THE ETHICS OF IN-HOUSE LAWYER AND OUTSIDE LAWYER MOBILITY:
HOW LAWYERS, LAW FIRMS AND COMPANIES SHOULD MANAGE THE TRADE SECRET MINEFIELD

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Overview

Agenda

• Recent cases in the headlines
• ABA Model Rules of Professional Conduct 1.6 and 5.6 and their impact on lawyer mobility
• Recent bar ethics opinions applying these rules
• Application of ethical rules on lawyer non-competes in the in-house context
• Practical considerations for protecting trade secrets and enforcing restrictive covenants in the legal profession
Balancing Multiple Values

- Conduct Comports with Professional Conduct
- Client Interests Protected
- Promotion of Fair and Open Opportunities for Lawyer Competition
When Ethical Rules Collide

Rule 1.6 vs. Rule 5.6
When Ethical Rules Collide

Model Rule 5.6:
• A lawyer shall not participate in offering or making:
  (a) a partnership, shareholders, operating, employment, or other similar type of agreement that restricts the right of a lawyer to practice after termination of the relationship, except an agreement concerning benefits upon retirement; or (b) an agreement in which a restriction on the lawyer’s right to practice is part of the settlement of a client controversy.

Disciplinary Rule 2-108:
• (A) A lawyer shall not be a party to or participate in a partnership or employment agreement with another lawyer that restricts the right of a lawyer to practice law after the termination of a relationship created by the agreement, except as a condition to payment of retirement benefits.
• (B) In connection with the settlement of a controversy or suit, a lawyer shall not enter into an agreement that restricts his right to practice law.
Rule 5.6: Applicable to In-House Lawyers?

- Comments to Rule 5.6: “An agreement restricting the right of lawyers to practice **after leaving a firm** not only limits their professional autonomy but also limits the freedom of clients to choose a lawyer . . .”
When Ethical Rules Collide

Model Rule 1.6

(c) A lawyer shall make reasonable efforts to prevent the inadvertent or unauthorized disclosure of, or unauthorized access to, information relating to the representation of a client.
Considerations of Restrictive Covenants as to In-House Counsel

• Applicable rules are both more restrictive and less restrictive than rules applicable to non-lawyers

Lawyers have continuing duty of confidentiality

vs.

Non-lawyers generally have confidentiality obligations arising solely from legal contracts or from their duty of loyalty that cease upon termination

• What about individuals who perform hybrid business-lawyer roles within an organization?
NDAs permitted to protect confidentiality?

• In some situations, yes.

• Certain types of information fall outside of a lawyer’s ethical duty of confidentiality.

• Some jurisdictions have concluded that confidentiality agreements are permissible to protect information not otherwise protected so long as the agreement contains a savings clause and does not restrict the attorney’s right to practice.
Considerations of Restrictive Covenants as To In-House Counsel

Non-solicitation agreements permitted?

• In some situations, **yes**

• Illinois State Bar Association: non-solicit enforceable where general counsel sold his share of a business and was asked to enter into 2-year agreement prohibiting him from contacting company’s customers.
Considerations of Restrictive Covenants as to In-House Counsel

Are non-compete agreements ever permitted for in-house lawyers?

• Restrictive covenants generally prohibited as they unduly limit the freedom of clients to choose their lawyer and impinge upon lawyers’ professional autonomy

• Ethics opinions generally have held in-house counsel may be required to sign non-competes **BUT** only permitted if lawyer obtains non-lawyer position with a competitor
Considerations of Restrictive Covenants as to In-House Counsel

**NDAs Permitted For Outside Counsel?**

- Highly volatile legal market breathes new life into NDA’s for outside counsel
- Internal law firm communications not privileged as between firm and employees
  - May be organizational “proprietary information” not subject to confidentiality without an NDAs
    - Marketing Tools
    - Template Work Product
    - Business Development Plans
- **No ethical red flags if NDA does not impinge on a lawyer’s ability to freely practice law**
Ethical Considerations For Restrictive Covenants As To Outside Counsel

Are Non-Compete Agreements Permitted for Lawyers in Firms?

• Rule 5.6 prohibits restrictive covenants for outside counsel

• Very limited exceptions
  • Agreements providing for financial penalties upon lawyer departing a firm
  • Bona fide retirements
  • Sale of law practice

• Minority of jurisdictions allow firms to levy financial penalties on lawyers who leave a firm and compete
Client Choice and Restrictive Covenants

- Courts hinge their analysis of these cases on the strongly rooted policy consideration of consumer choice as contemplated in Rule 5.6

  - Written to promote a lawyer’s right to practice

  - In practice, ensures the freedom of clients to select their counsel of choice
Practical Pointers

• When drafting or presenting a restrictive covenant to a lawyer, consider:

  (1) Does it restrict the non-retiring lawyer from further practice of law?

  (2) Does it prevent the client(s) from now, or in the future, from the ability to choose legal representation?

• If the answer is “yes” to either of these questions, it is best to go back to the drawing board
Questions and Discussion

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