No. B338625

IN THE COURT OF APPEAL OF THE STATE OF CALIFORNIA

SECOND APPELLATE DISTRICT, DIVISION THREE

ART CENTER HOLDINGS, INC., ET AL.,
Plaintiffs and Respondents,
v.
WCE CA ART, LLC, ET AL.,
Defendants and Appellants.

Los Angeles County Superior Court, Case No. 24SMCV01185
Hon. Mark A. Young, Judge

BRIEF OF THE CALIFORNIA ATTORNEY GENERAL AS AMICUS CURIAE IN SUPPORT OF NEITHER PARTY

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March 30, 2026

TABLE OF CONTENTS

Page

TABLE OF CONTENTS
(continued)

Page

TABLE OF AUTHORITIES

Page

CASES

TABLE OF AUTHORITIES
(continued)

Page

STATUTES

TABLE OF AUTHORITIES
(continued)

Page

TABLE OF AUTHORITIES
(continued)

Page

TABLE OF AUTHORITIES
(continued)

Page

INTRODUCTION AND STATEMENT OF INTEREST

As the State's chief law officer, the Attorney General has the duty of ensuring that the State's laws are adequately enforced. (Cal. Const., art. V, § 13; see also Gov. Code, § 12511 ["The Attorney General has charge, as attorney, of all legal matters in which the State is interested . . . ."].) The Attorney General has authority to enforce consumer protection laws, including the prohibition on the corporate practice of medicine. (Bus. & Prof. Code, § 17200; Health & Saf. Code, § 1191, subd. (e).)

As California statute makes clear, California courts have held for nearly a century, and as the Attorney General opined more than 40 years ago, California law prohibits corporations from engaging – either directly or indirectly – in the practice of medicine. Here, the trial court correctly interpreted California's prohibition on the corporate practice of medicine. Yet despite California's ban and the trial court's holding, neither Appellants nor Respondents urge this Court to follow the correct determination of law below. Instead, the parties each advocate for this Court to adopt an erroneous, more permissive legal standard.[1] To do so would be both legally incorrect and harmful to the people of California.

Unlicensed people and corporations may not practice medicine in the state of California. As part of this ban, lay

[1] The Attorney General writes only to support the trial court's holding regarding the corporate practice of medicine. He takes no position on the parties' other disputes, including the appointment of a receiver or whether a preliminary injunction would have been the proper remedy.

entities may not exercise or reserve the right to exercise control over a medical practice. But that is exactly what the contractual provisions at issue in this case do. When 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. Likewise, when the practice's ostensible physician-owner cannot replace the unlicensed corporation without fear of losing ownership over their practice, the corporation has undue control over that practice. Accordingly, the trial court correctly concluded that these arrangements violate California's prohibition on the corporate practice of medicine.[2]

BACKGROUND

I. IN CALIFORNIA, UNLICENSED PERSONS, INCLUDING CORPORATIONS, ARE FORBIDDEN FROM CONTROLLING OR RETAINING THE RIGHT TO CONTROL MEDICAL PRACTICES

A. California Law Has Long Prohibited the Corporate Practice of Medicine

The Medical Practice Act (Bus. & Prof. Code, § 2000 et seq.) regulates the practice of medicine in California. The Medical Practice Act prohibits any person from practicing, attempting to practice, or holding oneself out as practicing "any system or mode of treating the sick or afflicted in this state . . . without having at the time of so doing a valid, unrevoked, or unsuspended certificate as provided in this chapter[.]" (Bus. & Prof. Code,

[2] When the terms of an agreement facially violate California's prohibition against the corporate practice of medicine, the violations go to both the lay corporation practicing medicine without a license and the doctors who aided and abetted that unlicensed practice.

§ 2052, subd. (a).) It also prohibits employing, aiding, or abetting any unlicensed person engaging in the practice of medicine. (Bus. & Prof. Code, §§ 2052, subd. (b), 2264.) Finally, it makes it unprofessional conduct for a licensee to violate the Moscone-Knox Professional Corporation Act, Corporations Code section 13400 et seq. (Bus. & Prof. Code, § 2286.)

These provisions form the basis of California's prohibition on the corporate practice of medicine (CPOM), which has stood in place for nearly a century. (Pamela Martin & Anne Neville, The Corporate Practice of Medicine in a Changing Healthcare Environment, Cal. Research Bur. (Apr. 2016) p. 1 ["From the late 1920s, California courts have staunchly protected the right of physicians to practice without being subject to potential interference by corporate employers."]). Though "physicians [may] conduct their medical practices through medical corporations or partnerships so long as all the entities' shareholders or partners, as well as all employees rendering professional services, are themselves licensed[,]" the law "'generally precludes for-profit corporations – *other than* licensed medical corporations – from providing medical care through either salaried employees or independent contractors.'"[3] (*People ex rel. Allstate Ins. Co. v. Discovery Radiology Physicians, P.C.*

[3] California also exempts certain entities from the ban for public policy and federal preemption reasons. These include medical schools (Bus. & Prof. Code, § 2401, subd. (a)), some Health Maintenance Organizations (Health & Saf. Code, § 1340 et seq.; 42 U.S.C. § 300e), and nonprofit community clinics (Health & Saf. Code, § 1204, subd. (a)). (See Martin & Neville, *supra*, at pp. 4-7 [enumerating and discussing exemptions].)

(2023) 94 Cal.App.5th 521, 534, original italics, citation omitted ("*Discovery Radiology*"); Bus. & Prof. Code, § 2400 [stating that corporations generally have no professional rights under the Medical Practice Act]; Bus. & Prof. Code, § 2416 [authorizing physicians to practice in a professional partnership or group]; Corp. Code, § 13401.5 [permitting professional corporations under the Moscone-Knox Professional Corporation Act].)

Important public policy reasons underlie California's longstanding prohibition on CPOM. Generally, the prohibition "is designed to protect the public from possible abuses stemming from commercial exploitation of the practice of medicine" (*County of Los Angeles v. Ford* (1953) 121 Cal.App.2d 407, 413), "as it is said to be against public policy to permit a 'middleman' to intervene for profit" in the relationship between a physician and their patients. (*Pacific Employers Ins. Co. v. Carpenter*, 10 Cal.App.2d 592, 595).

In a 1982 opinion, the California Attorney General articulated two additional reasons for the ban: First, "the presence of a corporate entity is incongruous in the workings of a professional regulatory licensing scheme which is based on *personal* qualification, responsibility and sanction[.]" (65 Ops.Cal.Atty.Gen. 223 (1982), original italics.)[4] Second, "the

[4] "'Opinions of the Attorney General, while not binding, are entitled to great weight. [Citations.] In the absence of controlling authority, these opinions are persuasive "since the Legislature is presumed to be cognizant of that construction of the statute."'" (*California Assn. of Psychology Providers v. Rank* (1990) 51 Cal.3d 1, 17 [quoting *Napa Valley Educators' Assn. v. Napa Valley Unified School Dist.* (1987) 194 Cal.App.3d 243, 251].)

interposition of a lay commercial entity between the professional and his/her patients would give rise to divided loyalties on the part of the professional and would destroy the professional relationship into which it was cast." (*Ibid.*)

B. Nonprofessional Corporations Violate the Ban on CPOM by Controlling or Retaining the Right to Control Physicians

As the healthcare sector becomes increasingly commercialized, nonprofessional corporations have sought out physicians willing to delegate certain business and administrative responsibilities for a fee. Some of this work, including that of so-called management services organizations (MSOs), may be permissible under California law. But as courts have observed, "'[i]n a professional corporation, it is not always possible to divide the "business" side of the corporation from the part which renders professional services[.]'" (*Discovery Radiology*, *supra*, at p. 535 [quoting *Marik v. Superior Court* (1987) 191 Cal.App.3d 1136, 1140].) To the extent the business and medical sides of a practice cannot be disentangled, the nonphysicians responsible for those business functions, including MSOs, may be committing CPOM. Nonphysicians cross the line into CPOM by either exercising control over a medical practice or retaining the right to do so.

1. Nonprofessional Corporations May Not Exercise Control over a Medical Practice

Nonphysicians, including those acting through corporations, unlawfully practice medicine by "exercis[ing] undue control over a medical practice." (*Discovery Radiology*, *supra*, at p. 539.) The Medical Board of California has issued guidance as to the wide

range of conduct that may violate this ban.[5] The prohibition on CPOM includes clear healthcare decisions like determining appropriate diagnostic tests or determining patient treatment options. (Medical Board of California, *Information Pertaining to the Practice of Medicine*, <https://www.mbc.ca.gov/Licensing/Physicians-and-Surgeons/Practice-Information/> [as of Mar. 30, 2026].)

The Board also notes that the prohibition includes "'business' or 'management' decisions and activities [that] result[] in control over the physician's practice of medicine[.]" (*Ibid.*) These include coding and billing decisions, approving medical equipment selections, and "[s]election, hiring/firing (as it relates to clinical competency or proficiency) of physicians, allied health staff and medical assistants[.]" (*Ibid.*) The Medical Board states that these types of decisions "cannot be delegated to an unlicensed person, including (for example) management service organizations." (*Ibid.*)

2. Corporations May Not Retain the Right to Exercise Control over a Medical Practice

Corporations need not actually exercise control over medical decision making to violate California's CPOM prohibition. Rather, certain "types of medical practice ownership and operating structures" are facially prohibited regardless of the corporation's conduct. (See Medical Board of California,

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[5] Though "agency interpretations are not binding or . . . authoritative[,]" they are "entitled to consideration and respect by the courts[.]" (*Yamaha Corp. of America v. State Bd. of Equalization* (1998) 19 Cal.4th 1, 7-8.)

Information Pertaining to the Practice of Medicine, *supra*.) Foremost among these is the prohibition on nonphysicians owning businesses that diagnose, evaluate, care for, or treat patients. (*Ibid.*; see also *Steinsmith v. Medical Board* (2000) 85 Cal.App.4th 458, 465-466 [nonphysicians who owned a medical clinic but administered only its business affairs still committed the unlicensed practice of medicine].)

As the medical profession evolves and new corporate structures emerge, courts continue to reinforce the prohibition on lay control of medical practices. For example, almost a century ago in *People v. Pacific Health*, a nonprofessional corporation tried to distinguish its activities from the practice of medicine because it sought "merely to furnish competent physicians" whom the corporation paid as independent contractors, not salaried employees. (*People ex rel. State Bd. of Medical Examiners v. Pacific Health Corp.* (1938) 12 Cal.2d 156, 158 ("*People v. Pacific Health*").) The California Supreme Court rejected that argument as a "technical distinction," concluding that regardless of how the doctors were compensated, "[t]he evils of divided loyalty and impaired confidence [were] equally present[.]" (*Ibid.*)

In more recent years, courts in this District have held that contracts between physicians and unlicensed people or entities can themselves constitute CPOM violations. In 2015, a court explained that whether an agreement has crossed the line into CPOM depends on its substantive provisions, and "turns on whether the non-licensee exercises *or has retained the right to exercise* control or discretion over the physician's practice." (*Epic*

Medical Management, LLC v. Paquette (2015) 244 Cal.App.4th 504, 517, italics added.) In 2023, another court held that nonphysicians may not retain the right to control certain functions without running afoul of the ban against CPOM, including "choosing physicians to provide medical services," and "determining the parameters of physicians' employment[.]" (*Discovery Radiology*, *supra*, at p. 539.)

C. The Newly Enacted Senate Bill 351 Makes Clear that California's CPOM Prohibition Extends to Private Equity and Hedge Funds

On October 6, 2025, Governor Newsom signed into law Senate Bill 351, which limits private equity and hedge fund involvement in healthcare. (Health & Saf. Code, §§ 1190-1192.) S.B. 351 "strengthens California's ban on the corporate practice of medicine by allowing the [California Attorney General] to investigate and take action against private equity firms that unlawfully interfere in the patient-physician relationship." (Sen. Judiciary Com., Analysis of Sen. Bill No. 351 (2025-2026 Reg. Sess.) p. 7.) Section 1191, subdivision (a) of the new law sets forth certain prohibitions for private equity groups and hedge funds involved in healthcare. (Health & Saf. Code, § 1191, subd. (a).) The bill prohibits these groups from interfering with physicians' judgment in making health care decisions (see § 1191, subd. (a)(1)) and from exercising control over, or being delegated, functions reserved to licensed professionals (see § 1191, subd. (a)(2)). Subdivision (a) also provides examples of prohibited conduct – including the selection, hiring, and firing of physicians

– that correspond to the examples provided in the Medical Board's guidance on CPOM.

The new law also prohibits private equity groups and hedge funds from entering into agreements that would enable them to impermissibly interfere with doctors' professional judgment or to exercise control over, or be delegated, functions reserved to licensed professionals. (Health & Saf. Code, § 1191, subd. (c)(1).) To that end, it declares that any contract terms that violate subdivision (a) are "void, unenforceable, and against public policy." (Health & Saf. Code, § 1191, subd. (c)(2).)

To enforce these new provisions, the law authorizes the California Attorney General to seek injunctive relief and other equitable remedies deemed appropriate by the court. (Health & Saf. Code, § 1191, subd. (e).) It provides the Attorney General with attorney's fees and costs incurred in remedying violations of the law. (*Ibid.*) These enforcement tools are intended to "expand[] enforcement of the corporate practice of medicine ban[.]" (Sen. Judiciary Com., Analysis of Sen. Bill No. 351 (2025-2026 Reg. Sess.) p. 9.)

II. CORPORATE INVOLVEMENT IN MEDICINE HARMS PATIENT CARE AND INCREASES COSTS

Research suggests that corporate involvement in medicine tends to result in exactly the sorts of negative outcomes that California's CPOM laws are intended to prevent. This is particularly true when it comes to private equity groups and hedge funds, whose healthcare investments totaled about $20 billion in California and $83 billion nationally in 2021. (Christopher Cai & Zirui Song, Cal. Health Care Foundation,

Private Equity in Health Care: Prevalence, Impact, and Policy Options for California and the US, (May 2024) p. 3.)

Corporate involvement in medicine has been shown to decrease the quality of care patients receive. One study found that patient death rates increased in the emergency departments of hospitals that had been acquired by private equity. (Sneha Kannan, et al., Hospital Staffing and Patient Outcomes After Private Equity Acquisition, Annals of Internal Medicine, (Nov. 2025) p. 1529.) Private equity ownership of nursing homes has been shown to increase resident mortality by 11%. (Atul Gupta, et al., Owner Incentives and Performance in Healthcare: Private Equity Investment in Nursing Homes, NBER Working Paper No. 28474 (Feb. 2021, revised Aug. 2023) p. 3.) And another study showed that Medicare beneficiaries at private equity-acquired hospitals experienced 25.4% more hospital-acquired adverse events – including falls and central line bloodstream infections – than those at non-acquired hospitals. (Sneha Kannan, et al., Changes in Hospital Adverse Events and Patient Outcomes Associated with Private Equity Acquisition, JAMA, (Dec. 26, 2023).)[6]

The diminished level of care in facilities owned by private equity results from the incentives and dynamics that drive

[6] The three studies cited in this paragraph examined hospitals across the United States, including California. As of February 2024, private equity groups owned about 6% of private hospitals in California and about 8% of private hospitals in the country overall. (See Cai & Song, *supra*, at p. 3.)

corporate investment in healthcare. Firms that invest in the healthcare industry aim for high returns on their investment over a short period, which often necessitates dramatically cutting costs. As one study noted, cost cutting at hospitals can mean "slashing staffing levels or reducing access to less profitable services, such as obstetrics and pediatric care." (Eileen O'Grady, et al., Private Equity Descends on Rural Healthcare, Private Equity Stakeholder Project, (Jan. 2023) p. 4.)

These same profit-seeking behaviors have been shown to increase healthcare costs and spending. Studies have shown private equity acquisitions raised prices by 11% in dermatology, gastroenterology, and ophthalmology, and by a staggering 70% in neonatology. (Yashaswini Singh, et al., Association of Private Equity Acquisition of Physician Practices with Changes in Health Care Spending and Utilization, JAMA Health Forum, (Sept. 2, 2022) pp. 1, 11; Jiani Yu, et al., Physician Management Companies and Neonatology Prices, Utilization, and Clinical Outcomes, Pediatrics, (Apr. 2023).) Corporate acquisition can also consolidate healthcare markets, which may drive prices up further. One study found that in 28% of the metropolitan statistical areas in the United States, a single private equity firm enjoyed more than 30% market share of at least one physician specialty. (Richard M. Scheffler, et al., Monetizing Medicine: Private Equity and Competition in Physician Practice Markets, (July 10, 2023) p. 20.)

Overall, private equity ownership is shown to correlate with "an increase in healthcare costs to patients or payers, primarily

by increased charges and negotiated higher rates with payers[,]" and "mixed impacts" on quality of care, "with greater evidence that PE ownership might degrade quality in some capacity rather than improve it." (Alexander Borsa, et al., Evaluating Trends in Private Equity Ownership and Impacts on Health Outcomes, Costs, and Quality: Systematic Review, BMJ, (July 19, 2023) p. 13 [analyzing 55 empirical studies of private equity's impact in eight countries across various healthcare settings].)[7]

III. PRIVATE ENTITIES USE CORPORATE STRUCTURING AND CONTRACT TERMS TO CONTROL MEDICAL PRACTICES WHILE SEEKING TO EVADE CPOM LIABILITY

A. Corporations Use Management Services Organizations to Control and Profit from Medical Practices

Though nonphysicians are prohibited from owning corporations that engage in the practice of medicine, "they may manage some nonmedical/business aspects of a physician's practice without violating the Medical Practice Act." (*Discovery Radiology*, *supra*, at p. 535.) To this end, nonphysicians may form groups like MSOs that provide administrative and operational services to professional medical corporations (PCs).

In theory, these arrangements permit PCs to focus on patient care by relying on the MSO for non-medical, operational support. But because MSOs can profit from the healthcare industry without being subject to licensure requirements or administrative discipline, they represent lucrative investment

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[7] For more information on the risks of corporate involvement in healthcare, see Fuse Brown & Hall, *Private Equity and the Corporatization of Health Care* (2024) 76 Stan. L.Rev. 527, 543-546.

opportunities for corporate entities, including private equity groups and hedge funds. Indeed, "[r]esearch anticipates that the value of the national MSO market will exceed $100 billion by 2030." (Assem. Com. on Bus. & Prof., Rep. on Sen. Bill No. 351 (2025-2026 Reg. Sess.) p. 6 [citing Management Service Organization Market Size, Share & Trends Analysis Report, Grand View Research, 2023].)

Incentivized by this profit potential, MSOs frequently go beyond providing mere operational support and "assume increasing control over the practice's overall governance and decision-making[.]" (Hayden Rooke-Ley, et al., Center for Advancing Health Policy through Research, Brown University School of Public Health, The Corporate Backdoor to Medicine: How MSOs Are Reshaping Physician Practices (Apr. 2025) Milbank Memorial Fund, p. 3.) The more control the MSO gains over a PC, the more the MSO's profit motive conflicts with the physician-owner's commitment to patient care. (*Ibid.*) And, of course, the more likely that the MSO has violated California's ban on CPOM.

B. Nonprofessional Corporations Create Captive PCs by Contracting for the Right to Replace a PC's Physician-Owner

The relationship that poses the greatest risk of violating the ban on CPOM (and conflict between the MSO's profit motive and the physician's duty to patients) occurs when an MSO selects a so-called "friendly" physician to serve as the PC's nominal owner. In this arrangement, the MSO exerts a high degree of control over the physician-owner – and therefore the PC – via

contractual terms or by employing the physician directly. As a result of these agreements, the PC is owned by the physician on paper but effectively controlled by the MSO.

One common set of provisions in these agreements, which are the provisions at issue in the instant case, give the MSO a right to replace the physician-owner of the PC with a doctor of its choice. These provisions may be referred to as "continuity agreements," "assignable options," or "stock transfer agreements." Under the terms of these contracts, 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.[8] If the contract is terminated, the physician-owner's ownership interest in the PC is transferred to another licensed physician chosen by the MSO. Together, these provisions give the MSO near complete control over the physician-owner of

[8] Parties to these types of agreements may argue that the range of permissible reasons for terminating a physician-owner's contract is limited by general terms in their agreements providing that the MSO will comply with all applicable laws. But "[u]nder well-established principles of contract interpretation, when a general and a particular provision are inconsistent, the particular and specific provision is paramount to the general provision." (*Kashmiri v. Regents of University of California* (2007) 156 Cal.App.4th 809, 834.) Moreover, this purported savings clause aside, it is difficult to imagine any circumstance in which a MSO's contractual retention of the right to strip the equity of the physician-owner would not result in undue influence over that physician-owner. This undue influence by the MSO, as explained below, violates the ban on CPOM.

the PC, thus effectively creating a captive PC that exists at the beck and call of the MSO.

C. The Medical Board of California Has Long Maintained that Captive PCs May Be Illegal

The Medical Board of California has long maintained that agreements violate the state's laws against CPOM when they give a nonprofessional corporation undue control over a PC and its physician-owner. In a public memorandum from 2011, the Board enumerated factors that may indicate the corporate practice of medicine, including:

> (11) Providing that the doctors' contract (Management Services Agreement) can be assigned to any other party who acquires all or substantially all of the assets of the employing corporation and/or (12) Restricting the doctors from voting, selling or transferring their ownership/shares in any professional corporation . . . without the employing corporation's permission[.]

(Medical Board of California, *Enforcement Actions Re Unlicensed Corporate Practice of Medicine*, (May 5, 2011) <https://www.mbc.ca.gov/About/Meetings/Material/30017/adv-AgendaItem6-20110505.pdf> [as of Mar. 30, 2026] pp. 2-3 [see Agenda Item # 6 of the May 5, 2011 Meeting of the Advisory Committee on Physician Responsibility in the Supervision of Affiliated Health Care Professionals at <https://www.mbc.ca.gov/About/Meetings/Agenda/28627/adv-Agenda-20110505.pdf>].)

These factors highlighted by the Medical Board almost 15 years ago are hallmarks of the friendly, or captive, PC agreements at issue in this case.

ARGUMENT

Agreements that give a nonprofessional corporation the right to replace a PC's physician-owner with a doctor of its choice violate California's prohibition on the corporate practice of medicine by giving the corporation undue control over a captive medical practice. This control is evident from two perspectives. First, agreements that permit the corporation to replace physician-owners (but not vice versa) let the corporation exercise control over – and effectively own – all aspects of the medical practice. Second, these agreements divide the physician-owner's professional loyalties and create a conflict between patient wellbeing and the MSO's desired profits. This division of loyalties persists even when the nonprofessional corporation chooses not to leverage its potential control over the physician-owner.

For these reasons, the trial court correctly held that when an agreement allocates to a nonprofessional corporation the right to replace the physician-owner of a PC, that agreement violates California's laws against the corporate practice of medicine.

I. NONPROFESSIONAL CORPORATIONS THAT CAN REPLACE PHYSICIAN-OWNERS EFFECTIVELY CONTROL AND OWN THE MEDICAL PRACTICE

When a nonprofessional corporation can replace a physician-owner with a different doctor of its choice, the corporation enjoys direct control over physician employment and indirect control over all other aspects of a medical practice. This is particularly true where, as here, the physician-owner does not retain a right to replace its MSO – its ostensible vendor – without losing ownership of the PC. Overall, this level of undue control is

tantamount to owning the medical practice and violates California's prohibition against CPOM.[9]

A. Nonprofessional Corporations Engage in CPOM by Controlling Physician Hiring and Firing

A nonprofessional corporation's ability to control physician hiring and firing – including of a PC's physician-owner – indicates that it is engaging in the unlicensed practice of medicine.

First, the enactment of S.B. 351 makes clear that private equity groups and hedge funds are prohibited from "[e]xercis[ing] control over, or be[ing] delegated the power to . . . [s]elect[], hir[e], or fir[e] physicians . . . based, in whole or in part, on clinical competency or proficiency." (Health & Saf. Code, § 1191, subd. (a)(2).) These groups are prohibited further from entering into agreements that would enable them to exercise such control. (Health & Saf. Code, § 1191, subd. (c)(1).)[10]

California courts have also singled out physician hiring and firing as indicia of CPOM. In *Discovery Radiology*, for example,

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[9] Not all MSO-PC relationships offer this impermissible degree of control to the nonprofessional corporation. While the contractual terms at issue here violate the ban against CPOM, absent such terms, determining whether an MSO-PC relationship violates the ban requires analyzing the totality of the circumstances.

[10] Beyond just private equity and hedge funds, the Medical Board of California states that *any* nonprofessional corporation that controls or is delegated control over physician hiring and firing exercises an impermissible level of control over a medical practice. (Medical Board of California, Information Pertaining to the Practice of Medicine, *supra*.)

this Court stated that a nonphysician exercised unlawful control over a medical practice "by choosing physicians to provide medical services" and "determining the parameters of physicians' employment[.]" (*Discovery Radiology*, *supra*, at p. 539.)

Because agreements that permit nonprofessional corporations to replace the physician-owners of PCs function to control physician hiring and firing, these agreements constitute the unlawful corporate practice of medicine.

B. By Controlling Physician Hiring and Firing, Nonprofessional Corporations Retain Impermissible Levels of Control over All Other Aspects of a Medical Practice

By retaining ultimate control over the employment of a medical practice's physician-owner, a nonprofessional corporation indirectly controls all aspects of the practice. The physician-owner's freedom to make informed, rational medical decisions for their patients becomes subservient to the nonprofessional corporation's drive to maximize profits. As the trial court correctly observed here with respect to captive PC agreements, "[w]hen and if [a corporation] disagrees with a doctor's decision, [it] may simply replace any doctor-owner at will and select a new doctor that will bend to their will." (*Art Center Holdings, Inc., et al. v. WCE CA LLC, et al.* (Super. Ct. L.A. County, No. 24SMCV01185) [Apr. 30, 2024 order].)

As such, the high degree of control nonprofessional corporations exercise through their leverage over captive PCs and their physician-owners violates California's prohibition against CPOM. (See *Discovery Radiology*, *supra*, at p. 539 ["[A] nonphysician unlawfully practices medicine if he or she exercises

undue control over a medical practice."]; Health & Saf. Code, § 1191, subd. (a) [private equity groups and hedge funds are prohibited from interfering with physicians' professional judgment and may not exercise control over functions reserved to physicians].)

C. A Nonprofessional Corporation's Ability to Replace Physician-Owners Is Tantamount to Ownership of the Medical Practice

As shown above, when an agreement gives a nonprofessional corporation the right to replace a PC's physician-owner, the corporation is the entity with true control over the PC, and the physician-owner has no meaningful autonomy. As explained more fully below, this undue influence is present whether or not the corporation chooses to exercise (or threaten to exercise) its purported contractual rights, as the medical professional knows that it may. And even more damning, if the physician-owner is unhappy with the MSO, the owner has no corresponding right to terminate their contract with the MSO without losing ownership of the PC.

In this way, the physician's ownership of the PC is a fiction that serves only as an attempt to shield both parties from CPOM liability. Because captive PCs are subject to undue influence by lay corporations, the agreements that create them are void or voidable (Civ. Code, §§ 1598, 1599), the nonprofessional corporation violates the ban on the corporate practice of medicine, and the physician-owner of the PC aids and abets that

violation.[11] (See Bus. & Prof. Code, § 2400 ["Corporations and other artificial legal entities shall have no professional rights, privileges, or powers."]; *Discovery Radiology*, *supra*, at p. 534 [for-profit corporations other than licensed medical corporations may not provide medical care through employees or contractors].)

II. EVEN WHEN NOT EXERCISED, CORPORATE CONTROL OVER PHYSICIAN-OWNERS CAUSES AN IMPERMISSIBLE DIVISION OF LOYALTIES

One of the public policies that underlies California's CPOM prohibition is the risk that interposing a lay commercial entity between a physician and their patients "would give rise to divided loyalties on the part of the professional and would destroy the professional relationship into which it was cast." (65 Ops.Cal.Atty.Gen. 223 (1982).) Agreements 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.

A doctor whose employment or ostensible ownership is controlled by a nonprofessional corporation will be motivated to maintain their employment by acting in ways that benefit the corporation. But decisions that benefit the corporation are often at odds with decisions that benefit patients. As discussed above,

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[11] The fact that a practice is common or customary in an industry does not mean it is legal or immunize it from enforcement under California law. (See *Chern v. Bank of America* (1976) 15 Cal.3d 866, 876 [concluding that a customary business practice in the banking community nonetheless violated the False Advertising Law, Business & Professions Code section 17500].)

nonprofessional healthcare corporations, which need not fear administrative discipline or the loss of licensure, frequently pursue profits by enacting policies that adversely affect patients. A doctor whose employment is at the pleasure of an MSO may be pressured to let their practice decisions be guided by the interests of the corporation, regardless of whether doing so is in the best interests of their patients. Indeed, one study found that prescribing practices in facilities that had been acquired by private equity groups favored costlier medications, which increased Medicare spending. (See Yashaswini Singh, Increases in Medicare Spending and Use after Private Equity Acquisition of Retina Practices, Opthamology, (Aug. 7, 2023).)

Corporate control over physician employment deeply conflicts physicians' loyalties, regardless of whether the corporation ever exercises the control it reserves. As such, the prohibition against CPOM must encompass agreements that allow corporations to replace medical practices' physician-owners. (See *People v. Pacific Health*, *supra*, at p. 158 [concluding that a corporation's activities constituted the practice of medicine because "[t]he evils of divided loyalty and impaired confidence [were] equally present" whether it paid physicians by salary or contract].)

CONCLUSION

For the foregoing reasons, the trial court correctly held that when an agreement allocates to a nonprofessional corporation the right to replace the physician-owner of a professional medical corporation, the agreement violates California's laws against the corporate practice of medicine.

Respectfully submitted,

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March 30, 2026

CERTIFICATE OF COMPLIANCE

I certify that the attached amicus curiae brief uses a 13-point Century Schoolbook font and contains 5,039 words.

ROB BONTA
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/s/ Catherine Larrabee Hamilton

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March 30, 2026