG also alleged that the Carbon Health MSO's Board of Directors discussed clinician staffing and performance, billing processes, and payor contracting.

- **Continuity / Succession Provision:** The physician shareholders granted the Carbon Health MSO an assignable option that permitted the Carbon Health MSO, in its sole discretion, to cause the PC's stock to be transferred to a physician of the Carbon Health MSO's choosing upon the occurrence of specified triggers, including if the Carbon Health MSO determined that the shareholder's continued ownership would impair the Carbon Health MSO's ability to provide management services.

The AG also alleged the following consumer protection violations which, while not CPOM in nature, may well have contributed to the AG's aggressive enforcement posture: (1) misrepresenting in-network status with payors, (2) overcharging patients, (3) submitting incorrect billing codes to payors, and (4) auto-charging patient credit and debit cards with limited or no notice.

The Settlement

In addition to the monetary penalties, the proposed judgment permanently enjoins the Carbon Health MSO from engaging in certain conduct that the AG views as CPOM, including but not limited to the following:

1. Having a management services agreement that grants the MSO "complete authority" over advertising, payor negotiations, selection of medical equipment, and the hiring, firing, and compensation of licensed medical professionals.
2. Having any ownership interest in a PC, including through an assignable option agreement which grants the MSO the right to acquire the PC's ownership interests for its own account.
3. Having a revolving credit agreement that requires affiliated PCs to seek financing exclusively from the MSO at above-market rates.

The judgment also enjoins the false advertising and improper billing practices alleged in the complaint and, unusually, imposes a \$100,000 civil penalty on Mr. Bali personally, putting corporate officers and founders on notice that alleged CPOM violations could lead to individual exposure.

Key Takeaways

Providers and MSOs operating under the friendly PC model should review the following features of their agreements:

- **Scope of MSO Authority:** Does the management services agreement appear to give the MSO "complete authority" over clinical hiring, firing, or compensation; payor contracting and billing decisions in a manner that affects clinical care; or medical equipment selection?
- **Continuity and Succession Provisions:** The settlement prohibits assignable options that permit the Carbon Health MSO "to acquire such ownership interests for its own account." It does not appear to foreclose more customary continuity / succession arrangements (*i.e.*, those triggered by defined events such as death, disability, loss of license, or material breach and directing transfer to a licensed successor physician rather than to the MSO), but the AG's recent enforcement posture (including its position in *Art Center Holdings*) invites caution. Providers and MSOs should consider whether their agreements contain triggering events for share transfers based on concrete, for-cause circumstances (death, disability, loss of license, uncured material breach) rather than open-ended MSO discretion.
- **Termination Rights:** Evaluate whether the PC has meaningful termination remedies for cause, without forfeiting the practice. Reasonable MSO protections against unilateral, without-cause termination presumably remain permissible, but may face heightened scrutiny in this enforcement environment.
- **Financing Arrangements:** Distinguish market-rate secured lending, which the Carbon Health judgment expressly preserves, from exclusive, above-market captive financing.

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