Non-Compete Clauses in HealthCare Litigation
Martin Merritt, Esq.
Partner: Health Law and Healthcare Litigation

Martin serves as the Executive Director of the Texas Health Lawyers Association and a Partner at Friedman & Feiger. In the past few years, Martin has published several hundred articles in journals such as The Federal Lawyer, The Texas Bar Journal, Physicians Practice Magazine, Becker's Hospital Review, Diagnostic Imaging Magazine, Psychiatric Times and D Magazine Healthcare Daily. In 2014, Martin co-authored his second book, "The ABC's of ACOs," a book published by the Health Law Section of the American Bar Association. Martin is both a litigator and provides health law opinions and transactional services for physicians, pharmacies, laboratories, ASCs, entrepreneurs and other healthcare clients.
Mr. Pool obtained his Juris Doctor degree from Washburn University School of Law, where he served as a Senior Notes Editor for the Washburn Law Journal, and where he was regularly listed on the Dean’s Honor List. Mr. Pool also served as the President of the Washburn Law School Bar Association and was a Senior Member of the Washburn Legal Clinic for pro bono clients.
Part I: History of Non-Competes
Where we are and how we got here
A Good Place to Start
Venice (Circa 1200’s)
Meanwhile the Other Good Place to Work:
4th Crusade Sack of Constantinople (1204)
Some employees had a skill . . . and No Jobs.
They needed somebody to provide the Capital and physical plant
And they could make this stuff . . .
Because Venice had the Capital and entrepreneurs
The Employees decided to motor West . . .
Employers created a dedicated workplace... Murano Isle.
200 years of collaboration later . . .
Which was kind of a “trade secret”
1500’s version of a Non-Compete: Employees Could Never leave the island. Ever.
This illustrates a timeless struggle

**Employer:**
- has the *leverage* (*power*)
- has all the *business connections*
- has all the *customers*
- Assembled a *valuable team of coworkers*
- Has *confidential information* and *trade Secrets*
- Would *actually prefer a naked restraint* on Employees

**Employee:**
- has very *little leverage*
- Just needs a *paycheck*/*Will sign anything*
- Oftentimes *naïve* and no connections
- Doesn’t know what a non-compete actually means
- Thinks *nothing of taking customer list, fellow workers, trade secrets, usurping opportunities*
Texas’ Historical View:

“Texas Courts historically held that noncompetition covenants limit competition and are restraints of trade. Therefore, they are presumed to be invalid unless specifically authorized by a statute.”–

--Mark Shank ,Texas Litigators Guide to Departing Employee Litigation, Ch. 3., P. 41.
(a) Every contract, combination, or conspiracy in restraint of trade or commerce is unlawful.

(b) It is unlawful for any person to monopolize, attempt to monopolize, or conspire to monopolize any part of trade or commerce.
On the Other Hand
Freedom to Contract:

“Parties are free to contract in any manner which does not violate a statute or public policy.”

RESTATEMENT (SECOND) OF CONTRACTS § 178(1)
“A covenant not to compete is enforceable if it is (1) ancillary to or part of an otherwise enforceable agreement at the time the agreement is made (2) to the extent that it contains limitations as to time, geographical area, and scope of activity to be restrained that are reasonable and (3) do not impose a greater restraint than is necessary to protect the goodwill or other business interest of the promise.”
What this means in English:

• A covenant not to compete is a contract in which the employee is giving up a valuable right. The rules are:
  • **First:** Must have “consideration.” “At will” contracts can’t be enforced (“illusory”).
  • **Second:** Must be some “Justifiable business purpose.”
  • **Third:** Must be reasonable in time, scope, and place.
“Justification” for the Non-Compete Clause:

Historically, courts were reluctant to accept this contractual waiver of rights. Courts tied the Consideration to the the Non-Compete (had to bear some relation to the promise not to compete), such as disclosure of confidential information in exchange for the promise not to compete.
Texas Supreme Court
Lessens the Burden on Business.

• Light v. Centel Cellular Co. of Tex. 883 S.W.2d, 647 (Tex. 1994)
• Alex Sheshunoff Mgmt. Serv’s, L.P. v. Johnson, 209 S.W.3d 644 (Tex. 2006)
• Mann Frankfort Stein & Lipp Advisors v. Fielding, 289 S.W.3d 844 (Tex. 2009).
• Marsh USA Inc. v. Cook, 354 S.W.3d 764 (Tex. 2011).
There is a reason for that...
Pointer: Be sure to check, the state chosen in the contract.
The trial courts: contracts must appear to protect some legitimate business interest

Something other than “I don’t want employees as competitors”

- Preserve business goodwill/connections
- Particularly in Sale of Business
- Protect customer lists
- Preserve valuable team of coworkers
- Protect confidential information and trade Secrets
Some of the more clever provisions.

• “I agree that there is no adequate remedy at law for my breach.”

• “I agree that the noncompete will not harm my ability to earn a living.”

• “I agree that an ordinary medical procedure is a trade secret”
The Special Nature of Healthcare Contracts
Of Course §15.50
In Physician Non-competes.

1) The contract must provide for a buyout of the non-compete

2) Other Statutory Language must be included

3) Contract cannot be reformed by the court to add a buyout. (Unlike geography, time and Scope.)
§ Sec. 15.52.
PREEMPTION OF OTHER LAW.

“The criteria under 15.51 of this code are exclusive and preempt any other criteria for enforceability of a covenant not to compete under common law or otherwise.”
Nacogdoches Heart Clinic vs. Vijay Poloka, MD
No. 12-11-00133-CV (Tyler)

Physician argued that even if the non-compete contract fits squarely within the statute, it is unenforceable if Public interest would be adversely affected.

Citing Marsh USA, Inc., 354 S.W.3d at 772-73; DeSantis, 793 S.W.2d at 681; Matlock v. Data Processing Sec., Inc., 618 S.W.2d 327, 329 (Tex. 1981).
Held: Even if a physician non-compete contract fits squarely within the statute, it may be unenforceable if Public interest would be adversely affected.

Citing Marsh USA, Inc., 354 S.W.3d at 772-73; DeSantis, 793 S.W.2d at 681; Matlock v. Data Processing Sec., Inc., 618 S.W.2d 327, 329 (Tex. 1981).
In other words “Public Policy”
Arguments are not preempted

Citing Marsh USA, Inc., 354 S.W.3d at 772-73; DeSantis, 793 S.W.2d at 681; Matlock v. Data Processing Sec., Inc., 618 S.W.2d 327, 329 (Tex. 1981).
There are many Patient Safety and Health law reasons the contract might not be “otherwise enforceable “

- “Offensive use” of Stark law and the AKS: “The contract is illegal”
- Similar to “Offensive use” of Stark Law:
  - Can’t delegate because “I don’t trust you with patient safety”
  - HIPAA “I don’t trust you with PHI”
- Corporate practice of Medicine
- Fee Splitting
15.51(b) **Personal services contracts**, Employer (promisee) has the burden of proof of the §15.50 elements (Scope, Time, Place)
15.51(c) Excessive time, geographical area, or scope

(1) must be reformed by court

(2) **Penalty:** Court may not award damages pre-reformation.

(3) **Penalty:** Personal Services Contracts—If Employer knew time, geography and scope were excessive—atorneys fees are awarded employee.
Part II: Non-Compete Enforcement and Remedies
Injunctive Relief

• Temporary Restraining Order (TRO)

• Temporary Injunction

• Permanent Injunction
**Temporary Restraining Order (TRO)**

- TRCP 680 Ex Parte (Without Notice)

- But Dallas Local Rule 2.02
  - Certificate of Conf. must state whether opponent has counsel
  - If counsel is available or can be reached
  - Provide O/C a copy of TRO applic. 2 hours before hearing
  - Unless irreparable harm makes impossible to notify counsel, or
  - Notification would impair relief

- Must Preserve *Status Quo*
- Supported by affidavit
- Expires at Midnight on the 14th days unless extended to 28 days
Temporary Restraining Order (TRO)

- TRO Must be served.
- Must provide Bond.
- Arbitration Clauses may nullify TRO which was not obtained through Arbitration
Temporary Injunction

- Requires notice and Evidentiary Hearing (even if Defendant does not attend)
- Can be expensive in the first month than many cases
- More likely to lead to a quick end to the dispute
- Remains in effect until Permanent Injunction
Rule 202 Deposition

- To perpetuate testimony by deposition **ONLY**
- To investigate a potential suit
- Warning Shot across the bow with less chance of prolonged litigation and counterclaims
Investigation: Get all the Contacts and Documents.

(1) Gather employment applications;
(2) Gather offers of employment in letters;
(3) Gather all employment contracts;
(4) Any stock option agreements;
(5) Any non-competition agreements;
(6) Any non-solicitation agreements;
(7) Any separation or severance agreements;
(8) Any releases of claims executed as part of any settlement agreements;
(9) All documents that an employee might have executed as part of the merger and acquisition; and
(10) Any other agreements signed by the employee that might contain any post-employment restrictions.
(12) Prophylactic Agreements
Employee
“Black Hat” behavior

- Taking customer lists
- Taking employer’s business forms
- Self-dealing before quitting (usurping)
- Poaching coworkers
- Misappropriating trade secrets
- Disparagement
Employer “Black Hat” behavior

- Excessive time, scope or geographical restrictions,
- Fraud in the inducement
- Unclean hands
- Contract is an illegal subject
Investigate Behavior by the Employee

- USB Drive Download Detector (Unplug the employee’s computer and don’t try forensic analysis without a professional.)
- Install a Keystroke Monitor
- Monitor business related emails
- Listen to business related voice mail messages
- Listen to business related phone calls
- Record business related phone calls
Gather Witness Statements and Affidavits for TRO

- Interview Co workers
- Interview Customers
- Interview Suppliers
- Social Media: Facebook, Linkedin, etc.
Advise the Client with Candor

• Non-compete lawsuits are **very expensive** (even a simple TRO and temporary Injunction can cost $50,000.00)

• Equitable actions often hinge on “Black Hat/White Hat” analysis

• **Which means it gets ugly.**

• These cases are hard on the parties (and lawyers)

• Delay in bringing an action can harm “irreparable harm/No adequate remedy at law”
Advise the Client with Candor

• A reformed non-compete usually cannot form the basis of a damages award from date of breach until it is reformed by the court.

• Employer may be required to sue the new employer as well as the employee (Bad for business).

• There must be a legitimate business interest, other than a desire to keep employees from competing (Justification)

• There will be a counterclaim
Advise the Client with Candor

“Justification” for the Non-Compete Clause:

Although the Texas Supreme Court has weakened the requirement of consideration in an at will contract, some judges don’t like lengthy noncompete clauses in “at will” contracts. Especially if there is no good justification.
Demand Letter/Litigation Hold

• Consider a demand letter to both employee and new employer

• Causes of action: Civil conspiracy, Breach of Contract, Breach of fiduciary duty/loyalty, business disparagement, Computer Fraud and Abuse Act, Conversion, Defamation, Fraud, Privacy, Texas Trade Secrets Act, Tortious interference, Theft
Demand Letter/Litigation Hold

The legal hold is initiated by a notice or communication from legal counsel to an organization that suspends the normal disposition or processing of records, such as backup tape recycling, archived media and other storage and management of documents and information.
ANTI-SLAPP Suit Caution!

- Filing a Defamation Actions may trigger an Anti-SLAPP suit under CPRC 27.001
- Almost anything could violate the statute, if enforced as written
- Court must award attorneys fees.