

Why the Friendly PC Model Remains Critical to Healthcare Private Equity Transactions with Medical and Dental Practices

June 15, 2026

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Private equity (“PE”) activity in healthcare across the United States has caused continued focus by state legislatures and enforcement agencies on the doctrines of corporate practice of medicine and dentistry (“CPOM” or “CPOD”). Notwithstanding this attention, the often-referenced “Friendly PC” model remains the optimal corporate strategy to ensure post-closing compliance with CPOM and CPOD regulations in most jurisdictions. The following identifies some key considerations for the agreement’s ancillary to the purchase of the non-clinical assets by the PE company’s management services organization (“MSO”), which are commonly used to ensure compliance with CPOM and CPOD.

Friendly PC Model

As a general matter, the term “Friendly PC” model in PE healthcare deals most often refers to a business arrangement where a physician or dentist-owned professional corporation (“PC”) sells all of its non-clinical assets to an entity owned by the MSO (controlled by the PE firm), which then takes responsibility for the PC’s non-clinical business operations. This model complies with fundamental CPOM and CPOD legal requirements, which are designed to restrict non-physicians from owning or controlling medical practices. Such a structure prevents the PE buyer from owning clinical assets or unduly controlling the clinical operations and decision-making of the providers employed by the PC.

In the “Friendly PC” structure, the parties designate a single clinical professional to serve as the sole owner of the PC post-closing. This individual is referred to as the friendly physician or dentist (“Friendly Provider”), who is then expected to cooperate with the PE buyer in accomplishing its business goals. Such a transaction requires the drafting of a series of agreements to accomplish the necessary purposes of the arrangement. Although the nature and scope of such agreements may vary slightly based upon preference and applicable state law, below is a brief description of certain key agreements, and their most necessary elements, to ensure the PC’s compliance with CPOM and CPOD laws post-closing.

Management Services Agreement

The Management Services Agreement (“MSA”) is entered into between the PC and the MSO, which is owned by the PE buyer. Through this agreement, the MSO is responsible for providing and arranging for certain non-clinical administrative, business support, and back-office services on behalf of the PC. The MSA will clearly state that the MSO entity will not play any role in the care of patients and will specify the limitations of the actual services to be provided so as to ensure it will not fall within the applicable state’s definition of the practice of medicine or dentistry.

It is also very important that the MSA define the independent contractor nature of this commercial relationship and seeks to avoid creating a de facto partnership between the MSO and the PC.¹ Overly lengthy initial contract durations, requirements for

minimum operational hours per period, the ability to negotiate payor and other agreements without the PC's consent, and compensating the MSO through a percentage of the PC's profits are all commonly mishandled deal points that could create an unintended partnership in the eyes of a regulatory agency.² As such, legal counsel must carefully tailor these provisions to avoid such a problematic presumption.

Equity Transfer Restriction Agreement

This agreement establishes a highly restrictive framework which governs the ownership and transfer of the Friendly Provider's interests in the PC, giving the MSO near-complete control over any change in ownership. As a baseline rule, no transfer of equity—whether voluntary, involuntary, or by operation of law—may occur without the MSO's prior written consent, which may be granted or withheld in its sole discretion. The central mechanism is a set of transfer events (e.g., death, disability, termination of services, loss of licensure, legal disqualification, divorce, regulatory issues, or breach of agreements), upon which the Friendly Provider's entire ownership interest is automatically and immediately transferred—without notice or further action—to an MSO-designated transferee. This transfer occurs by operation of contract, is effective upon the triggering event, regardless of administrative formalities and is typically priced at a nominal \$1.00.

In addition, the MSO typically holds a unilateral call option enabling it to trigger a forced transfer of all equity at any time by delivering notice, which itself constitutes a transfer event and results in the same automatic \$1.00 transfer to its designated transferee. Following any such transfer, the Friendly Provider is automatically stripped of all ownership, governance roles, and economic rights in the PC. The agreement further reinforces this control structure through ongoing covenants that prohibit the Friendly Provider and the PC from taking a wide range of corporate, financial, and operational actions without MSO approval, ensuring that both ownership continuity and strategic direction remain fully aligned with the MSO's interests.

Provider Employment Agreement

The provider employment agreement is often viewed as the most important by medical professionals who are divesting their interest in the PC. It includes terms and conditions regarding compensation and various restrictive covenants (i.e., non-competition, non-solicitation, confidentiality) that are critical to the clinician's relationship with the PC. Legal counsel should ensure that the employment agreement also contains specific provisions or guarantees that the clinical professionals will maintain broad autonomy in all clinical decision-making and treatment of patients post-closing.³ Under no circumstances may the PC exercise any undue control over this aspect of their clinical professional employees' job performance, and expressly stating as such within this agreement may help the arrangement survive future scrutiny.⁴

Clinical Liaison Agreement

Lastly, the Clinical Liaison Agreement ("CLA"), typically entered into by the PE management entity and the Friendly Provider, is a frequently used means to outsource the development and implementation of the medico-administrative services of the PC. As a licensed professional in the state of operation, the Friendly Provider is the only party legally authorized to provide such services as the supervision of clinical staff, the development of clinical policies, and the leadership of patient-related programs and initiatives. The existence of such an arrangement is therefore imperative for the post-closing clinical management of the PC. As with the other agreements, the CLA should involve a reasonable term length and consideration for the Friendly Provider's time and effort, and it should also protect the Friendly Provider's necessary autonomy to perform their duties as outlined therein.⁵

Conclusion

As scrutiny of "Friendly PC" transactions continues in light of consumer and legislative concerns over the affordability of health care services, the need for proper separation of clinical and non-clinical management post-closing is likely to be more important now than in years past. As such, PE buyers and their counsel must pay close attention to these frequently overlooked ancillary agreements to ensure the truly independent nature of their post-closing relationships.

¹See Warren J. Apollon, D.M.D., P.C. v. OCA, Inc., 592 F. Supp. 2d 906; and OCA, Inc., et al . Kellyn Hodges, D.M.D., M.S., et al., 615 F. Supp. 2d 477.

²*Id.*

³The definitions of “Practice of Medicine” and “Practice of Dentistry” vary by state, however, guidance provided by the Pennsylvania Board of Medicine provides examples of the types of rights and privileges of licensed providers that must not be interfered with or influenced by unlicensed persons or entities. (See 63 P.S. § 422.1, et seq., 63 P.S. § 120, et seq.)

⁴*Id.*

⁵<https://journalofethics.ama-assn.org/article/physician-engagement-private-equity-firms/2025-05>