



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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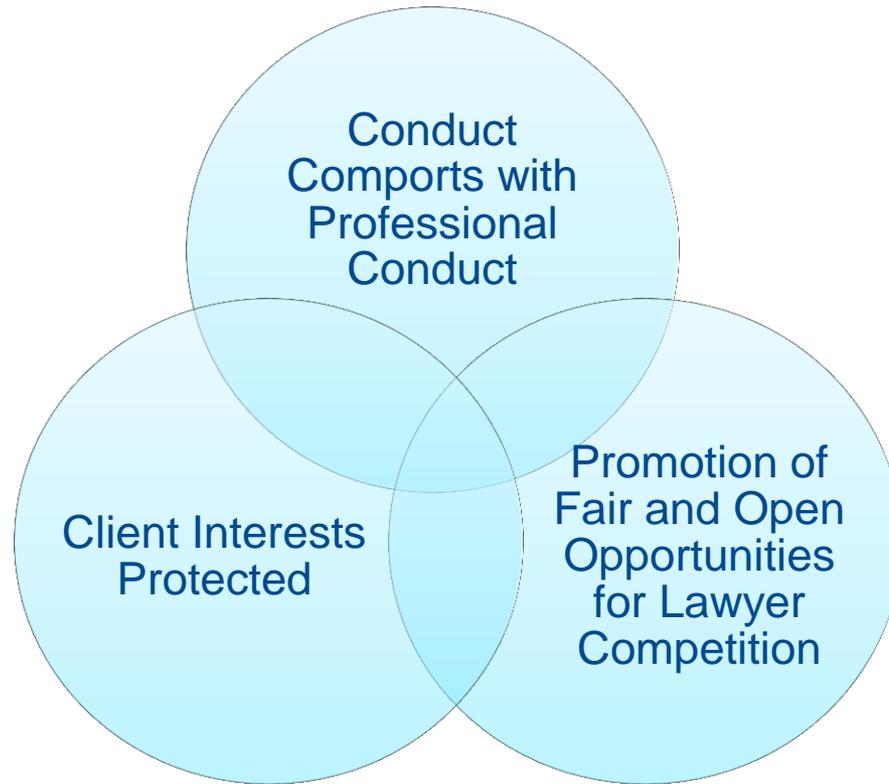


Overview

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



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.

When Ethical Rules Collide

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?*

Considerations of Restrictive Covenants as To In-House Counsel

NDA's 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

NDA's 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



Ethical Considerations For Restrictive Covenants As To Outside Counsel

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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