Oregon Legislature Passes House Bill 3410, Signaling Limited Relief for Investors and Management Service Organizations

July 22, 2025

On June 26, 2025, the Oregon legislature passed House Bill 3410 ("HB 3410" or "the bill"),[1] which amends portions of its predecessor, Senate Bill 951 ("SB 951" or the "existing law").[2] As we previously discussed,[3] SB 951 strengthens extant Oregon corporate practice of medicine ("CPOM") prohibitions by imposing significant restrictions on management service organizations ("MSOs"). The bill leaves SB 951's central prohibition against clinical interference intact and, in some cases, broadens its predecessor's restrictions. Importantly, however, the bill narrows certain prohibitions that had threatened to disrupt long-standing management arrangements between MSOs and physician-owned professional corporations ("PCs"). Thus, HB 3410 is viewed by some as a technical corrections bill, providing targeted changes to address stakeholder concerns and operational uncertainties ahead of SB 951's phased implementation in 2026 and 2029.

If signed into law, the bill, which contains an emergency clause, goes into effect immediately.[4]

Key Provisions

The bill would (i) eliminate prohibitions on dual affiliation, (ii) further limit physicians' ability to participate in MSO governance, (iii) expand flexibility for the use of noncompetition agreements and (iv) ease prohibitions against the use of equity transfer restriction agreements as follows:

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1 A copy of the bill can be found here.

2 A copy of SB 951 can be found here.

3 For additional background on SB 951, please see our Debevoise Debrief—Oregon Imposes Significant Restrictions on Private Equity Investment in Healthcare.

4 During the Oregon legislative session, the governor has five weekdays to veto a bill. The Oregon legislature adjourned on June 27, 2025, *sine die*; the bill was passed the day before *sine die*, on June 26, 2025; the governor has 30 days from *sine die* to veto a bill that was passed within the last five days of the legislative session. If the governor signs the bill within this 30-day period, it becomes effective the day it is signed into law; if the governor takes no action, it will become law on the 30th day following *sine die*.

Eliminates Prohibitions on Dual Affiliation

Existing law prohibits an MSO and its shareholders, directors, members, managers, officers and employees ("MSO Representatives") from owning or controlling a majority of shares in a PC under contract with the MSO.[5] Further, existing law prohibits dual affiliations: no MSO or MSO Representative may serve as a director, officer, employee or contractor of—or otherwise receive compensation from the MSO for the management of—a PC under contract with the MSO. The bill eliminates this prohibition on dual affiliation, allowing an MSO or an MSO Representative to serve as a director, officer, employee or contractor of a contracted PC, provided any compensation received for management services is at fair market value.

Narrows Physician Participation in MSO Governance

Existing law allows physician shareholders, directors and officers of a PC to serve as directors or officers of an MSO, provided that (i) the physician does not receive compensation from the MSO for the board position, and (ii) the PC-MSO governance structure and contract existed prior to January 1, 2026. The bill narrows this provision (which itself is an exception to the Oregon CPOM doctrine) to apply only when the:

- physician owns less than 25% of the PC;
- PC owns less than 49% of the voting interest in the MSO;
- PC-MSO governance structure and contract existed prior to *January 1, 2024*; and
- physician, PC and MSO complied with these limits before, on and after that date.

Thus, HB 3410 would eliminate the six-month period granted by existing law to restructure MSO governance arrangements; the bill only grandfathers arrangements in existence prior to 2024.

Expands Flexibility for Noncompetition Agreements

For contracts with medical licensees[6] entered or renewed on or after June 9, 2025, existing law generally prohibits restrictive covenants, with limited exceptions for the use of noncompetition agreements. The bill provides some additional flexibility, allowing noncompetition agreements to be enforced against a medical licensee where the:

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[5] The bill would also prohibit *contractors* of an MSO from owning or controlling a majority of shares of a PC under contract with the MSO.

[6] A "medical licensee" includes an individual licensed in Oregon to practice medicine or naturopathic medicine, or a nurse practitioner or physician associate.

- medical licensee has an ownership or membership interest of at least 1.5% in the other party to the agreement;

- medical Licensee does not engage directly in providing medical services, healthcare services or clinical care; or

- agreement is (i) with a PC that provides the medical licensee with documentation of its "recruitment investment"[7] equivalent to at least 20% of the licensee's annual salary and (ii) for a term of either (a) five years, if the licensee provides clinical care in a designated health professional shortage area, or (b) three years, if the licensee does not engage directly in providing medical services, healthcare services or clinical care.

Eases Prohibitions Against the Use of Equity Transfer Restriction Agreements

Traditionally, MSOs use equity transfer restriction agreements ("ETRAs") to ensure continuity of PC ownership and operation through a "friendly physician." Existing law prohibits MSOs from utilizing an ETRA to require or prevent the sale of equity in a PC, except under narrow circumstances. The bill eases prohibitions against the use of ETRAs by permitting an MSO to require a transfer of equity in the event a shareholder or member of the PC breaches the management services agreement.

LOOKING AHEAD

If signed into law, HB 3410's refinements would provide some additional flexibility to MSOs without scuttling its predecessor's regulatory tenor. Notwithstanding, healthcare investors, MSOs and physician groups should reassess their existing agreements and governance models. Arrangements formed prior to January 2024 may now qualify for limited safe harbor treatment, but future transactions will remain subject to SB 951's stringent restrictions. In the near term, stakeholders should evaluate service contracts, compensation structures and restrictive covenants to ensure alignment with both the letter and spirit of Oregon's evolving CPOM framework.

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Please do not hesitate to contact us with any questions.

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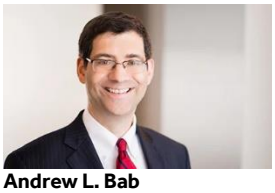
[7] "Recruitment investment" is a "protectable interest" that includes costs for marketing and recruiting, sign-on or relocation bonuses, employee education and training, support staff and technology and similar or related items.



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