

Carbon Health Settlement Highlights Why Evidence Is Key

By **Ben Dubin** (July 17, 2026)

On June 26, [California Attorney General Rob Bonta](#) announced a first-of-its-kind settlement with [Carbon Health Technologies Inc.](#), affiliated medical groups, and its co-founder and former CEO, Eren Bali, over alleged corporate practice of medicine, false advertising and improper billing violations.



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Subject to court approval in Los Angeles County Superior Court, it **imposes** \$4.4 million in penalties on the company and \$100,000 on the co-founder, and requires Carbon Health to restructure so that a nonmedical management company no longer controls or holds ownership interests in physician-owned practices.

Carbon Health is not just an enforcement story. It is an evidence story — and the enforcement action is only the most visible example of a question that recurs across many kinds of disputes.

Whenever a so-called friendly professional corporation and its management services organization come under challenge, the case is rarely decided on the four corners of the management services agreement.

It is decided on whether the operational record matches the paper — and that record is reconstructed from a recognizable set of governance artifacts.

That is why Carbon Health reaches well beyond healthcare regulatory counsel: It tells litigators what evidence will be fought over, and it tells transactional, fund and investor counsel where the next dispute is being built today.

The Same Structure, Many Claimants

A single friendly professional corporation structure can be challenged from strikingly different directions, and the same model underlies a wide range of platforms — telehealth, urgent care, behavioral health, dental, fertility and specialty-care businesses among them.

A regulator, as in the Carbon Health case, frames the question as one of unlawful control: Did an unlicensed entity effectively own or direct the practice of medicine?

A physician-owner who wants out — or who is being pushed out — frames it as a contract and fiduciary dispute over who really holds the practice.

A limited partner in the fund that financed the platform may frame it as a diligence and disclosure question: Was the regulatory fragility of the structure understood and recorded?

And an acquirer or its representations and warranties insurer, after closing, frames it as a breach question: Were the compliance representations accurate once the operational reality is examined?

Four causes of action, four postures — but they reach for the same evidentiary core.

Where the Control Actually Lives

The Carbon Health complaint and settlement illustrate the features that draw scrutiny. As the attorney general's office described the arrangement, the management agreements gave the management services organization the power to replace the physician-owner of the clinics, while preventing that physician-owner from replacing the management services organization without risking loss of the practice.

California advanced a parallel theory in a March 30 amicus brief in *Art Center Holdings Inc. v. WCE CA Art LLC*, supporting the Los Angeles County Superior Court's finding that a continuity agreement could transfer decision-making power to a nonphysician entity.

Provisions of that kind — successor or continuity arrangements, share-transfer triggers, and restrictions on the physician-owner's ability to exit or replace the manager — are where the analysis begins.

They are not where it ends. For litigators and experts, the issue is not simply whether the structure was permissible in theory, but whether the documents and conduct show who exercised control in fact.

The Artifacts That Become Decisive

In disputes of this kind, four categories of documentary evidence tend to carry the weight.

The Contract Stack, Read as a System

No single agreement tells the story. The management agreement, the equity and transfer documents, the employment and noncompete terms, and any successor or continuity provisions have to be read together to see where ultimate control resides.

The Governance Record

Board and committee minutes, investment memoranda, and approval materials show what the people responsible for the entity understood about the structure, and when. The question a fact-finder returns to is not whether a control feature existed on paper, but whether the governing body recognized it, discussed it and acted on it.

The Operational Decision Trail

Who actually decided clinician hiring and firing, advertising, payor and insurance negotiations, and the standardization of clinical protocols? The Carbon Health settlement turned in part on allegations that the management services organization's unlicensed officers directed staffing, advertising and insurance negotiations.

The day-to-day record — emails, approvals, org charts, delegated-authority matrices — is where the gap between paper independence and operational control either appears or does not.

The Financial Architecture

The way management fees are set, surplus is swept, downside risk and upside are allocated, and distributions move often tells a fact-finder where the economic ownership of the practice truly sits — frequently more candidly than the formation documents do.

The Recurring Question

What ties these categories together is a single forensic question: Does the operational reality match the documented governance?

A structure can be papered impeccably and operated in a way that contradicts the paper; it can also be papered loosely and operated with genuine clinical independence.

The evidentiary record — not the label on the entity — answers which is true. And it is the

same record whether one is defending the structure, challenging it or valuing it in a transaction.

A Sharper Regulatory Backdrop

Two California statutes that took effect on Jan. 1 make that record both larger and more discoverable.

S.B. 351 codifies and sharpens California's corporate practice of medicine restrictions, barring private equity groups and hedge funds — and entities they control — that are involved with physician or dental practices from interfering with professional judgment or exercising control over functions such as billing and coding, payor contracting, clinical staffing decisions, and equipment selection. It also voids certain noncompete and nondisparagement clauses, with enforcement by the attorney general.

A.B. 1415 expands California's material-change-transaction regime so that private equity groups, hedge funds and management services organizations are noticing entities that must give the Office of Health Care Affordability at least 90 days' notice before specified transactions.

The practical effect is a more contemporaneous, real-time documentary trail around how these structures are formed, financed and operated — created precisely along the control points that later become contested. The questions outlined above are increasingly being asked against records made while the structure was being built.

What Counsel Should Preserve and Review Now

For counsel, the practical lesson is not merely to review the management services agreement. The better question is whether the record can prove who actually controlled the practice. Long before a dispute is filed, that record can be identified, preserved and assessed — and the items that decide these cases are predictable:

- Board and committee minutes, investment memoranda, and approval materials touching the structure;
- Delegated-authority matrices and org charts showing who held which decision rights;

- Physician-owner communications and any documents showing who could replace whom, when and on what terms;
- Clinical staffing approvals, payor-contracting authority, billing and coding decisions, and advertising approvals; and
- Management fee schedules, surplus sweeps, distribution mechanics and related fee flows.

The evidentiary record that decides a friendly professional corporation dispute is built — or left unbuilt — long before the dispute arises. By the time the structure is challenged, the governance artifacts already say what they say.

In friendly professional corporation litigation, the decisive question is rarely what the structure was called. It is who had control, who knew it, who documented it and whether the record proves it.

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