



Unfair Competition

Tennessee Supreme Court: Most Physician Non-Compete Agreements Not Enforceable

In *Murfreesboro Medical Clinic, P.A. v. Udom*, 166 S.W.3d 674 (2005), the Tennessee Supreme Court ruled against a private medical clinic that attempted to enforce an 18-month, 25-mile non-competition agreement entered into by one of its physicians when he started his employment.

When the medical clinic elected not to renew the physician's contract, the physician started working in a competing business and chose not to follow the buy-out provisions contained in his non-competition agreement. The medical clinic attempted to enforce the non-competition agreement, claiming that it had a protectable business interest in retaining its patient base. On the other hand, the Court noted that enforcing the non-competition agreement could impair or even deny the patients' rights to choose their physician and to continue an ongoing professional relationship with that physician.

The Tennessee Supreme Court noted that many states have addressed non-competition agreements in the physician context, with several states applying a reasonableness test, several states applying a very strict scrutiny to the restrictions, and three states that have enacted legislation that totally prohibits non-competition clauses in physician contracts.

In the final analysis, the Tennessee Supreme Court applied Tenn. Code. Ann. § 63-6-204 which allows physician non-competition agreements in only two circumstances: (1) when the employer is a hospital or an affiliate of a hospital and (2) when the employer is a "faculty practice plan" associated with a medical school. Even in those situations, the statute severely limits the temporal and geographic scope within which the non-competition restrictions will be enforced. Moreover, the court stated that the Tennessee statute does not permit any non-competition restrictions for physicians practicing ophthalmology, radiology, pathology, anesthesiology, emergency medicine, primary care, obstetrics, pediatrics, or in areas with a shortage of these services.

The court concluded: "Public policy considerations such as the right to freedom of choice in physicians, the right to continue an on-going relationship with a physician, and the benefits derived from having an increased number of physicians practicing in any given community all outweigh the business interests of an employer." Therefore, unless a physician's employer and practice area are specifically described in the applicable Tennessee statute, noncompetition agreements are unenforceable against physicians.



“Inevitable Disclosure” Of Trade Secrets Doctrine: Employer Need Not Prove That Its Former Employees Have Actually Used Trade Secrets

In *Dexxon Digital Storage, Inc. v. Haenszel*, 161 Ohio App. 3d 747 (2005) the Ohio Court of Appeals in Delaware County refused to enforce a former employees’ covenants not to compete; however, based upon their “inevitable disclosure” of the former employer’s trade secrets, the court nevertheless prohibited the employees from working for a competing business.

Dexxon formed to acquire assets of a business in bankruptcy. Dexxon hired several employees of the bankrupt entity, and several weeks later Dexxon asked them to sign non-compete agreements to replace those that were signed while with the prior company. All of the employees refused to sign the new agreements. A few months later, several of those employees established an internet domain name for a business that would compete against Dexxon. Shortly thereafter, the employees resigned and opened the competing business.

Under Ohio’s Uniform Trade Secret Act, the court stated that a court may enjoin any “threatened misappropriation” even without proof of the defendants’ actual use of the trade secrets. Quoting prior cases on the “inevitable disclosure” doctrine, the court stated that once a person has knowledge of a competitor’s business information, when he is called upon to act on behalf of his own company, his ability to compartmentalize the knowledge of his competitor is “nigh impossible.” The court found that these employees would not be able to refrain from using Dexxon’s trade secret and confidential information while performing for their new company. Therefore, the trial court erred when it refused to find that the employees could not have misappropriated trade secrets.

While the court favored an injunction against disclosure of trade secrets, it ruled that Dexxon did not acquire the employees’ prior non-competition agreements because those agreements were not sufficiently identified in the asset purchase agreement between Dexxon and the employees’ prior employer. In addition to particular language in the asset purchase agreement, the court stated that Dexxon’s repeated attempts to get the employees to sign new agreements lent support to the argument that the prior employers’ non-competition agreements were not enforceable.

The Ohio Supreme Court declined to review the decision. *Dexxon Digital Storage, Inc. v. Haenszel* 106 Ohio St. 3d 1503 (2005).



Antitrust Laws and Enforcing Non-Compete Agreements: A Partial Restraint On Trade, But Not Per Se Invalid

In *Daudill v. Lancaster Bingo Company*¹, the federal district court for the Northern District of Ohio addressed several employees' claims against their former employer under federal antitrust law. The employees asserted that their employer fraudulently obtained their signatures on noncompetition agreements by assuring them that their supervisors would remain in control of the business operations where they worked. When the company removed those supervisors, the employees attempted to be released from their noncompetition agreements.

Among several arguments, the employees claimed that there was no legitimate business purpose for restraining their ability to compete and, therefore, the noncompetition agreements should be per se illegal under the antitrust laws. The Court rejected those arguments because the agreements were signed as a condition of employment which made them ancillary to a larger endeavor and not solely focused on restraining trade. The court also found that there is "nothing inherently anticompetitive about a non-competition agreement between an employer and an employee who is primarily responsible for client contact and services."

Finally, the court found that the employees did not identify how the market may have changed or been damaged as a result of their inability to compete. Therefore, non-competition agreements are not per se illegal and will be measured only against a rule of reasonableness.

Indiana Trade Secret Law: Compilations Of Publicly Available Information May Constitute Trade Secrets

In *U.S. Land Services Inc. v. U.S. Surveyor Inc.*, 826 N.E.2d 49 (2005), the Indiana Court of Appeals addressed whether a customer database can be a trade secret when it is compiled from publicly available information.

Several employees sought to work for a competitor of their prior employer. One key piece of information at issue was a customer database of which the employees were aware. The former employer also submitted evidence that one of the employees may have accessed and downloaded that database on his final day at work.

The employees focused their defense on the claim that the customer and prospect lists were not trade secret because the information was readily ascertainable by proper means through trade publications, the yellow pages, and the internet. However, the court was persuaded by evidence that the database contained specific contact information, financial

¹ Case No. 2:04-cv-695, 2005 U.S. Dist. LEXIS 24621 (October 24, 2005).



information, purchasing and revenue history, and a system to rate the performance of suppliers and prospects' responses to marketing efforts. Therefore, while some of the information found in the databases is readily available over the internet and other sources in the public domain, other elements of the database were not. "The compilation of this information required a substantial investment of time, expense, and effort and gave [the employer] a competitor advantage."

Accordingly, the Court ruled that the database was a trade secret under Indiana's Uniform Trade Secrets Act.

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