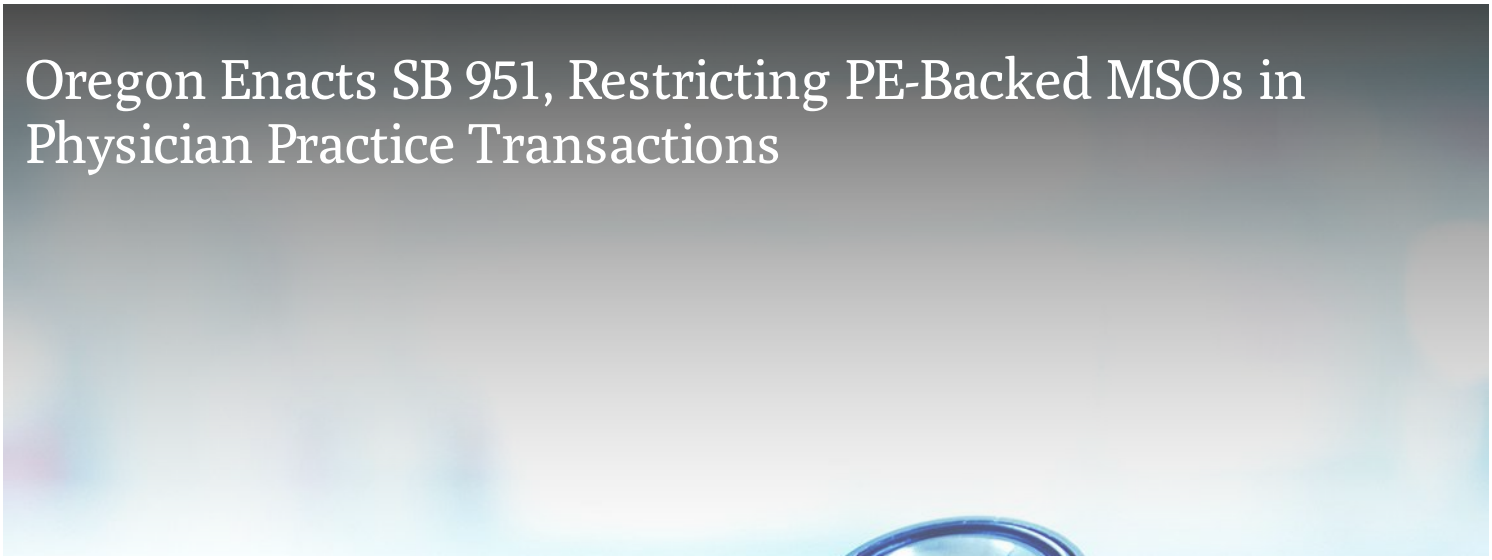
WINSTON & STRAWN LLP

CLIENT ALERT

Oregon Enacts SB 951, Restricting PE-Backed MSOs in Physician Practice Transactions



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On June 9, 2025, Oregon enacted Senate Bill 951 (SB 951), a sweeping new law significantly limiting how management services organizations (MSOs)—including those backed by private-equity firms—may engage with physician practices. The legislation targets traditional "friendly provider" models by restricting ownership and operational control of professional medical entities and voiding restrictive covenants. Investors must now reassess Oregon-based physician practice investments to ensure compliance by 2026 (for new MSOs) and 2029 (for existing ones). It's noteworthy that this law will coexist with Oregon's complicated health care transactions notice law, a law that requires a thorough review of certain health care transactions.

KEY TAKEAWAYS FOR INVESTORS

- **MSOs are barred from exerting operational control** over physician practices, including hiring, compensation, scheduling, clinical protocols, and third-party contracting.
- **Equity rights and board-level influence are sharply restricted**, impairing customary governance structures.
- **Non-competes, nondisclosure agreements (NDAs), and non-disparagement clauses are unenforceable** under the new law, with limited exceptions.
- **Violations may constitute unlawful trade practices** under Oregon law, exposing investors to regulatory enforcement and punitive damages.
- **Existing MSOs must comply by January 1, 2029**; newly formed MSOs must comply by January 1, 2026.
- **Certain tax reorganizations (e.g., F-reorgs)** are permitted for tax structuring purposes.

SCOPE OF THE LAW

SB 951 applies broadly to physician practices and medical professionals, including physicians, nurse practitioners, physician associates, and naturopathic doctors. It does **not** apply to dental practices, physical and occupational therapy practices, veterinary practices, or certain behavioral health providers.

PROHIBITED OWNERSHIP AND CONTROL STRUCTURES

SB 951 prohibits MSOs and their affiliates (including shareholders, directors, officers, employees, and contractors) from owning or controlling professional medical entities. Specific prohibitions include making employment decisions about medical licensees, setting clinical staffing or patient care schedules, making diagnostic coding decisions, influencing clinical standards or pricing, advertising under a nonprofessional entity name, and negotiating payor contracts or setting billing policies. Some of the prohibitions appear to codify corporate practice of medicine principles that MSOs may already be following in order to avoid allegations of excessive control.

EQUITY RESTRICTIONS

The law also bars MSOs from holding contractual rights that allow replacement or removal of physician equity holders, except in limited scenarios (e.g., license suspension, felony indictment, or exclusion from federal programs). Accordingly, private-equity investors will be limited in using share transfer agreements or continuity agreements.

RESTRICTIVE COVENANTS RENDERED VOID

Non-compete, non-disparagement, and nondisclosure agreements between MSOs and medical professionals are now void and unenforceable, unless they meet narrow statutory exceptions.

COMPLIANCE DEADLINES

- **New Entities:** Must be compliant by **January 1, 2026**
- **Existing Entities:** Must transition by **January 1, 2029**

ENFORCEMENT MECHANISM AND LIABILITY

Violations are deemed **unlawful trade practices**, enforceable by the Oregon Attorney General. Remedies include civil penalties, injunctive relief, and potential punitive damages.

PERMITTED MSO FUNCTIONS

MSOs may still engage in support services that do not infringe on clinical autonomy, including payroll, human resources, and administrative support, real estate and facilities management, consulting on value-based care and compliance, collecting quality metrics, and structuring reimbursement criteria under payor contracts. The law also allows for corporate reorganizations (e.g., F-reorgs) under the Internal Revenue Code for tax purposes.

STRATEGIC IMPLICATIONS FOR INVESTORS

1. **Structural Reassessment:** Private-equity firms must evaluate current MSO arrangements in Oregon and modify control, equity, and management structures to remove prohibited influence.
2. **Contractual Review:** All service agreements, governance rights, and restrictive covenants must be audited for compliance and potentially renegotiated.
3. **Exit Planning Risk:** Loss of control and inability to enforce non-competes may affect predictability in exit scenarios, impacting enterprise value.
4. **Legal and Regulatory Strategy:** Experienced counsel should be engaged to ensure compliance and explore structuring options (e.g., physician joint ventures, passive lease and admin arrangements).
5. **Portfolio Risk Management:** Oregon-based assets must be identified and assessed to determine whether they should be restructured, divested, or excluded from future platform acquisitions.
6. **Monitoring National Trends:** SB 951 places Oregon among a growing number of states (e.g., California, Massachusetts) taking an aggressive stance on corporate practice and investor-backed health care models.

SB 951 marks a pivotal change in the regulatory environment for physician practice investors in Oregon. For investors with current or planned physician-MSO relationships in the state, urgent attention is required to restructure operations, renegotiate agreements, and reevaluate investment assumptions. Oregon's law, combined

with increasing scrutiny from the Oregon Health Authority of material health care transactions, places the state at the forefront of efforts to regulate private equity in health care.

Proactive compliance and legal planning are essential to mitigate risk and preserve deal value.
3 Min Read

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