

**Where You Stand Depends on Where You (Want to) Sit:  
Conflicts, Confidentiality and Non-Compete Issues  
When In-House Counsel Change Employers**

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## **I. Introduction.**

The legal press has long been full of stories of lawyers in private practice who change firms. And because the rights and duties of private practice lawyers who change firms have so frequently been litigated, the case law and ethics opinions provide a great deal of guidance about what is, and what is not, permissible.

Less well recognized, in terms of ethics guidance, but no less significant, is the extent to which problems arise when in-house counsel move from one corporate employer to another. When the interests of the past and future employers are unrelated—when, for example, the two companies are in completely different industries and never have occasion to deal with each other either directly or indirectly—the likelihood of problems is small. When, however, the businesses of the two companies are related—whether as competitors, as suppliers of goods or services to each other or in some other manner—the potential for problems is no less acute for in-house lawyers than for private practice lawyers. The rules of ethics and conflicts apply to all lawyers, even if they appear to have been principally written with outside counsel and law firm conflicts procedures in mind. If anything, the fact that in-house lawyers are typically more involved in their employer-client’s day-to-day business decision-making than their outside counterparts makes the potential for problems far more severe. Consider, for example, the opening paragraphs of a recent news story entitled “Trying To Bottle Up Coke’s Former GC”:

When W. Thomas Haynes was reorganized out of his job as general counsel for The Coca-Cola Co. subsidiary Coca-Cola North America in 2001, the company gave its blessing for him to take a position as executive director of the Coke bottlers association.

Jeffrey T. Dunn, then chief executive of Coke’s North American and South American subsidiaries, gave Haynes written reassurances that the Coke bottlers position didn't pose a conflict, with the exception of several specific legal matters in which Haynes agreed not to participate. Coke was so supportive of Haynes’ move that it issued a news release in which Dunn said he was “pleased” that Haynes would “continue his leadership in the Coca-Cola family.”

Five years later, such magnanimity has vanished. A King & Spalding lawyer who represents Coke has accused Haynes of violating his “professional and ethical obligations as an attorney.” Coke has offered, without success, to pay Haynes to leave the bottlers job and has said it is prepared to seek sanctions against him.

Haynes argues in court filings that many of the matters he worked on during 16 years as a Coke in-house lawyer constituted business, not legal, advice, or reflected Coke’s public position, and therefore were not covered by attorney-client privilege. In addition, Haynes pointed to written agreements he secured from Coke that Haynes said limit his obligations regarding disclosure of company business.<sup>1</sup>

This article addresses the ethical and business-related issues that must be addressed when in-house counsel change corporate employers. It also provides suggestions for corporate legal departments who are drafting policies which address such mobility. Any policies drafted need to balance the interests of the corporate employer with the interests of present and future in-house counsel for the entity. More specifically, we note the following:

- Absent suitable conflicts waivers, in-house lawyers who change employers (like their outside lawyer counterparts) cannot thereafter act as counsel in a manner that is adverse to their former employers in a significantly related matter and cannot use, reveal or even be in a position to use information relating to their representation of the former employer.
- In those jurisdictions that allow the screening of laterally hired private practice lawyers as a means of avoiding law firm disqualification, screening should also be available for in-house lawyers who change employers. This will require that the screened in-house lawyer refrain from participating in much, though not necessarily all, of the work relating to her prior employer.
- Insofar as their past or future duties as in-house lawyers are concerned, their employers may not enforce covenants against competition or obligations of confidentiality in a manner that goes beyond what the ethical rules permit for lawyers in private practice. Both the lawyer drafting the prohibited non-compete (or nondisclosure) and the in-house lawyer signing the agreement are at risk of violating ethical obligations.
- Whether, or to what extent, in-house lawyers who also have substantive business responsibilities can be limited in the exercise of those responsibilities is at least partly an open question.

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<sup>1</sup> See <http://www.law.com/jsp/ihc/PubArticleIHC.jsp?id=1156943796341>.

- Although it may seem unpleasant or difficult to do so, it will often be best for a departing in-house lawyer and the employer that she is leaving to seek to resolve such issues on an amicable basis.
- A corporation that is considering the adoption of policies to cover the future hiring and departure of in-house lawyers should balance the need to protect the entity with the increased difficulty in hiring the best and the brightest that may result from policies that are too restrictive.

Each of these issues is discussed in turn below. In addition, we have attached in Appendix A two sets of draft policies which take into consideration the ideas discussed in this memorandum. Set #1 contains the basic ethical and fiduciary duties in-house counsel owe to their employer. Set #2 is more restrictive, and should, at least arguably, permit the maximum possible protection that the applicable law in a particular jurisdiction will allow.

## **II. The Duties of Loyalty and Confidentiality to Former Clients.**

When it comes to their legal and fiduciary obligations of loyalty and confidentiality, in-house lawyers are in no different position than their outside counterparts. Even though an in-house lawyer may have had only one entity-client or a single group of related entity-clients, that client is entitled to enforce against that lawyer the same obligations that the client could enforce against any outside lawyer. We therefore begin with a brief review of the former client conflicts rules and of a former lawyer's duties of confidentiality and secrecy.<sup>2</sup> In a later section, we will discuss the further questions that arise when in-house counsel wear business *and* legal "hats."

### **A. Former Client Conflicts.**

In almost all United States jurisdictions, current clients have absolute veto power over their lawyers' or law firms' ability to act adversely to them in any matter, whether the adverse

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<sup>2</sup> The same rules would also apply if a former in-house counsel were to go to work for a law firm that represented clients adversely to the in-house counsel's former employer.

matter is related or unrelated to the matter giving rise to the current attorney-client relationship.<sup>3</sup>

Alternatively stated, representations adverse to current clients are prohibited unless, at a minimum, both the current client to be represented and the current client to be opposed give informed consent.<sup>4</sup>

By contrast, the veto power of former clients is far more limited.<sup>5</sup> Thus, ABA Model Rule 1.9 provides:

- (a) A lawyer who has formerly represented a client in a matter shall not thereafter represent another person in the same or a substantially related matter in which that person's interests are materially adverse to the interests of the former client unless the former client gives informed consent, confirmed in writing.
- (b) A lawyer shall not knowingly represent a person in the same or a substantially related matter in which a firm with which the lawyer formerly was associated had previously represented a client
  - (1) whose interests are materially adverse to that person; and

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<sup>3</sup> See, e.g., ABA Model Rule 1.7; New York DR 5-105; California RPC 3-310. The rules in Canada are likely to be the same or similar. For instance, consider the Rules of Professional Conduct in the Law Society of Upper Canada. See <http://www.lsuc.on.ca/media/rpc.pdf>. Rule 2.04(4) provides that:

A lawyer who has acted for a client in a matter shall not thereafter act against the client or against persons who were involved in or associated with the client in that matter:

- (a) in the same matter,
- (b) in any related matter, or
- (c) save as provided by subrule (5), in any new matter, if the lawyer has obtained from the other retainer relevant confidential information

unless the client and those involved in or associated with the client consent.

<sup>4</sup> This paper does not address the extent to which current client conflicts cannot be waived except to note that the standard varies from jurisdiction to jurisdiction.

<sup>5</sup> See, e.g., New York Ethics Op. 628 (1991).

- (2) about whom the lawyer had acquired information protected by Rules 1.6 [regarding information relating to the representation of a client] and 1.9(c) that is material to the matter; unless the former client gives informed consent, confirmed in writing.
- (c) A lawyer who has formerly represented a client in a matter or whose present or former firm has formerly represented a client in a matter shall not thereafter:
  - (1) use information relating to the representation to the disadvantage of the former client except as these Rules would permit or require with respect to a client, or when the information has become generally known; or
  - (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.

For present purposes, we believe it is best to think of former client conflicts as being either “matter-specific” or “information-specific.” Regardless of the type of former client conflict at issue, however, waivers are unlikely to be effective unless signed in writing by both the current and former client following the disclosure of material facts.

### **1. Matter-Specific Conflicts.**

A matter-specific conflict exists when a lawyer proposes to represent a current client adversely to a former client in a matter which is the same as, or substantially related to, a matter in which the lawyer represented the former client. Such a conflict can result from what is sometimes called side-switching in connection with a single legal issue, proceeding, contract or other particular matter. For example, a lawyer who drafts a standard form of lease for use by her lessor-client could not thereafter represent a lessee in negotiations or litigation relating to that lease form even if it could be shown that the lawyer acquired no pertinent confidential information from the client-lessor.<sup>6</sup> Alternatively, consider a lawyer who represents Client A in seeking building permits for a specific condominium complex. Absent conflicts waivers (which

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<sup>6</sup> See, e.g., Oregon Formal Op. 2005-11.

are quite unlikely under the circumstances), that lawyer could not thereafter represent Client B in opposing related zoning permits that Client A would need to turn its project into a reality.<sup>7</sup>

On the other hand, the fact that a lawyer may have handled matters of a particular type for a client—for example, property tax disputes for a government client—does not mean that the lawyer is forever barred from handling any and all future property tax disputes for taxpayers once the lawyer has stopped working for the government.<sup>8</sup>

The matter-specific category is also limited in another critical respect. If the lawyer's current and former clients are merely general business competitors but there is no more direct or specific adversity between them, a conflict of this type will not exist. Thus, the court in *Curtis v. Radio Representatives, Inc.*, 696 F.Supp. 729 (D.D.C. 1988), held that no conflict was present when the same law firm represented two competing radio stations in licensing proceedings since neither station appeared in the other station's proceedings and the grant or withholding of one of the licenses would not affect the grant or withholding of the other.

## **2. Information-Specific Conflicts.**

An information-specific conflict exists when a lawyer proposes to represent a current client adversely to a former client in a matter about which the lawyer learned what in most jurisdictions is now called information relating to the representation of a client and in some jurisdictions is still called confidences and secrets. For example, ABA Model Rule 1.6 provides:

- (a) A lawyer shall not reveal information relating to the representation of a client unless the client gives informed consent, the disclosure is impliedly authorized in order to carry out the representation or the disclosure is permitted by paragraph (b).

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<sup>7</sup> Cf. ABA Model Rule 1.9 cmt. [3].

<sup>8</sup> See, e.g., *In Re Drake*, 195 S.W.3d 232 (Texas.App.-San Antonio 2006).

- (b) A lawyer may reveal information relating to the representation of a client to the extent the lawyer reasonably believes necessary:
  - (1) to prevent reasonably certain death or substantial bodily harm;
  - (2) to prevent the client from committing a crime or fraud that is reasonably certain to result in substantial injury to the financial interests or property of another and in furtherance of which the client has used or is using the lawyer's services;
  - (3) to prevent, mitigate or rectify substantial injury to the financial interests or property of another that is reasonably certain to result or has resulted from the client's commission of a crime or fraud in furtherance of which the client has used the lawyer's services;
  - (4) to secure legal advice about the lawyer's compliance with these Rules;
  - (5) to establish a claim or defense on behalf of the lawyer in a controversy between the lawyer and the client, to establish a defense to a criminal charge or civil claim against the lawyer based upon conduct in which the client was involved, or to respond to allegations in any proceeding concerning the lawyer's representation of the client; or
  - (6) to comply with other law or a court order.

See also New York DR 4-101, which provides in pertinent part that:

- A. "Confidence" refers to information protected by the attorney-client privilege under applicable law, and "secret" refers to other information gained in the professional relationship that the client has requested be held inviolate or the disclosure of which would be embarrassing or would be likely to be detrimental to the client.
- B. Except when permitted under DR 4-101(C), a lawyer shall not knowingly:
  - 1. Reveal a confidence or secret of a client.
  - 2. Use a confidence or secret of a client to the disadvantage of the client.
  - 3. Use a confidence or secret of a client for the advantage of the lawyer or of a third person, unless the client consents after full disclosure.
- C. A lawyer may reveal:
  - 1. Confidences or secrets with the consent of the client or clients affected, but only after a full disclosure to them.
  - 2. Confidences or secrets when permitted under Disciplinary Rules or required by law or court order.
  - 3. The intention of a client to commit a crime and the information necessary to prevent the crime.

4. Confidences or secrets necessary to establish or collect the lawyer's fee or to defend the lawyer or his or her employees or associates against an accusation of wrongful conduct.
5. Confidences or secrets to the extent implicit in withdrawing a written or oral opinion or representation previously given by the lawyer and believed by the lawyer still to be relied upon by a third person where the lawyer has discovered that the opinion or representation was based on materially inaccurate information or is being used to further a crime or fraud.

In effect, the category of “information relating to the representation of a client” under ABA Model Rule 1.6 includes what are defined as either confidences or secrets under New York DR 4-101.<sup>9</sup> Four potentially significant points follow.

First, a former client conflict can exist on the basis of information that is not subject to the attorney-client privilege but is nevertheless a “secret” of a client even if the information is not related to the matter on which the lawyer was working. Suppose, for example, that during the course of her work for a client on a particular business matter, the lawyer learns that the client has a history of alcohol abuse and that the business representation then ends. Even though the only representation of that now-former client was on a business matter and even though the information about the alcohol abuse may not have been covered by attorney-client privilege, the information about the former client’s history of alcohol abuse would still be sufficient to prohibit the lawyer from representing a plaintiff against that former client based upon the former client’s alleged drinking and driving.<sup>10</sup>

Second, it is not necessary that the lawyer sought to be disqualified or prohibited from an adverse representation has actually worked for the former client at all. Conflicts can also arise if,

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<sup>9</sup> Cf. Washington RPC 1.6 cmt. [19] which provides: “The phrase ‘information relating to the representation’ should be interpreted broadly. The ‘information’ protected by this Rule includes, but is not necessarily limited to, confidences and secrets” (emphasis added).

<sup>10</sup> See, e.g., New York Ethics Op. 628; Oregon Formal Ops. 2005-120, 2005-11; RESTATEMENT (THIRD), THE LAW GOVERNING LAWYERS §§ 59-60 (2000) (“Restatement”).

for example, the lawyer sought to be disqualified had lunchtime discussions about the former client in which the information in question was discussed.<sup>11</sup>

Third, there is an exception to the prohibition if the information in question is or becomes generally known, the scope of this exception can be difficult to assess.<sup>12</sup> For example, comment d to Restatement § 59 provides in part:

Confidential client information does not include information that is generally known. Such information may be employed by lawyer who possesses it in permissibly representing other clients \* \* \*. Information might be generally known at the time it is conveyed to the lawyer or might become generally known thereafter. At the same time, the fact that information has become known to some others does not deprive it of protection if it has not become generally known in the relevant sector of the public.

Whether information is generally known depends on all circumstances relevant in obtaining the information. Information contained in books or records in public libraries, public-record depositories such as government offices, or in publicly accessible electronic-data storage is generally known if the particular information is obtainable through publicly available indexes and similar methods of access. Information is not generally known when a person interested in knowing the information could obtain it only by means of special knowledge or substantial difficulty or expense. Special knowledge includes information about the whereabouts or identity of a person or other source from which the information can be acquired, if those facts are not themselves generally known.

A lawyer may not justify adverse use or disclosure of client information simply because the information has become known to third persons, if it is not otherwise generally known.

Finally, a lawyer's knowledge of the law is not subject to protection. See, e.g., Restatement § 59, cmt. e, which provides:

Confidential client information does not include what a lawyer learns about the law, legal institutions such as courts and administrative agencies, and similar public matters in the course of representing clients. Such information is part of

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<sup>11</sup> See, e.g. New York Ethics Op. 605 (1989); California Formal Op. 1998-152; Oregon Formal Op. 2005-120.

<sup>12</sup> Similarly, the passage of time may render information obtained in a prior representation "obsolete." See ABA Model Rule 1.9 cmt. [3].

the general fund of information available to the lawyer. During legal research of an issue while representing a client, a lawyer may discover a particularly important precedent or devise a novel legal approach that is useful both in the immediate matter and in other representations. The lawyer and other members of the lawyer's firm may use and disclose that information in other representations, so long as they thereby disclose no confidential client information \* \* \*.

Thus, the fact that a lawyer may have read and learned by heart every statute, regulation and court opinion on the law of widgets while working for Company A would not by itself prevent the lawyer from using any of that knowledge on behalf of Company B.<sup>13</sup>

**B. Litigating Former Client Conflicts.**

The authorities are not entirely consistent on the question how much proof a party seeking to establish a former client conflict, and consequent disqualification of a former lawyer, must provide before a conflict will be found to exist or disqualification will be ordered. The most frequently used test is whether the lawyer *could have* obtained confidential information in the prior representation that would be useful against the former client in the present representation.

Some courts have applied a narrower test, requiring an identity of legal issues before finding a substantial relationship. Other courts have applied a broad test, finding matters substantially related if a lawyer learned general information about a former client (such as negotiating style, settlement policies or litigation strategies)—“playbook” information—even if the facts and issues in the new matter are otherwise unrelated to the prior representation.<sup>14</sup>

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<sup>13</sup> We note in passing that the available exceptions to a lawyer's duty of confidentiality, including those pertaining to a client's past or future criminal conduct, vary from jurisdiction to jurisdiction.

<sup>14</sup> Compare Washington RPC 1.9 cmt. [3] (providing that “a former client is not required to reveal the confidential information learned by the lawyer in order to establish a substantial risk that the lawyer has confidential information to use in the subsequent matter”) with *DCH Health Services Corp. v. Verner S. Waite*, 95 Cal.App.4th 829, 115 Cal.Rptr.2d 847 (2002) (stating that lawyers are presumed to behave in an ethical matter and the court will “not assume that lawyers

Particularly in the context of disqualification motions, the cases are not necessarily consistent.<sup>15</sup>

In addition, some courts express substantial hostility towards disqualification motions on the ground that they are too often brought for purely tactical purposes.<sup>16</sup>

**C. Applying the Former Client Conflicts Rules to In-House Counsel.**

The former client conflicts rules apply to in-house lawyers who change employers in the same way that they apply to lawyers in private practice who change firms. In either instance, the lawyer who has changed jobs and left her former clients behind cannot switch sides on the same matter and cannot use, reveal or be in a position to use information relating to the representation of the former client against the former client. On the one hand, this is true whether the information in question is subject to attorney-client privilege or is merely a client secret. On the other, there is no protection for information that is or becomes generally known or for knowledge about the law.

The application of these standards is inherently fact-specific. Suppose, for example, that while she worked for the XYZ Corporation, Lawyer neither worked on nor acquired any

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will violate these confidences when involved in particular relationships”).

<sup>15</sup> See, e.g., *Colorpix Sys. of Am. v. Broan Mfg. Co.*, 131 F.Supp.2d 331, 339-40 (D.Conn. 2001) (lawyer representing insurer in subrogation action against manufacturer disqualified because prior representation of manufacturer’s parent and sister corporation made it likely that lawyer enjoyed access to privileged information and litigation strategy); *Silver Chrysler Plymouth v. Chrysler Motors Corp.*, 518 F.2d 751, 754 (2d Cir. 1975) (permitting lawyer to rebut presumption that confidential information acquired in former representation).

A few courts may still apply the older “appearance-of-impropriety” standard used in the prior Model Code. See *Carodna v. General Motors Corp.*, 942 F.Supp. 968, 973 (D.N.J. 1996) (standard approved); *Lovell v. Winchester*, 941 S.W.2d 466, 468 (Ky. 1997) (standard remains independent basis for assessing former-client conflicts).

<sup>16</sup> See, e.g., *J. P. Foley & Co. v. Vanderbilt*, 523 F.2d 1357, 1360 (2d Cir. 1975) (stating “the attempt by an opposing party to disqualify the other side’s lawyer *must* be viewed as part of the tactics of an adversary proceeding. As such it demands judicial scrutiny to prevent literalism from possibly overcoming substantial justice to the parties” (emphasis added)).

confidential or secret information relating to XYZ's intellectual property. If these are the facts, the former client conflicts and confidentiality rules would not prohibit Lawyer from representing DEF Corporation, her new employer, in intellectual property litigation adverse to XYZ. If, however, Lawyer could not draw such a clear line—if, for example, other representatives of XYZ were in a position to assert with credibility that she had worked on such matters or acquired pertinent confidential information—XYZ would more than likely succeed in a motion to disqualify Lawyer from representing DEF in the intellectual property litigation. In all likelihood, the court that hears the disqualification motion will place on Lawyer the burden of proving that she did no such work and acquired no such knowledge but may nonetheless view the evidence against Lawyer with a degree of skepticism if the court believes that the motion is being brought primarily for tactical purposes.<sup>17</sup>

### **III. Screening to Avoid Conflicts.**

#### **A. As Applied to Law Firms.**

Much like the refrain from *The Three Musketeers*, a multiple client conflict for one lawyer in a firm is generally a conflict for all. If, in other words, a single lawyer at a firm or legal department would be disqualified on former client conflicts grounds from handling a matter, every other lawyer at the firm or legal department would also be disqualified.<sup>18</sup> In such

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<sup>17</sup> Disqualification is not the only potential repercussion. A lawyer may also face a disciplinary proceeding for violating the ethics rules relating to former client conflicts of interests.

<sup>18</sup> *See, e.g.*, ABA Model Rule 1.10. See also Law Society of Upper Canada Rule 2.05 which discusses conflicts of interest when lawyers transfer firms and available screening methods.

circumstances, the transfer of a “tainted” lawyer to an otherwise conflict-free office can lead to the disqualification of the entire firm or legal department.<sup>19</sup>

In response to this arguably extreme result, an increasing number of jurisdictions allow a law firm that hires a “tainted” lawyer to avoid disqualification if that lawyer is fully and effectively screened from involvement at her new firm in the matter that would otherwise require the entire firm’s disqualification. Although the specific requirements of the disqualification rules can vary from jurisdiction and although some jurisdictions may allow screening even without a black letter screening rule, Illinois RPC 1.10(b) provides a suitable example:

When a lawyer becomes associated with a firm, the firm may not represent a person in a matter that the firm knows or reasonably should know is the same or substantially related to a matter in which the newly associated lawyer, or a firm with which that lawyer was associated, had previously represented a client whose interests are materially adverse to that person unless:

- (1) the newly associated lawyer has no information protected by Rule 1.6 or Rule 1.9 that is material to the matter; or
- (2) the newly associated lawyer is screened from any participation in the matter.

Most jurisdictions that permit screening require the personally disqualified lawyer to provide some type of notice to the lawyer’s former law firm attesting that during the period of the screen, the personally disqualified lawyer will not participate in any manner in the matter of the representation and will not discuss the matter or the representation with any other firm member. At the conclusion of the matter, the personally disqualified lawyer or the law firm may also be required to attest that the screen set in place was complied with.<sup>20</sup>

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<sup>19</sup> See, e.g., 2 Robert W. Hillman, *LAWYER MOBILITY: THE LAW AND ETHICS OF PARTNER WITHDRAWALS AND LAW FIRM BREAKUPS* § 2.7.2 (2005 Supp.) (discussing imputed disqualification of a firm).

<sup>20</sup> For a more elaborate screening rule with additional requirements, see Washington RPC 1.10(e). For a more middle of the road approach, see Oregon RPC 1.10(b).

**B. As Applied to Legal Departments.**

Like their private practice counterparts, corporate legal departments are “firms” when it comes to the application of multiple client conflicts rules. *See, e.g.*, ABA Model Rule 1.0(c) (“Firm’ or ‘law firm’ denotes a lawyer or lawyers in a law partnership, professional corporation, sole proprietorship or other association authorized to practice law; or lawyers employed in a legal services organization or the legal department of a corporation or other organization”); Restatement §§ 14, cmt. c, 123, cmt d.

It follows that in those jurisdictions in which screening can be used as to avoid disqualification of entire private practice firms caused by lateral hires, screening should also work to avoid disqualification of entire legal departments. As with private practice screens, however, corporate legal departments will want to make sure that all of a jurisdiction’s screening requirements are met in their entirety. In at least some jurisdictions, for example, this may mean that the screen should be in place before the lawyer to be screened formally begins work.<sup>21</sup>

**IV. Anticompetitive Covenants.**

In attempts to head off potential and future conflicts of interest due to the mobility of in-house counsel changing positions, corporate legal departments began drafting anticompetitive covenants for employees to sign. These non-compete and nondisclosure agreements place in-house counsel on notice as to their responsibilities when they change employment. Questions have arisen, however, concerning whether and to what extent such restrictive covenants are permissible.

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<sup>21</sup> *See, e.g.*, Restatement § 124 (requiring “timely and adequate notice of the screening” to all affected clients).

**A. In General.**

For present purposes, we will use the general term “anticompetitive covenants” to apply to three kinds of provisions: (1) agreements which prohibit an employee from working for a competitor for a specified period of time, sometimes within a defined geographic area; (2) non-disclosure or confidentiality agreements which broadly prohibit the use of information that the former employer deems confidential; and (3) anti-raiding agreements which limit or prohibit the solicitation of a former employer’s customers or employees.

At the risk of oversimplification and subject to substantial variation from jurisdiction to jurisdiction, courts have generally permitted anticompetitive covenants, not involving lawyers, that are reasonably necessary to protect the legitimate expectations and interests of the employer.<sup>22</sup> Some jurisdictions require that the employer have given adequate consideration before an anticompetitive covenant can be enforced. Not all jurisdictions, however, take the same approach. In some, an employee’s continuing employment is adequate consideration<sup>23</sup> and an employee may be terminated for refusing to sign a covenant not to compete.<sup>24</sup> In others, the consideration must be separate and material.<sup>25</sup>

Courts have generally construed these covenants narrowly because (1) the agreements are often negotiated from an inadequate bargaining position; (2) employees should be given the

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<sup>22</sup> See, e.g., RESTATEMENT (SECOND) OF CONTRACTS § 188 (1981) discussing ancillary restraints on competition).

<sup>23</sup> See, e.g., *Insurance Agents Inc. v. Abel*, 338 N.W.2d 531 (Iowa Ct. App. 1983); *Sandborn Mfg. Co. v. Currie*, 500 N.W.2d 161 (Minn. Ct. App. 1993).

<sup>24</sup> See, e.g., *Tatge v. Chambers & Owen Inc.*, 579 N.W.2d 217 (Wis. 1998).

<sup>25</sup> See, e.g., *Curtis 100 v. Suess*, 24 F.3d 941 (7th Cir. 1994) (applying Illinois law); *Abel v. Fox*, 654 N.E.2d 591 (Ill. App. Ct. 1995); *Ackerman v. Kimball Int'l*, 634 N.E.2d 778 (Ind. Ct. App. 1994).

freedom to determine their own career paths; and (3) the public should be permitted to determine who it will and will not hire to provide services. Nevertheless, these interests are generally balanced against the concern that employers, who spend time and money training employees, will see their employees (and those skills) become competitors. Whether an anticompetitive covenant is upheld will therefore turn on local law and on the totality of the circumstances.

**B. As Applied to Lawyers in Private Practice.**

Most, but not all, United States jurisdictions broadly prohibit at least some anticompetitive covenants that seek to regulate lawyers. Thus, ABA Model Rule 5.6 provides that:

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.<sup>26</sup>

For present purposes, our attention will focus primarily on the meaning and interpretation of Rule 5.6(a).<sup>27</sup>

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<sup>26</sup> Cf. Maine Board of Overseers of the Bar, Prof'l Ethics Comm'n Op. 126 (1992) (stating that since Maine has not adopted an equivalent to ABA Model Rule 5.6, lawyers may be required to sign anticompetitive covenants).

<sup>27</sup> For additional authority on RPC 5.6(b), see, generally, ABA Formal Ethics Op. 93-371 (1993) (explaining the reasons behind the rule); Restatement § 13(2) (agreements are void and unenforceable); *In re Brandt*, 10 P.3d 906, 918 (Or. 2000) (finding violation of disciplinary rule where, in connection with settlement, plaintiff's lawyers agreed to be retained by defendant).

1. **Private Practice Agreements Not to Compete and Related Disincentives.**

The principal exception to the general rule prohibiting the application of anticompetitive covenants to lawyers is for bona fide retirement situations, which makes both common and economic sense.<sup>28</sup> A firm, or corporation, should be permitted to treat a lawyer who is *truly* retiring differently than lawyers who withdraws for other purposes. Available authorities make clear, however, that this exception generally cannot be invoked simply by defining all departures as “retirements.”

For example, consider *Apfel v. Budd Larner Gross Rosenbaum Greenberg & Sade*, which defined a “retirement” as one in which the departing lawyer would not practice in any of three states in which firm had offices.<sup>29</sup> The court held this was an impermissible restrictive covenant “cloaked as a retirement agreement.”<sup>30</sup> In so holding, the court stated:

[T]he benefits to be paid or withheld under this agreement do not turn on any bonafide retirement. The size of the benefits depend not on age or years of service (beyond a minimum of ten years with the firm) but rather turn on competition or non-competition with [the firm]. Thus, a withdrawing attorney could move to any state other than New Jersey, New York or Pennsylvania, join or form a firm and make a good deal of money, and he or she would be entitled to the larger, non-competitive benefits payable under the Agreement. On the other hand, if that attorney decided to open a one-person law firm and practice in any one of the three proscribed states, he or she would only receive the smaller package of benefits. And the sole difference would be whether or not the person practiced in the same state as-and thus was able to compete with [the firm].

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<sup>28</sup> See, e.g., *Neuman v. Akman*, 715 A.2d 127 (D.C. App. 1998); *Donnelly v. Brown*, 599 N.W.2d 677 (Iowa 1999). Cf. *Pierce v. Hand, Arendall, Bedsole, Greaves & Johnston*, 678 So.2d 765 (Ala. 1996) (stating that deferred compensation is not the same as retirement benefits).

<sup>29</sup> *Apfel v. Budd Larner Gross Rosenbaum Greenberg & Sade*, 734 A.2d 808 (N.J.Super. Ct.App.Div. 1999).

<sup>30</sup> *Apfel*, 734 A.2d at 813.

Under no realistic analysis could this Agreement be deemed one providing retirement benefits.<sup>31</sup>

In fact, many courts are quite emphatic in their disapproval of anticompetitive covenants as applied to lawyers. In *Dowd & Dowd, Ltd. v. Gleason*, 693 N.E.2d 358, 369 (Ill. 1998), for example, the Illinois Supreme Court held such a covenant void as between a law firm and two departing lawyers. Another Illinois court noted that non-compete agreements are especially discouraged in the legal profession because the lawyer is selling his or her personal service—not a commodity.<sup>32</sup> And at least one expert has opined that ABA Model Rule 5.6 was designed to protect lawyers and clients from “illegitimate anti-competitive practices that will distort the market and ultimately drive up the price of legal services.”<sup>33</sup>

The case law is less clear, however, when the effects of an anticompetitive covenant on a lawyer’s future freedom of action are indirect and economic rather than being expressed in prohibitory language. In at least some jurisdictions, a departing lawyer who competes may be “taxed” (*i.e.*, may be made to receive lesser economic benefits than a departing lawyer who does not compete) for the harm that a firm will suffer due to the lawyer’s departure-plus-competition. Once again, however, the extent of any permissible “tax” will vary from jurisdiction to jurisdiction.<sup>34</sup>

In *Howard v. Babcock*, 6 Cal.4th 409, 420, 25 Cal.Rptr.2d 80, 86 (1993), the California Supreme Court held that an agreement among the law firm’s partners imposing a reasonable cost

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<sup>31</sup> *Id.*

<sup>32</sup> *See Hoff v. Mayer, Brown and Platt*, 772 N.E.2d 263 (Ill. App. 2002).

<sup>33</sup> 2 G. Hazard & W. Hodes, *THE LAW OF LAWYERING* § 5.6:101, at 823 (1992 Supp.).

<sup>34</sup> *See* ANNOTATED, *ABA MODEL RULES OF PROFESSIONAL CONDUCT* § 5.6, p. 491-98 (stating that ABA Model Rule 5.6(a) does not prohibit fee-allocation agreements that genuinely try to anticipate the financial impact of the lawyer's departure on the firm).

on departing partners who compete with the law firm in a limited geographical area is not inconsistent with the ethics rule prohibiting restrictions on the practice of law (since it does not actually prohibit competition) and is therefore not void on its face as against public policy. The court recognized that “a revolution in the practice of law has occurred requiring economic interests of the law firm to be protected as they are in other business enterprises.”<sup>35</sup> The court likened such economic disincentives to “taxes” on the former partner, which are reasonable and permissible so long as the law firm’s agreement to pay former partners, or to forego benefits otherwise due under contract, is in an amount that, at the time the agreement is entered, is reasonably calculated to compensate the firm for losses caused by the withdrawing partner’s competition with the firm.<sup>36</sup>

Other states, including Arizona, Maine, Pennsylvania and Michigan, have taken similar positions.<sup>37</sup> Most states, however, will more significantly restrict such taxes than California and the states that follow its lead.<sup>38</sup>

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<sup>35</sup> *Babcock*, 6 Cal.4th at 420.

<sup>36</sup> *Id.*

<sup>37</sup> See *Fearnow v. Ridenour, Swenson, Cleere & Evans*, 138 P.3d 723, 729 (Ariz. 2006) (stating that its version of ABA Model Rule 5.6 should not be stretched to condemn categorically all agreements imposing any disincentive upon lawyers from leaving law firm employment”); *Pettingell v. Morrison, Mahoney & Miller*, 687 N.E.2d 1237, 1240 (Mass. 1997) (financial disincentive valid if it is a “reasonable recognition of law firm’s financial loss due to the departure of a partner”); *Capozzi v. Latsha & Capozzi, P.C.*, 797 A.2d 314, 320 (Penn. 2002); *McCroskey, Feldman, Cochrane & Brock, P.C. v. Waters*, 494 N.W.2d 826, 828-29 (Mich. 1992).

<sup>38</sup> See, e.g., *Cohen v. Lord, Day & Lord*, 550 N.E.2d 410, 410 (N.Y. 1989) (stating that significant monetary penalty constitutes an impermissible restriction on the practice of law); *Jacob v. Norris, McLaughlin & Marcus*, 607 A.2d 142, 148 (N.J. 1992); *Whiteside v. Griffis & Griffis, P.C.*, 902 S.W.2d 739 (Tex. App. 1995); *Gray v. Martin*, 663 P.2d 1285, 1290 (Or. 1983).

## 2. Private Practice Non-Disclosure Agreements.

Non-disclosure agreements generally prevent the disclosure of an employer's ostensibly proprietary and valuable information. These types of agreements are generally broader than the duty of confidentiality defined in the ethics rules. As a general proposition, such provisions appear to have little play in the private law firm context. This is so since, among other things, a firm must transfer a client's file to a departing lawyer upon the client's request.<sup>39</sup> Similarly, a departing lawyer is free to solicit continuing work from her clients both as soon as the firm is aware of her impending departure and after she has left.<sup>40</sup> For much the same reasons, and because they would impinge directly on the departing lawyer's ability to continue to practice law, it can also be difficult or impossible to prohibit departing lawyers from using forms they may either have helped create or used at their prior firms.<sup>41</sup>

## 3. Private Practice Anti-Raiding Agreements.

Anti-raiding agreements have also met with limited success in the private practice context. Although the results can and will vary from jurisdiction to jurisdiction, it generally appears that partners may speak with other partners and that associates may speak with other

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<sup>39</sup> See, e.g., ABA Model Rule 1.16(d); ABA Ethics Op. 99-414 (discussing the ethical obligations when a lawyer departs a law firm); Kentucky Ethics Op. E-424 (2005) (stating that “[a]s a general rule, client files and property must be handled in accordance with the client's wishes and this is a matter that should be addressed in conjunction with the client's decision regarding future representation”).

<sup>40</sup> See, e.g., ABA Ethics Op. 99-414; Pa. Ethics Op. 99-100 (discussing the considerations when a lawyer leaves a law firm). Cf. *In the Matter of Cupples*, 979 S.W.2d 932, 935 (Mo. 1998); *In re Cupples*, 952 S.W.2d 226, 236-37 (Mo. 1997) (in separate disciplinary proceedings involving a lawyer in connection with his departure from two different law firms, the court held that the lawyer's conduct, which included secreting client files as he prepared to withdraw from a firm, removing files without client consent, failing to inform client of change in nature of the representation, and other actions constituted conduct involving dishonesty, fraud, deceit, or misrepresentation in violation of Missouri's counterpart to Model Rule 8.4(c)).

<sup>41</sup> See, e.g., ABA Ethics Op. 99-414.

associates prior to the time that a decision to leave is announced.<sup>42</sup> On the other hand, there is authority for the proposition that at least prior to the time that notice is given to their present firm if not in fact thereafter, partners cannot solicit associates to join them at a new firm.<sup>43</sup>

**C. As Applied to In-House Counsel.**

Employers that regularly apply a broad range of anticompetitive covenants to non-lawyer employees may legitimately ask why they cannot take the same approach to in-house lawyer-employees. The short answer is that just as the private practice former client conflicts and confidentiality rules apply to in-house lawyers, so too do the private practice prohibitions against anticompetitive covenants.

**1. New Jersey Ethics Opinion 708 (2006) in General.**

The leading authority on this issue is N.J. Advisory Committee on Professional Ethics Opinion 708 (July 10, 2006), in which the New Jersey Advisory Committee on Professional Ethics (the “Committee”) was asked to determine whether a corporate employment agreement violated the New Jersey Rules of Professional Conduct.<sup>44</sup>

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<sup>42</sup> See, e.g., *Jacob v. Norris, McLaughlin & Marcus*, 607 A.2d 142, 152-53 (N.J. 1992) (stating that agreements which discourage departing lawyers from contacting those lawyers with whom they would like to associate violate New Jersey RPC 5.6); ABA Informal Ethics Op. 1417 (1978) (stating that “[a]lthough the agreement in question does not restrict the right of the individual lawyer to practice directly, by restricting the right of association between attorneys it restricts such right indirectly and so falls within the prohibition of DR 2-108(A)”; District of Columbia Bar Association Op. 181 (1987) (finding unacceptable an agreement prohibiting a departing lawyer from “interfering with or raiding its employees”). See also *Loral Corp. v. Moyes*, 174 Cal.App.3d 268, 276, 219 Cal.Rptr. 836 (1985) (stating that “[t]he basic rule in this state is that contracts precluding a former employee from obtaining new employment with a competitor are invalid under section 16600”).

<sup>43</sup> See, e.g., *Gibbs v. Breed, Abbot & Morgan*, 271 A.D.2d 180, 710 N.Y.S.2d 578 (App. Div. 2000) (noting that “[w]hile partners may not be restrained from inviting qualified personnel to change firms with them \* \* \*, here [the partners] began their recruiting while still members of the firm and prior to serving notice of their intent to withdraw”).

<sup>44</sup> [http://lawlibrary.rutgers.edu/ethics/acpe/acp708\\_1.html](http://lawlibrary.rutgers.edu/ethics/acpe/acp708_1.html).

New Jersey RPC 5.6 provides that an attorney will not participate in a partnership or employment agreement that restricts the right to practice after termination of the relationship, except regarding retirement benefits or settlement of a controversy between private parties. The employment agreement before the Committee included the following agreements:

- (1) To keep secret and confidential any and all of the employer's trade secrets, proprietary and confidential information;
- (2) To disclose to the employer all inventions, discoveries, improvements, machines, devices, designs, processes, products, software, treatments, formulae, know-how and/or compounds conceived;
- (3) To not become employed by or provide any services to any competitor of his employer for a period of one year immediately following termination of employment (unless his employment was terminated without cause); and
- (4) To not employ, induce or solicit other employees of his employer to work for him, for any competitor, or for a firm seeking to become a competitor.<sup>45</sup>

The Committee noted that the New Jersey Supreme Court had previously forbidden analogous provisions as applied to lawyers and firms in private practice.<sup>46</sup> The Committee also noted that the purpose of New Jersey RPC 5.6 is to make sure clients have freedom to select their representation and that most state bar ethics opinions have reached a result similar to *Jacob*.

The Committee then turned to the application of this authority to in-house corporate counsel. Noting that several jurisdictions had held the analysis did not change for corporate counsel, the Committee agreed with those holdings. The Committee also noted that New Jersey Rule 1:27-2 allows in-house attorneys to hold a limited license to perform legal work solely for their employer without the need to be fully licensed in New Jersey and stated that the same result

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<sup>45</sup> For an analysis of each clause in the employment agreement at issue in New Jersey Ethics Op 708, please see Appendix B.

<sup>46</sup> See *Jacob v. Norris, McLaughlin & Marcus*, 607 A.2d 142 (N.J. 1992).

would follow for both fully licensed and limited-license New Jersey in-house counsel. The Committee further held that forbidding the in-house counsel from trying to get other company employees to leave and work with the departing counsel was prohibited because it was an attempt to limit the attorney's ability to obtain the best services for the counsel's new clients.

The Committee also opined that insofar as an in-house lawyer had business responsibilities separate and apart from responsibilities as in-house counsel, those might be restricted in a manner that goes beyond what is generally allowed for lawyers.

Finally, the Committee did not address the applicability of the Rules of Professional Conduct to a business person who merely happens to hold a law degree but is in no way employed as counsel. The logic of the Committee's opinion suggests, however, that the former client conflicts and confidentiality rules should not apply.

## **2. Is Opinion 708 Likely to Be Followed?**

In our opinion, the general results reached in this opinion are likely to be followed in United States jurisdictions that have adopted some form of ABA Model Rule 5.6 (which is almost all of them). Nonetheless, we note the following:

- This would not be true in states, such as Maine, that have not adopted such a rule.
- Jurisdictions will differ with regard to the extent to which adverse financial consequences or "taxes" can be imposed upon departing in-house lawyers.
- The apparently absolute prohibition in Opinion 708 on any limitations on the solicitation of other lawyers and non-lawyers by departing in-house lawyers may be the least likely component of this opinion to be followed elsewhere.
- In our view, Opinion 708 does not adequately address the protectability, in a former in-house lawyer's mind or set of documents, of information that would not qualify as information relating to the representation of a client/confidences or secrets but would qualify for state law protection as trade secrets. This could include, for example, information about secret processes or formulas. If it would violate substantive state trade secret law for a former in-house lawyer or non-lawyer to use or disclose that information to third parties, an in-house lawyer's

duty to obey the law should prohibit such disclosures whether or not the information is, in fact, related to the in-house lawyer's former legal work for the former employer.<sup>47</sup>

- A further discussion of the issues that arise when in-house lawyers clearly have and play business roles as well is presented in a subsequent section.

### 3. **A Pending Case Study: *Inamed Corp. v. Joseph A. Newcomb.***

A recent example of the problems encountered when in-house counsel change employers is on display in a lawsuit recently filed by Inamed Corporation (“Inamed”) against its former in-house counsel, Joseph Newcomb (“Newcomb”).<sup>48</sup> A few months after leaving Inamed, where he worked for a number of years as general counsel, executive vice president, and secretary, Newcomb accepted a position with Inamed’s primary competitor in the breast implant market, Mentor Corporation. When Newcomb left Inamed, he signed an Intellectual Property and Confidentiality Agreement (“Confidentiality Agreement”), which stated that he would not, without obtaining Inamed’s consent, disclose or use “any confidential business or technical information or trade secrets acquired during [his] employment with Inamed.” The Employment Agreement also contained a one-year non-compete obligation.

Inamed contends that Newcomb obtained client confidences and secrets in the course of representing Inamed and that his representation of Mentor is substantially related to, and adverse to, his prior representation of Inamed. Inamed also contends that there is no way that Newcomb can adequately fulfill his job duties at Mentor without disclosing or using the confidences and secrets learned in representing Inamed.

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<sup>47</sup> See, e.g., ABA Model Rules 4.4, 8.4((b) & (c)).

<sup>48</sup> *Inamed Corp. v. Joseph A Newcomb, et al*, Case No. 1220968 (Superior Court, County of Santa Barbara 2006).

Inamed has also retained an expert who has filed a declaration opining that the former in-house counsel has breached the ethics rules and the fiduciary duty owed to Inamed. But Inamed's expert did not mention or rely on the non-compete clause contained in the Employment Agreement or the Confidentiality Agreement; instead, she relied on the ethics rules and the duties of loyalty and confidentiality contained therein. The impression left is that the non-compete would likely be unenforceable, and the real breach here occurred in violating the ethics rules relating to former client conflicts of interest.

Newcomb contends that the ethics rules do not prohibit him from working for Mentor because Mentor is only a competitor and is not adverse to Inamed in the same case or transaction on which Newcomb will act. Newcomb claims he would not disclose confidential information protected by the ethics rules nor has Inamed identified the specific information that Newcomb has disclosed (or will disclose in the future).

The court has yet to make a decision on this case. Nevertheless, a number of lessons can be learned simply by reviewing these facts:

1. Where in-house counsel moves from one highly specialized employer to another, conflicts will commonly occur. On the one hand, the more specialized a company, the more it will act to protect its trade secrets and other confidential information. On the other, a greater risk is present that the lawyer may necessarily (and not intentionally) use that information later to the disadvantage of the former employer.
2. In-house counsel who move from a specialized employer to a more diversified employer are less likely to confront the same conflicts. Either the employer can more easily screen the in-house counsel (where permissible), or the former employer may sign a conflict waiver so long as the counsel agrees not to assist in certain manners.
3. While non-compete clauses and confidentiality agreements may seem like a big hammer to hold over a departing lawyer, they probably don't carry much additional weight as a condition of employment because lawyers are already bound by duties of loyalty and confidentiality.

4. **Reasons In-House Counsel and the Corporate Employer Should Care about Anticompetitive Agreements.**

In-house counsel around the country have, without question, both offered and signed employment agreements which contain at least one of the anticompetitive covenants discussed above, whether a non-compete, non-disclosure, or anti-raiding clause. Even though both the lawyer becoming in-house counsel and the employer may be aware of the ethical and legal implications of signing such an agreement, they may both believe “no harm no foul.” The soon-to-be in-house counsel may sign the agreement believing that, if necessary, she can challenge it later. The employer may believe the employee will not (know he has a right to) challenge the clause.

But both the lawyer signing the agreement and the employer (and lawyer) drafting the agreement are wrong. There are many reasons why in-house counsel and the corporate employer should care about anticompetitive clauses.

First, the in-house lawyer who *signs* such an agreement, however, is just as much at risk of a violation of the ethics rules as the lawyer who *drafts* the agreement. ABA Model Rule 5.6 does not place a higher burden on either lawyer but simply provides that a lawyer shall not *offer* or *make* an agreement that restricts the right of the lawyer to practice. Because we believe the lawyer’s “ticket” to practice law is inherently more valuable than any employment, a lawyer should be aware she could be subject to disciplinary action in signing any such agreement.

Second, the employer must also be cautious in presenting employment agreements which contain anticompetitive covenants to in-house lawyers. The case law demonstrates that courts are more than willing to deem such agreements void, and many courts have chosen to reject entire employment agreements, even if portions of the agreement are permissible (and could be

severed).<sup>49</sup> The employer stands to lose time and money spent in drafting such agreements, and in defending expensive litigation. Potentially worse, the employer may scare away talented and skilled employees by proposing such an agreement (or threatening litigation if the employment doesn't work out). An employer may also find itself in violation of other employment-related laws.

Further, aside from disqualification and potential discipline, there is also a risk of civil liability when parties have impermissible conflicts of interest. Allegations of such conflicts routinely appear in actions for legal malpractice or breach of a fiduciary duty. See Ronald E. Mallen & Jeffrey M. Smith, *LEGAL MALPRACTICE* §§ 16.18, 17.28 (2006 Ed.) ("Mallen") (and the cases cited therein). For instance, a lawyer's breach of confidentiality is a breach of fiduciary duty and a lawyer who comes to a new corporation with an information-specific conflict is potentially vulnerable to a civil action for "breach of fiduciary duty" or legal malpractice brought by the former client. Mallen § 17.28. That is, the lawyer herself is at actual risk of being a defendant, along with the corporation that benefits from the ill gotten gains after notice. And the client could allege direct damages (the cost of hiring new counsel, the cost of duplicating work product or the loss of valuable work product) and consequential damages (time and prejudice to the client's legal position). *Id.*

## V. Special Issues Relating to Business Roles of In-House Counsel.

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<sup>49</sup> See *Edwards II v. Arthur Andersen LLP*, 47 Cal.Rptr.3d 788, 805-06, 142 Cal.App.4th 603 (2006) (rejecting Andersen's argument that the invalid noncompetition provisions can be severed from the anti-raiding provision).

As has already been noted, in-house lawyers sometimes play business roles as well as legal ones.<sup>50</sup> When they do, it becomes necessary to address whether anticompetitive covenants that cannot be applied to their legal work can nonetheless be applied to their business work.

New Jersey Opinion 708 states that such covenants can be applied to business work. In actual practice, however, things may not be so clear cut. At one end, consider a hypothetical in-house lawyer who has one clear legal title and one clear business title and who is suitably able to keep her two titles and related responsibilities separate and apart from each other. In such circumstances, the argument in favor of allowing the full permitted measure of anticompetitive covenants as to the in-house lawyer's business work is clear: the lawyer competition rules should not apply because legal work is not at all involved.

At the other end, suppose that an in-house lawyer has no regularized and recognized business responsibilities but simply gives occasional business advice along with her legal advice. In these circumstances, the argument against allowing non-lawyer anticompetitive covenants is likely to prove overwhelming. Perhaps one might ask whether the employer would otherwise expect to have claimed attorney-client privilege with regard to the in-house lawyer's work or if it regularly treats such advice as if it were subject to attorney-client privilege. If the answer to either of these queries is "yes," it may prove to be especially hard to argue for the enforceability of a business-based anticompetitive covenant.

## **VI. The Benefits of Amicable Resolution.**

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<sup>50</sup> The business advice/legal advice distinction can, of course, be critical to the assessment of whether particular communications involving in-house counsel may or may not be subject to attorney-client privilege. *See, e.g., Florida Marlins Baseball Club, LLC v. Certain Underwriters*, 900 So.2d 720, 721 (Fla.App. 2005) (legal, not business, advice). *Cf. United States v. Chen*, 99 F.3d 1495, 1501 (9th Cir.1996) (presumption that a lawyer is hired to give legal advice is rebutted only "when the facts show that the lawyer was 'employed without reference to his knowledge and discretion in the law'").

At the precise moment when the company's most important attorney is about to walk out the door and mutual recriminations are at a maximum, civil and constructive dialogue may be impossible. On the other hand, there are plenty of attorneys who are not the most important and there are also plenty of situations in which the rational discussion and resolution of problems is quite possible.

The point we wish to make here is a simple one. At least in those circumstances in which dialogue is possible, it may be in everyone's interests to seek to work out, in writing, what work will and will not be "off limits" to the departing lawyer. Even though one cannot foresee every potential future development and even though it may only be possible to resolve some issues up front while leaving others open, attempts to set clear and mutually agreeable guidelines are likely to prove worthwhile. If nothing else, the parties may learn where they agree and where they disagree.

## **VII. The Need for Balance.**

At first blush, a business might wish to restrict all of its lawyers to the maximum possible extent in order to preserve as much of the business' information as possible. This would be an understandable first reaction to the description earlier in this memorandum of the Inamed Corporation litigation.

Nevertheless, first reactions are not always the right reactions. Excessive post-departure limitations may make it harder for a business to recruit or perhaps promote the in-house talent that it most wishes to employ. In addition, excessive limitations are more likely to be challenged in court (leading, at a minimum, to increased time and cost) and more likely to be unenforceable

(thereby leaving a business with less protection than it might otherwise have obtained). In an extreme enough case, it might also be that lawyers who seek to impose excessive restrictions on their departing colleagues would be subject to some degree of disciplinary risk.

A compromise or middle of the road position may therefore present the best approach, and help the company protect what is most important. The following summary of considerations is meant as a shorthand reference for in-house counsel *and* their corporate employers to keep in mind when developing, or signing, an employment agreement that contains an anticompetitive agreement. We have also attached in Appendix A two sets of draft policies which encompass many of the ideas discussed in this article. In Set #1, the two draft policies included present the minimum requirements on which entities employing in-house counsel should generally insist. In Set #2, the two draft policies are more protective of an employing entity's rights upon counsel's departure.

### **VIII. Summary of Considerations for the In-House Counsel and the Corporate Employer.**

In-house counsel and their corporate entities should carefully consider whether to sign, or offer, an employment agreement which contains an anticompetitive clause. The following summary, although not conclusive, highlights the essential considerations in-house counsel and the corporate employer should keep in mind.

#### **A. In-House Counsel.**

Lawyers taking a position as in-house counsel should first review an employment agreement to determine whether it contains an anticompetitive covenant.<sup>51</sup> If it does contain either a non-compete, non-disclosure, or anti-raiding provision, the lawyer should take care to consider at least the following points:

1. A non-compete will generally not be permissible when (1) it restricts the right of a lawyer to practice after termination of her relationship with the corporate employer, or (2) it restricts the right of a lawyer to practice as part of a settlement of a client controversy. A non-compete is permissible if it part of a bona fide agreement to provide benefits upon retirement.

2. In-house counsel should be aware with which “hat” (or title) the lawyer takes actions on behalf of the corporate employer. For instance, communications made under the “business” hat will not receive the same protection as lawyer-client communications, nor will they be considered in evaluating former clients of interest. In-house counsel who do act under a business title may be permitted to sign an anticompetitive covenant to the extent it would apply to their non-lawyer activities.

3. Employment agreements which provide an economic disincentive may be permissible because they do not unduly restrict the right of a lawyer to practice law after termination of employment. To be permissible, they must be permitted by the jurisdiction and the disincentive must be reasonably related to the loss the entity would suffer if the in-house counsel begins to compete.

4. In-house counsel considering leaving the entity may be obligated to provide the employer notice before recruiting other employees.

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<sup>51</sup> In-house counsel should be aware that an employing entity may also ask the lawyer to sign such an agreement when the employment is terminated. The same consideration would apply to both types of agreements.

**B. Corporate Employer.**

A corporate employer must first decide whether even to offer or require an employment agreement which contains an anticompetitive covenant. If the employer deems such a covenant beneficial, the employer (and/or in-house counsel drafting the agreement) should consider the following:

1. Is the anticompetitive covenant necessary considering the lawyer's ethical and fiduciary responsibilities? In-house counsel are already bound by duties of confidentiality and loyalty, preventing the lawyer from (1) revealing information relating to the representation of the entity to third parties, and anyone (with limited exceptions), and (2) representing a later entity adverse to the former on a same or substantially similar matter, or in a matter in which the previously learned information relating to the representation of a client could be used.

2. Non-compete, non-disclosure and anti-raiding provisions may be unenforceable to the extent they restrict the in-house counsel's ability to practice law after terminating her relationship with the entity. Because courts may choose not to sever the enforceable from the unenforceable provisions, corporate employers should consider drafting separate agreements.

3. An anticompetitive covenant may be permissible to the extent it applies to an in-house counsel's non-legal/business obligations. A corporate employer should consider all of the "hats" an in-house counsel wears in the corporation.

4. Non-competes will be permitted for lawyers to the extent it is an agreement to provide benefits upon retirement. And some jurisdictions permit an employer to place an economic disincentive on a departing lawyer who thereafter chooses to compete with the former employer to the extent the employer can reasonably define its loss as a result of the subsequent competition.

5. Anti-raiding provisions likely won't be enforceable, but courts are likely to require in-house counsel to provide notice of termination to the employer before recruiting or hiring other employees.

**IX. Conclusion.**

In-house counsel, like lawyers in private practice, must consider the ethical implications of changing employment. They must avoid ethical conflicts and protect confidential client information. They must also refrain from entering into impermissible anticompetitive covenants.

Unfortunately, the view of in-house lawyers merely as lawyers ignores the important business roles played by many in-house lawyers. Whether, and to what extent, anticompetitive covenants may be applicable to such business functions is somewhat unclear. It is highly likely, however, that the chance to impose such covenants will be greatest when the separation between business and legal roles is most clear.

We caution, however, that each business should consider for itself how aggressive it wishes to be in its approach to anticompetitive covenants. Sometimes less really is more.

**APPENDIX A:**

**SET #1: LESS RESTRICTIVE POLICIES**

[Note: These first two draft policies are intended to present the minimum requirements on which entities employing in-house counsel should insist. At least insofar as a lawyer's obligations as a lawyer (rather than a businessperson) are concerned, these two policies are intended primarily to state expressly what the applicable ethical rules already require. Based on our present understanding of the law, we believe that these policies should be permissible in all United States jurisdictions.]

**A. Less Restrictive Draft Language for Initial Employment Agreement**

1. Lawyer understands and acknowledges that as counsel to the Company and, where appropriate, affiliated entities (collectively, the "Company"), Lawyer will owe ethical and fiduciary obligations to the Company.
2. Lawyer further understands and acknowledges that some of these obligations will continue even if Lawyer ceases to be employed by the Company and that these continuing obligations include, at a minimum, the duty to protect information relating to the representation of a client (sometimes referred to as the duty to protect former client confidences and secrets) and the duty to avoid former client conflicts of interest.
3. Lawyer agrees that both during and after Lawyer's employment by the Company, Lawyer will comply fully with all applicable ethical and fiduciary obligations.
4. If Lawyer intends to voluntarily terminate employment with Corporation, Lawyer agrees not to recruit, or offer employment to, any other employees without first having given notice of termination to the entity.

5. [IF APPLICABLE: Address separately any obligations arising out of Lawyer’s obligations in a business/non-legal capacity or assert that this subject will be addressed in a separate document].

**B. Less Restrictive Draft Language for Use at Time of Departure**

1. Lawyer understands and acknowledges that as counsel to the Company and, where appropriate, affiliated entities (collectively, the “Company”), Lawyer has owed ethical and fiduciary obligations to the Company. Except as expressly noted below, Lawyer hereby represents that to the best of Lawyer’s knowledge, Lawyer has fully met all such obligations and will continue to do so during the remainder of Lawyer’s period of employment.

The exceptions are: \_\_\_\_\_ [if none, state “none”].

2. Lawyer further understands and acknowledges that some of these obligations will continue after Lawyer ceases to be employed by the Company and that these continuing obligations include, at a minimum, the duty to protect information relating to the representation of a client (sometimes referred to as the duty to protect former client confidences and secrets) and the duty to avoid former client conflicts of interest. Lawyer hereby represents that to the best of Lawyer’s ability, and in accordance with the Employment Agreement signed by Lawyer on [date], Lawyer will fully comply with all such obligations.
3. [OPTIONAL] Lawyer acknowledges that during the course of Lawyer’s work for the Company, Lawyer has worked on or acquired information relating to the representation of the Company on subjects or matters including but not limited to the following:

[PROVIDE LIST]

Lawyer understands and acknowledges that the duties referenced in paragraph 2 above exist with respect to each of these subjects or matters as well as with respect to any other subjects or matters on which Lawyer may have worked or about which Lawyer may have acquired information.

4. [IF APPLICABLE: Address separately any obligations arising out of Lawyer's obligations in a business/non-legal capacity or assert that this subject will be addressed in a separate document].

## **SET #2: MORE RESTRICTIVE POLICIES**

[Note: These next two policies are intended to be more protective of an employing entity's rights upon counsel's departure than the first set. We have attempted to draft them in a way that should, at least arguably, permit the maximum possible protection that the applicable law in a particular jurisdiction will allow. In other words, we have not attempted to draft policies that go beyond our understanding of the law as reflected in the memorandum to which these draft policies are attached.]

### **A. More Restrictive Policy Language for Initial Employment Agreement**

1. Lawyer understands and acknowledges that as counsel to the Company and, where appropriate, affiliated entities (collectively, the "Company"), Lawyer will owe ethical and fiduciary obligations to the Company and that at least some of these obligations will continue even if Lawyer ceases to be employed by the Company.
2. Lawyer agrees that both during and after Lawyer's employment by the Company, Lawyer will comply fully with all applicable ethical and fiduciary obligations.
3. To the maximum extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct, Lawyer agrees that during and after Lawyer's employment by the Company, Lawyer will not:
  - a. Represent any client adversely to the Company.
  - b. Reveal to any third party any information learned by Lawyer during the course of Lawyer's employment by the Company except for information that is or becomes generally known.

- c. Encourage or solicit any present or future agents or employees of the Company to leave the Company for the purpose of competing with the Company.
  - d. Whether as a lawyer or non-lawyer, accept a position (whether as agent, as employee, as part or sole owner or in any other capacity) with any person or entity whose interests are adverse to the Company's interests if that position is related in any way to Lawyer's present or past work for the Company.
4. [IF APPLICABLE: Address separately any obligations arising out of Lawyer's obligations in a business/non-legal capacity or assert that this subject will be addressed in a separate document].

**B. More Restrictive Language for Use at Time of Departure**

1. Lawyer understands and acknowledges that as counsel to the Company and, where appropriate, affiliated entities (collectively, the “Company”), Lawyer has owed ethical and fiduciary obligations to the Company. Except as expressly noted below, Lawyer hereby represents that to the best of Lawyer’s knowledge, Lawyer has fully met all such obligations and will continue to do so during the remainder of Lawyer’s period of employment.

The exceptions are: \_\_\_\_\_ [if none, state “none”].

2. Lawyer further understands that at least some of these obligations will continue after Lawyer ceases to be employed by the Company. To the maximum extent permitted by applicable law, including but not limited to any applicable rules governing attorney conduct, and in accordance with the Employment Agreement signed by Lawyer on [date], Lawyer will not:

- a. Represent any client adversely to the Company.
- b. Reveal to any third party any information learned by Lawyer during the course of Lawyer’s employment by the Company except for information that is or becomes generally known.
- c. Encourage or solicit any present or future agents or employees of the Company to leave the Company for the purpose of competing with the Company.
- d. Whether as a lawyer or non-lawyer, accept a position (whether as agent, as employee, as part or sole owner or in any other capacity) with any person or entity whose interests are adverse to the Company’s interests if

that position is related in any way to Lawyer's present or past work for the Company.

4. [OPTIONAL] Lawyer acknowledges that during the course of Lawyer's work for the Company, Lawyer has worked on or acquired information relating to the representation of the Company on subjects or matters including but not limited to the following:

[PROVIDE LIST]

Lawyer understands and acknowledges that the duties referenced in paragraph 3 above exist with respect to each of these subjects or matters as well as with respect to any other subjects or matters on which Lawyer may have worked or about which Lawyer may have acquired information.

5. [IF APPLICABLE: Address separately any obligations arising out of Lawyer's obligations in a business/non-legal capacity or assert that this subject will be addressed in a separate document].

**APPENDIX B: ANALYSIS OF AGREEMENT AT ISSUE IN  
NEW JERSEY OPINION 708**

The **bold print** consists of the original employment agreement at issue in New Jersey Opinion 708. The excerpted sections are the same sections excerpted in the opinion. The regular print beneath is an analysis of that particular provision in light of the ethical implications noted throughout this memorandum.

**3. During and after my employment, I will keep secret and confidential, and will not disclose, transfer to others or use, directly or indirectly, any and all [Employer] Trade Secrets, Proprietary and Confidential Information as defined below, and I will handle [Employer] documents, computing and communications equipment in accordance with company policies and surrender all such materials to [Employer] upon request. ...**

This anti-disclosure clause covers information in-house counsel would presumably learn in a legal and business capacity. This clause is likely broader than the duty of confidentiality contained in ABA Model Rule 1.6 (and its state equivalents). To the extent that an anti-disclosure agreement seeks to protect information not protected by a lawyer's duty of confidentiality, it would generally not violate the ethics rules. In-house counsel must also consider their legal obligations where information may be protected by state and/or federal law.

**4. I will disclose in writing to my supervisor and [Employer]'s Intellectual Property Department all inventions, discoveries, improvements, machines, devices, designs, processes, products, software, treatments, formulae, know-how, and/or compounds ("Inventions") conceived or made by me, whether alone or jointly with others, during my employment with [Employer]. All my right, title and interest in such Inventions, whether patentable or not, shall be the sole property of [Employer] and I hereby assign and agree to assign the same to [Employer]. ...**

This clause does not implicate any ethical concerns. Depending on applicable law, an employer may own the work product of its employees. To the extent the in-counsel counsel solely, or jointly, in her business or legal capacity, develops an "invention" as defined by the clause, the in-counsel would be required to disclose the counsel.

**8. I agree that, during my employment and for a period of one (1) year immediately after termination of my employment:**

**(a) I will not become employed by, provide services to or assist, whether as a consultant, employee, officer, director, proprietor, partner or other capacity, any person, firm business or corporation which (i) is a Competitor of [Employer] (as defined in paragraph 9 below) or (ii) is seeking to become a Competitor of [Employer]; provided however, that the provisions of this subparagraph (a) shall not apply if my employment is terminated by [Employer] without cause; and**

This non-compete clause would likely be deemed to violate ABA Model Rule 5.6 in those jurisdictions that have adopted the same or a substantially similar rule because this rule directly restricts a lawyer's right to practice law.

This clause also poses additional problems because it states that in-house counsel may compete if terminated "without cause." Whether a termination is with or without cause does not relieve in-house counsel of her obligations to avoid conflicts of interest. This type of clause poses problems for employers because it may permit the departed in-house counsel to argue that the employer has knowingly waived future conflicts of interest.

If an employer wishes to include some type of non-compete clause in an employment agreement, the employer has a number of other options:

1. The clause could define a lawyer's duty to avoid former client conflicts of interest. In this way, the employer could be confident that the in-house counsel would not work for another entity or corporation where there would be a matter-specific, or information-specific, conflict of interest.
2. The clause could restrict the lawyer from acting in a non-legal capacity for a corporation. For example, in those instances where there is no former client conflict of interest, an employer may be able to restrict a lawyer's ability to take on a non-legal position (i.e., Secretary, Vice-President).
3. The clause could include an economic disincentive in those jurisdictions where this is permitted. The employer would argue that such disincentives do not restrict a lawyer's ability to practice, but only provide a reason for the lawyer to voluntarily choose not to do so.

**(b) I will not, alone or in concert with others, employ or attempt to employ, induce or solicit other employees of [Employer] to work for me, any other person, firm, business or corporation which (i) is a Competitor of [Employer] or (ii) is seeking to become a Competitor of [Employer]. ...**

New Jersey held that this clause violates its version of RPC 5.6, and at least one ABA informal opinion has held that such anti-raiding clauses are impermissible. Most jurisdictions, whether because of the ethics rules or substantive state employment law, will not permit clauses that prohibit employees from freely choosing their own employment.

An employer may, however, be permitted to limit the extent to which a departing lawyer may "recruit" or "draft" employees. An employer may also include a clause that prohibits the lawyer from speaking to employees until, at least, the lawyer gives notice that to the current employer.

**9. As used in this Agreement, “Competitor of [Employer]” means any person, firm, corporation or business which, directly or indirectly, develops, manufactures, sells or distributes products and/or services, that are the same, or substantially similar to, or compete in the marketplace with, the products and/or services developed, manufactured, sold or distributed by the business unit(s) in which I worked, or as to which I had access to Trade Secrets, Proprietary and Confidential Information, during the last two (2) years of my employment with [Employer].**

This clause is similar to the language defining a matter-specific, or information-specific, conflict of interest. It is, however, broader than the rule explained in ABA Model Rule 1.9. For example, what we have called a matter-specific former client conflict of interest is generally not present when a lawyer takes employment with an employer who “compete[s] in the marketplace with” the former employer. In addition, the information sought to be protected is broader than the definition of “information relating to the representation of a client” in ABA Model Rule 1.6.

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