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Ethical Issues for Attorneys Related to Restrictive Covenants

by Peter Steinmeyer, Erik Weibust, and Angel Perez, Epstein, Becker & Green, P.C., with Practical Law

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A Practice Note discussing key ethical issues for attorneys to consider before entering into non-competition, non-solicitation, or confidentiality arrangements and when handling trade secrets. Topics covered include the retirement benefits exception, sale of a practice exception, application of restrictive covenants to in-house counsel and non-legal services, and inevitable disclosure of trade secrets doctrine. This Note details the requirements for attorneys under the American Bar Association's Model Rules of Professional Conduct. This Note addresses ethical considerations for both in-house and law firm attorneys.

Companies across the US commonly use non-compete agreements and other restrictive covenants to protect the company's legitimate business interests. These agreements are used with employees at all levels but often focus on those with access to the company's trade secrets and confidential information. In-house attorneys, in particular, may take on non-legal, business roles that expose them to sensitive information that the company seeks to protect from competitors and public disclosure.

As attorneys switch firms or move in-house during their careers, they may be asked to sign non-competition, non-solicitation, and confidentiality agreements. Before entering into these agreements, attorneys should consider whether the agreements are permitted under their state's professional ethics rules. This Note discusses some of the key ethical issues for attorneys to consider in the context of restrictive covenants.

While there is no set of national ethics standards, all states (except California) and the District of Columbia base their ethics rules on the American Bar Association's (ABA) Model Rules of Professional Conduct (ABA Model Rules). This Note refers to both:

- The ABA Model Rules because they reflect the basic framework for the standards of professional conduct applied across the country.
- State rules of professional conduct (RPC), which are generally numbered to correspond to their ABA Model Rule corollaries. Many states have modified the ABA Model Rules, so attorneys should refer and adhere to their local ethics rules when considering whether specific agreements may trigger an ethics violation.

For general information on restrictive covenants in employee agreements, see Restrictive Covenants Toolkit and State Restrictive Covenants Toolkit.

Non-Compete Agreements

Attorneys are generally prohibited from drafting or entering into non-compete agreements that restrict the attorney's ability to work post-employment. Under ABA Model Rule 5.6:

- An attorney cannot participate in offering or making:
  - a partnership, shareholders, operating, employment, or other similar type of agreement that restricts the right of an attorney to practice after termination of the relationship, except an agreement concerning benefits upon retirement; or
  - an agreement in which a restriction on the attorney's right to practice is part of the settlement of a client controversy.

The ABA adopted ABA Model Rule 5.6 to ensure that attorneys do not limit their professional autonomy, and clients have the freedom to select counsel of their choice. An agreement that restricts an attorney's ability to practice may be viewed as undermining this public policy.

ABA Model Rule 5.6 has been consistently applied in the context of law firms, with the vast majority of cases and

ethics opinions holding that non-compete agreements are unenforceable between attorneys. For example, partnership agreements generally may not include restrictive covenants that:

- Prohibit departing partners from practicing law after their withdrawal, even if the restriction is limited in scope.
- Require partners who leave the firm and engage in a competing practice of law to forfeit financial benefits that are otherwise payable to partners who withdraw from the firm and do not compete. The prohibition against attorney non-compete provisions is often interpreted to also prohibit agreements that impose financial penalties on competition (see Financial Disincentives).

For more information on ethical obligations of an attorney leaving a law firm to join another firm, see Ethical Issues when Switching Law Firms Checklist.

For general information on employee non-compete agreements, see Practice Note, Non-Compete Agreements with Employees and Standard Document, Employee Non-Compete Agreement.

State Adoption of ABA Model Rule 5.6

All 50 states have adopted some version of ABA Model Rule 5.6. Several state courts and bar associations have issued opinions affirming the application of this rule. For example, state courts affirming that non-compete agreements are inconsistent with an attorney's professional practice, violate public policy, and are unenforceable include (see also Financial Disincentives):

- **Indiana.** The Indiana Supreme Court approved the disciplinary statement concerning the law firm's non-compete provision. The provision prohibited an associate from practicing Social Security disability law for two years after termination of employment, violating Indiana RPC Rule 5.6. (*In re Hanley*, 19 N.E.3d 756 (Ind. 2014).)
- **Kansas.** The Kansas Court of Appeals held that an agreement restricting a wife from employing a particular attorney to represent the wife in any action against the husband was void and unenforceable as against public policy. The agreement indirectly restricted the attorney's right to practice law and the party's freedom to choose an attorney. (*Jarvis v. Jarvis*, 758 P.2d 244 (Kan. Ct. App. 1988).)
- **New York.** The New York State Court of Appeals invalidated a law firm partnership agreement that conditioned payment of earned but uncollected partnership revenues on the withdrawing partner's obligation to refrain from competing with the former firm. The agreement restricted the practice of law and therefore was unenforceable as against public policy. (*Cohen v. Lord, Day & Lord*, 550 N.E.2d 410 (N.Y. 1989).)

State bar associations issuing ethics opinions on the unenforceability of non-compete provisions in attorney agreements include:

- **Florida.**Florida Bar Ethics Opinion 93-4 (February 17, 1995) found that a law firm-associate employment agreement violated Florida RPC prohibiting agreements that restrict an attorney's right to practice after termination of the relationship. The agreement created a substantial financial disincentive that precludes the departing associate from accepting representation of firm clients and impermissibly restricts the right of association among attorneys.
- **Nebraska.** Nebraska Ethics Advisory Opinion for Lawyers No. 06-09 (1997) concluded that it is not ethical for a law firm to include a provision in an attorney's employment or other agreement which provides for liquidated damages if the attorney leaves the firm and then competes with the law firm.
- **Pennsylvania.** Pennsylvania Bar Association Legal Ethics Committee Opinion 86-17 concluded that an employment contract requiring a departing attorney to pay to the former firm 20% of the fees generated from previous clients of the firm was a restriction on the attorney's right to practice law after the termination of the relationship. The fees imposed a barrier to the creation of an attorney-client relationship which was inconsistent with the concept of the practice of law as a profession and which at least indirectly interfered with the client's choice of counsel.

For more information on state non-compete laws generally, see Non-Compete Laws: State Q&A Tool.

Retirement Benefits Exception

A limited exception to ABA Model Rule 5.6 for an "agreement concerning benefits upon retirement" allows attorneys to agree to restrictive covenants in exchange for the payment of retirement benefits. If the restrictive covenants apply only to the receipt of retirement benefits, law firms and employers can generally dictate the nature and scope of the restrictions on practice and the penalties for noncompliance. For example, the receipt of retirement benefits may be conditioned on the recipient attorney:

- Ceasing to practice law permanently.
- Limiting their practice of law for a certain period of time, geographically, or to certain types of practice.

To be an agreement concerning retirement benefits within the meaning of ABA Model Rule 5.6, the ABA Standing Committee on Ethics and Professional Responsibility states that the covenants:

- Must affect benefits that are:
  - available only to an attorney intending to retire from the practice of law and terminating or winding down their legal career; and
  - payable only on the satisfaction of minimum age and years-of-service requirements that are consistent with the concept of retirement.
- Cannot impose a forfeiture of income already earned by the attorney.

(ABA Formal Op. 06-444.)

ABA Formal Opinion 06-444 lists other factors that support a finding that an agreement involves legitimate retirement benefits, such as:

- The presence of benefit calculation formulas.
- Benefits that increase as the years of service to a firm increase.
- Benefits that are payable during the lifetime of a retired partner.
- The existence of an interrelationship between the benefits and payments from other retirement funds, such as Social Security and defined contribution retirement plans (for example, the payments from the firm decrease as other sources of retirement income phase in).
- The existence of separate provisions in the agreement for withdrawal from the firm and for retirement.
- The establishment of an extended period of time for paying out retirement benefits beyond that required for payments due on withdrawal.

State Application of the Exception

State courts and bar associations have debated the meaning and scope of the words **benefits** and **retirement**. Those that have interpreted the retirement benefits exception have, like the ABA, generally concluded that the exception extends only to:

- The kind of retirement that occurs at the end of a career, not just a withdrawal from a particular position within an occupation, such as simply withdrawing from a firm. However, the exception does not require the absolute cessation of practice.
- Benefits representing a future distribution of law firm profits that are collateral amounts post-dating the partner's tenure, not income the partner has already earned, in which the partner has a vested interest.

State courts have interpreted the retirement benefits exception in, for example:

- **Connecticut.** The Connecticut Supreme Court held that:
  - the firm's non-compete provision in the partnership agreement, requiring partners to forfeit certain benefits if they retired before age 70 and competed with the firm within three years, was enforceable;
  - the payment from future income to partners leaving after 20 years, reaching the age of 60, or having become incapable of the practice of law, qualified as retirement benefits under Connecticut RPC Rule 5.6; and
  - the complete cessation of the practice of law was not required as a condition of retirement under the retirement benefits exception of Rule 5.6.

  (*Schoonmaker v. Cummings & Lockwood of Conn.*, 747 A.2d 1017 (Conn. 2000).)
- **Iowa.** The Iowa Supreme Court held that:
  - to qualify for the retirement benefits exception under Iowa Rules of Professional Conduct DR 2-108 (now Iowa RPC Rule 5.6), the retirement benefits under the agreement must be payments under a bona fide retirement plan;
  - a law firm's retirement plan, which conditioned benefits on either ten years of service and reaching the age of 60 or 25 years of service, qualified as a retirement plan under DR 2-108A; and
  - benefits under the plan may be conditioned on an attorney remaining out of the private practice of law in the state under the DR 2-108A exception for retirement benefits.

  (*Donnelly v. Brown, Winick, Graves, Gross, Baskerville, Schoenebaum, & Walker*, P.L.C., 599 N.W.2d 677 (Iowa 1999).)
- **Kansas.** The Kansas Supreme Court:
  - upheld a restriction on the right of an expelled partner to receive a retirement payment based on the partner's obligation not to practice law; and
  - found the payment qualified as a retirement benefit. The retirement payment was an amount equal to the partner's share of profits for either the first or second year preceding expulsion, whichever is greater. The partnership agreement generally made the payment available to those partners who withdrew for the purpose of retiring from the practice of law or were

expelled for other than acts of moral turpitude and also satisfied either age or longevity requirements or were deemed permanently disabled.

(*Miller v. Foulston, Siefkin, Powers & Eberhardt*, 790 P.2d 404 (Kan. 1990).)

- **New Jersey.** The New Jersey Supreme Court found:
  - to qualify for the retirement benefit exception the agreement must contain sufficient indicia of a bona fide retirement arrangement and not offend the public policies underlying New Jersey RPC Rule 5.6; and
  - the retirement agreement does not have to qualify as a retirement plan under Internal Revenue Service rules. Merely including all of the normal indicia expected to be in a legitimate retirement plan, such as minimum age requirements, a benefit calculation formula, and a defined term for payouts, is sufficient.

  (*Borteck v. Riker, Danzig, Scherer, Hyland & Perretti LLP*, 844 A.2d 521 (N.J. 2004).)
- **New York.** The New York Supreme Court, Appellate Division, found that a partnership agreement:
  - did not constitute a retirement benefit because the withheld funds constituted an earned but uncollected sum owed to the partner during their tenure with the firm; and
  - conditioning the payment on the withdrawing partner's refraining from practicing law in competition with the former law firm was an unenforceable restraint on the practice of law in violation of New York RPC Rule 5.6.

  (*McDonough v. Bower & Gardner*, 226 A.D.2d 600 (N.Y. 1996).) New York draws a distinction between previously earned compensation and a future, anticipated distribution in contemplation of retirement.

State bar associations have also interpreted the retirement benefits exception in, for example:

- **Indiana.** Indiana State Bar Association Legal Ethics Committee, Opinion 3 of 1994 concluded that a partnership agreement requiring a withdrawing partner to forfeit 25% of the buyout figure for the partner's interest in the firm if the partner continued to practice in the county where the firm was located, may violate Indiana RPC Rule 5.6 depending on the basis of the buyout figure. If the buyout figure is:
  - classified as a retirement benefit or based on a percentage of the future income of the firm, then the provision **does not violate** Rule 5.6; or
  - derived from deferred income or interest from deferred income, then the provision **does violate** Rule 5.6.
- **South Carolina.** South Carolina Bar Ethics Advisory Opinion 91-20 (1991) opined that a partnership agreement should not violate South Carolina RPC Rule 5.6(a) if:
  - withdrawal benefits are clearly specified;
  - qualifications for retirement are specified and are similar to those found in other business settings;
  - retirement benefits are in addition to withdrawal benefits; and
  - expelled partners retiring from practice are entitled to retirement benefits.
- **Wisconsin.** Wisconsin Memorandum Ethics Opinion EM-14-01: Retirement Benefits and Restrictions on the Right to Practice (July 23, 2014) found that a shareholder agreement was permitted to condition payments on the attorney's refraining from competing with the firm because the payments were bona fide retirement benefits under Wisconsin RPC Rule 5.6. The conclusion was based on the payments being made:
  - to a receiving attorney reaching a minimum age of 55;
  - based on the length of full-time employment with the firm;
  - from future revenues of the firm, as opposed to income generated during the course of employment; and
  - for a period of nine years which, while not a lifetime payout, was of sufficient length to be a retirement benefit.

Sale of Practice Exception

Certain states, including Alaska, Arkansas, Hawaii, Idaho, New York, and Maine, permit attorney non-compete agreements related to the sale of a practice (see American Bar Association Center for Professional Responsibility Policy Implementation Committee, Variations of the ABA Model Rules of Professional Conduct Rule 5.6: Restrictions On Right To Practice (September 29, 2017)). In these states, reasonable restrictions on the practice of law are permitted under the broad terms of the state professional conduct rules. For example:

- Maine Board of Overseers of the Bar, Advisory Note on Rule 5.6 (August 2015) clarifies that:
  - restrictions on the practice of law are not prohibited when used related to the sale of a practice under Maine RPC Rule 1.17; and

  - agreements for the sale of a practice may require the use of non-compete covenants to protect the buyer's interest, which may not be broader than needed to protect the buyer's legitimate interest.
- Under New York RPC:
  - New York RPC Rule 5.6(b) specifically states that Rule 5.6 does not prohibit restrictions that may be included in the terms of the sale of a law practice under New York RPC Rule 1.17; and
  - Rule 1.17 allows the seller and the buyer to agree on reasonable restriction on the seller's private practice of law.

Application of the Ban on Non-Competes to In-House Counsel

The ABA has stated that ABA Model Rule 5.6:

- Applies to in-house counsel in much the same way as it does to attorneys in the law firm setting (see ABA Informal Op. 1301 (March 25, 1975)).
- Prohibits an employment agreement that bars corporate counsel from representing anyone against the corporation in the future. That restriction impermissibly:
  - restrains an attorney from engaging in their profession; and
  - restricts the public from access to attorneys who, by virtue of their background and experience, may be the best available attorneys to represent them.

(See ABA Formal Op. 94-381 (May 9, 1994).)

ABA Model Rule 1.9 already prohibits attorneys from undertaking certain representations adverse to former clients and sufficiently addresses any concerns about the company's confidentiality interests. Any further restriction becomes an overbroad and impermissible restriction on the attorney's right to practice and the public's free choice of counsel (see ABA Formal Op. 94-381 (May 9, 1994)).

State Application to In-House Counsel

Despite the guidance in ABA Formal Op. 94-381, there is limited authority on the extent to which restrictive covenants are enforceable against in-house attorneys. Several state courts and bar associations have weighed in on this issue with different interpretations:

- New York and Colorado state courts have considered the enforceability of a non-compete provision with an in-house attorney, reaching opposite results.
- Several state and local bar associations, including Connecticut, Minnesota, Nevada, New Hampshire, New Jersey, Ohio, Pennsylvania, South Carolina, Virginia, Washington, and District of Columbia, have also examined the issue with varying results. For example, the state and local bar associations of:
  - Minnesota, New Jersey, Ohio, Philadelphia, South Carolina, Virginia, and District of Columbia concluded that the prohibition on non-competes applies to in-house counsel;
  - Nevada found that even a restrictive covenant relating to in-house counsel's non-legal services violates Nevada RPC Rule 5.6, unless those services are clearly distinguishable from legal services; and
  - Connecticut, Ohio, and Washington concluded that an attorney may enter into a non-compete agreement that has a savings clause stating the provision is to be interpreted to comply with applicable RPC or expressly citing ABA Model Rule 5.6 (or the state corollary).

Colorado

The Denver District Court in an unpublished, non-precedential decision, *DISH Network Corp. v. Shebar*:

- Found the non-compete agreement between the company and its in-house attorney to be enforceable within Colorado's policy of enforcing those agreements with executive and management personnel where their purpose is the protection of trade secrets.
- Held that the Colorado RPC, in particular Colorado RPC Rule 5.6, govern the actions of attorneys but not those of non-attorneys.
- Granted a preliminary injunction against a former in-house attorney who, despite signing a non-compete agreement, left DISH Network to work for its competitor. The court reasoned that the Colorado PRC:
  - define ethical attorney conduct for the purposes of professional discipline, not as a basis for civil litigation; and
  - serve to protect clients from an attorney's unethical conduct and cannot be used as a basis to preclude a client from enforcing an otherwise binding agreement against an attorney.
- Reasoned that because Rule 5.6 only applied to agreements between attorneys:
  - Rule 5.6 did not apply because the employer was a non-attorney. DISH Network functioned as a business entity and not as a legal entity, such as a private law firm;

  - DISH Network was not subject to Colorado RPC, and
  - the non-compete agreement between DISH Network and the in-house attorney was valid.
- Held that it was an ethical violation for the in-house attorney (but not the employer) to participate in those agreements and accept the non-compete provisions to receive stock options, while believing that they may be unenforceable.

(No. 2017-CV-31079 (Dist. Ct. Colo. May 9, 2017).)

New York

The New York District Court in *Ipsos-Insight, LLC v. Gessel*:

- Held that a non-compete agreement between a company and an in-house attorney was per se unenforceable under New York law, reaching a conclusion that is the opposite of the result in *DISH Network*.
- Based its decision on two decisions issued by the state's highest court:
  - *Cohen v. Lord, Day & Lord*, 550 N.E.2d 410 (N.Y. 1989) (for a case summary, see State Adoption of ABA Model Rule 5.6); and
  - *Denburg v. Parker Chapin Flattau & Klimpl*, the New York Court of Appeals held that a law firm agreement that imposed a financial obligation on withdrawing partners continuing to practice law in the private sector was unenforceable because the clause deterred competition and infringed on clients' choice of counsel (624 N.E.2d 995 (N.Y. 1993)).

  The *Ipsos-Insight* court found that both cases stand for the proposition that any restriction on an attorney's right to practice law is a violation of New York RPC Rule 5.6, whether it be in the law firm or corporate setting.
- Stated that without these cases imposing a per se rule of unenforceability to the legal profession, the court applies a reasonableness inquiry to determine whether a non-compete clause:
  - violates New York's strong public policy encouraging client choice and attorney mobility; and
  - causes harm to the general public or an unreasonable burden on the employee.
- Found it was concerning that the attorney can "evade an agreement into which he entered voluntarily on the ground that, in doing so, he violated his own ethical obligations."

(2021 WL 2784634 (S.D.N.Y. July 2, 2021).)

New Jersey

New Jersey Advisory Committee on Professional Ethics, Opinion 708, Restrictive Covenants For In-House Counsel (July 3, 2006), is often cited in ethics opinions addressing the enforceability of non-compete agreements with in-house counsel. Opinion 708 opined that:

- An employment agreement requiring in-house attorneys to not provide services to a competitor for one year after leaving the company was unethical and unenforceable.
- Non-compete clauses that restrict an attorney's right to perform legal services violate New Jersey RPC Rule 5.6, regardless of whether they are in the law firm or corporate setting.
- The New Jersey Supreme Court has clarified that direct and indirect restrictions on the practice of law violate both the language and the spirt of Rule 5.6.
- The rules of professional conduct govern the practice of law based on ethical standards, not commercial desires. The commercial concerns of the firm and the departing attorney are secondary to the need to preserve client choice.

Non-Compete Agreements Only Restricting Non-Legal Services

ABA Model Rule 5.6 only prohibits attorneys from participating in offering or making agreements that restrict the right of an attorney to practice law. While it may seem clear that an attorney can sign a non-compete agreement as long it does not affect an attorney's right to practice law, this analysis can become hazier when it comes to corporate non-compete agreements with in-house counsel.

In-house counsel often perform non-legal functions, so their day-to-day work may not be limited to legal issues. They may:

- Have non-legal, administrative duties, such as the supervision of staff, as part of their in-house role.
- Serve business functions (such as in human resources, compliance, or finance) in addition to legal ones.
- Play a purely managerial role (for example, the chief executive officer).

Non-compete agreements in an in-house setting may not intend to restrict the attorney's ability to practice law, but rather, the attorney's ability to engage in other business roles.

For general information on ethical considerations for in-house counsel, see Practice Note, Ethical Issues for In-House Counsel.

State Application to Non-Legal Services

State bar associations have reached varying conclusions regarding whether restrictions on non-legal services are enforceable, such as in:

- **Connecticut.** Connecticut Bar Association Committee on Professional Ethics (CBA Committee), Informal Opinion No. 02-05 (February 26, 2002) (2002 WL 570602):
  - concluded that Connecticut RPC Rule 5.6, while prohibiting restrictions affecting an individual's future practice of law, does not limit otherwise permissible restrictions on other activities; and
  - noted that the proposed covenant in question included a savings clause. The clause expressly limited the non-compete provision's effects only to the extent permissible under Rule 5.6(1), effectively limiting the agreement's restrictions as applicable only to matters beyond the practice of law.
- **Nevada.** State Bar of Nevada Standing Committee on Ethics and Professional Responsibility, Formal Opinion No. 56 (December 10, 2019), found that Nevada RPC Rule 5.6 applies to in-house counsel, stating:
  - all attorneys admitted to practice in Nevada are subject to Nevada RPC (see Nevada RPC Rule 8.5);
  - Rule 5.6 contains no language limiting its application to agreements among attorneys in law firm settings; and
  - Rule 5.6 is not implicated if a company prohibits in-house attorneys from accepting a non-legal position with a competitor.
- **Ohio.** Ohio Board of Professional Conduct, Advisory Opinion No. 2020-01 (February 7, 2020), held that:
  - Ohio RPC Rule 5.6(a) applies to attorneys engaged in the private practice of law and in-house counsel roles alike; and
  - Rule 5.6(a) solely applies to the practice of law. While in-house counsel may not enter into non-compete agreements that restrict their future legal practice, they may enter into non-compete agreements that restrict matters other than the practice of law, such as providing business advice.
- **Pennsylvania.** In contrast, Philadelphia Bar Association, Ethics Opinion 2003-9 (September 2003), took a stricter view of the use of non-competes for in-house counsel. It opined that:
  - non-compete agreements are invalid where their restrictions on non-legal duties may still prevent an attorney from performing a job in a role that includes legal and non-legal duties, as commonly required of in-house counsel; and
  - because much of what the non-compete agreement designates as non-legal services are indistinguishable from legal services, the restriction on the attorney in a non-legal capacity is not permissible under the Pennsylvania RPC.
- **Washington.** Washington State Bar Association, Informal Op. No. 2100 (2005) opined that:
  - a non-compete provision that deals specifically with an attorney's post-employment activities that are not related to the practice of law does not violate Washington RPC Rule 5.6;
  - Rule 5.6 only prohibits agreements that restrict an attorney's right to practice after the termination of the relationship; and
  - the non-compete provision explicitly states that as it relates to the practice of law, it is to be interpreted consistent with the Washington RPC, including Rule 5.6, and the employee is free to provide post-employment legal representation consistent with the Washington RPC.

  Similarly in an earlier opinion, Informal Op. No. 1193 (2001), the Washington State Bar Association found a non-compete clause between an attorney who is also a certified public accountant (CPA) and a CPA firm violates Rule 5.6, unless it included language that the restrictive provisions in no way limit the employee's right to practice law.

Advance Notice Agreements

Advance notice agreements require an attorney to provide their law firm with a certain amount of notice when they decide to depart for another firm. The ABA Standing Committee on Ethics and Professional Responsibility, Formal Opinion 489, Obligations Related to Notice When Lawyers Change Firms (Dec. 4, 2019), addressed the permissibility of these agreements. Formal Opinion 489:

- Allows that a notification period may be required, but states that the requirement cannot:
  - be fixed or rigidly applied without regard to client direction;
  - be used to coerce or punish an attorney for electing to leave the firm; or

  - serve to unreasonably delay the diligent representation of a client. Attorneys must be diligent and expeditious in their representation of clients (see ABA Model Rules 1.3 and 3.2).

- Notes that if the notification period affects a client's choice of counsel or serves as a financial disincentive to a competitive departure, it may violate ABA Model Rule 5.6.

Financial Disincentives

Several state courts have found that any financial disincentives to a transition are unenforceable. Applying this logic, any advance notice agreement that implicates a severe financial burden on an attorney is unenforceable as well. Courts that have taken this position include:

- **New York.** See *Cohen v. Lord, Day & Lord*, 550 N.E.2d 410 (N.Y. 1989) (for a case summary, see State Adoption of ABA Model Rule 5.6).
- **Ohio.** The Ohio Court of Common Pleas, Hamilton County, found that the provision in the employment agreement requiring the defendant attorney to pay to the plaintiff attorney 95% of the attorney fees earned from contingent-fee personal injury cases was unenforceable because it violated Ohio public policy (*Hackett v. Moore*, 160 Ohio Misc.2d 107 (2010)).
- **Oregon.** The Oregon Court of Appeals found that a provision of the partnership agreement precluding the withdrawing partner from collecting certain partnership benefits if the partner were to resume the active practice of law within designated counties violated the disciplinary rule prohibiting the restriction of the right of an attorney to practice law after termination of a partnership relationship. This rendered the provision unenforceable. (*Gray v. Martin*, 663 P.2d 1285 (Or. Ct. App. 1983).)
- **District of Columbia.** The District of Columbia Court of Appeals held that the imposition of a substantial financial penalty for representing clients previously represented by the firm constitutes a partial restriction on the practice of law and is invalid under District of Columbia RPC Rule 5.6(a) (*Jacobson Holman, PLLC v. Gentner*, 244 A.3d 690 (D.C. 2021)).

However, not all states have deemed all financial penalties to violate ABA Model Rule 5.6 (or the state corollary), such as:

- **Arizona.** The Arizona Supreme Court:
  - held that a shareholder agreement requiring the former partner to relinquish the partner's stock for no compensation should the partner compete with the firm was not an unlawful restriction on the partner's right to practice law;
  - required evaluation under the reasonableness standard like any other non-compete covenant; and
  - declined to read Arizona RPC Rule 5.6 expansively, stating that its language should not be stretched to condemn categorically all agreements imposing any disincentive on attorneys from leaving law firm employment.

  (*Fearnow v. Ridenour, Swenson, Cleere & Evans, P.C.*, 213 Ariz. 24 (2006).)
- **California.** The California Supreme Court held that:
  - a partnership agreement requiring partners to forgo certain benefits to compensate the firm for losses that may be caused by the withdrawing partner's competition with the firm is permitted; and
  - although an absolute ban on competition with the partnership is per se unreasonable and inconsistent with the legitimate concerns of assuring client choice of counsel and assuring attorneys of the right to practice their profession, to the extent the agreement merely assesses a toll on competition within a specified geographical area, comparable to a liquidated damages clause, it may be reasonable.

  (*Howard v. Babcock*, 863 P.2d 150 (Cal. 1993).)
- **Michigan.** The Michigan Court of Appeals:
  - upheld a non-compete provision that merely attached financial consequences on the attorney's departure in the form of requiring the attorney to pay costs and a percentage of fees generated;
  - found that the financial disincentive was not so over-reaching that they amount to an actual restriction on the attorney's right to practice law; and
  - noted that Michigan RPC Rule 5.6 prohibits only an agreement that restricts the right of an attorney to practice law after termination of employment with a firm.

  (*McCroskey, Feldman, Cochrane & Brock, PC v. Waters*, 494 N.W.2d 826 (Mich. Ct. App. 1992).)

Non-Solicitation Clauses

Non-Solicitation of Clients

Client non-solicitation clauses prohibit former employees from soliciting customers or clients of the company or firm. Client non-solicitation clauses generally fall within ABA Model Rule 5.6's ban on non-compete agreements for attorneys.

State courts and bar associations have generally found these clauses to be restrictions on the attorney's right to practice law and on the public's right to employ counsel of their choosing, such as in:

- **Illinois.** The Illinois Supreme Court held that an agreement in which an attorney was prohibited for two years following separation from soliciting any of the law firm's clients without prior written consent of the firm violated Illinois RPC Rule 5.6 and was unenforceable (*Dowd & Dowd, Ltd. v. Gleason*, 693 N.E.2d 358 (Ill. 1998)).

  Illinois State Bar Association (ISBA) Advisory Opinion on Professional Conduct No. 91-12 (November 22, 1991, affirmed May 2010), stated that an attorney's agreement with the attorney's former employer barring the attorney from soliciting the firm's clients violated Rule 5.6(a) and was void as contrary to public policy to the extent that the agreement deprived clients of the right to be represented by counsel of their choice.

- **Pennsylvania.** Philadelphia Bar Association, Ethics Opinion 2003-9 (September 2003):
  - concluded that the clause in the agreement that prohibits the solicitation of customers is largely impermissible under Pennsylvania RPC Rule 5.6.
  - found that the non-solicitation of customers clause, which provides that the attorney cannot communicate with, do business with, or engage or purchase services or products from customers of the corporation with whom the attorney dealt during the attorney's tenure at the corporation, restricts the attorney's right to practice; and
  - noted that customers of the attorney's prior employer can become customers of the attorney's new employer due to no actions of that attorney. Rule 5.6 prohibits any restrictions on the attorney's ability to do the attorney's job related to those customers.

- **Rhode Island.** Rhode Island Supreme Court Ethics Advisory Panel, Opinion No. 2003-07 Request No. 862 (November 18, 2003) found that a provision in a post-employment severance agreement that restricts the associate from soliciting the law firm's clients violates Rhode Island RPC Rule 5.6.

However, at least one court has found that non-solicitation agreements may be permissible. The New York Supreme Court, Appellate Division:

- Reinforced the well-established rule in New York against attorney non-compete agreements, holding that the non-compete provision at issue was void and unenforceable.
- Refused to dismiss the law firm's claims for violation of the non-solicitation agreement, finding that the former associate failed to establish that the non-solicitation clause was unenforceable as an undue restriction on the associate's ability to practice law.

(*Feiner & Lavy, P.C. v Zohar*, 195 A.D.3d 411 (N.Y. App. Div. 2021).)

For general information on non-solicitation clauses, see Practice Note, Non-Solicitation and No-Poach Agreements and Standard Clause, Non-Solicitation Clause.

Non-Solicitation of Employees

An employee non-solicitation clause prohibits individuals from recruiting their former coworkers for a certain period of time after the termination of their employment. State courts and bar associations have diverged in determining whether employee non-solicitation clauses violate ABA Model Rule 5.6 (or the state corollary).

Several state courts and bar associations have found that employee non-solicitation clauses in agreements with attorneys are unenforceable, such as in:

- **New Jersey.** The New Jersey Supreme Court held that employee non-solicitation provisions violate New Jersey RPC Rule 5.6 and are unenforceable. The court:
  - invalidated the non-solicitation provision in a law firm agreement, stating that discouraging withdrawing partners from contacting the firm's professional and paraprofessional staff violated public policy;
  - found the non-solicitation provision unduly constricts the right to practice of those attorneys wishing to have accompanied a departing partner, but those attorneys were not informed of that partner's interest due to an agreement creating a disincentive against their being contacted; and
  - noted that the effect of the provision is all the more objectionable when the affected associate was not a party to the agreement establishing the restriction.

  (*Jacob v. Norris, McLaughlin & Marcus*, 128 N.J. 10 (1991).)

- **New York.** The Supreme Court of Monroe County found that provisions in a non-disclosure agreement which prevented law firms in merger talks from soliciting one another's attorneys violated New York RPC Rule 5.6 and were unenforceable (*Nixon Peabody LLP v. de Senilhes, Valsamdidis, Amsallem, Jonath, Flaicher Associes*, 20 Misc. 3d 1145(A) (Sup. Ct., Monroe Cnty. 2008)).

- **Pennsylvania.** Philadelphia Bar Association, Ethics Opinion 96-5 (May 1996) found that the provision in the

employment agreement that provides that an employee may not directly or indirectly solicit or retain current or former employees violates Pennsylvania RPC Rule 5.6 to the extent that it applies to attorneys employed by the firm. By restricting the right of association, this provision restricts the right of an attorney to practice.

Other state courts and bar associations have found that employee non-solicitation clauses do not implicate the same concerns as non-compete provisions and are not a restriction on the right to practice law, such as in:

- **North Carolina.** North Carolina State Bar, 2017 Formal Ethics Opinion No. 5 (October 27, 2017) analyzed the issue of whether two law firms can enter into a non-solicitation agreement regarding each other's employees as part of their merger talks. The North Carolina State Bar:
  - found that the non-solicitation provision did not violate North Carolina RPC Rule 5.6(a) because it imposes a de minimis restriction on the mobility of the attorneys in the firms, does not impair client choice, and is reasonable under the circumstances; and
  - emphasized other circumstances in which some restrictions on attorney mobility were deemed permissible, such as in the sale of a law practice, where certain geographical and other restrictions have been found to be valid, and financial disincentive provisions for departing partners, when they had a legitimate business purpose.
- **Rhode Island.** Rhode Island Supreme Court Ethics Advisory Panel, Opinion No. 2003-07 Request No. 862 (November 18, 2003), found that a provision in a post-employment severance agreement that restricts the associate from soliciting the law firm's employees is beyond the scope of Rhode Island RPC Rule 5.6 and is permissible. In contrast, the court found a client non-solicitation provision in the same agreement violates Rule 5.6 (see Non-Solicitation of Clients).

For general information on non-solicitation clauses, see Practice Note, Non-Solicitation and No-Poach Agreements and Standard Clause, Non-Solicitation Clause.

Confidentiality Agreements

ABA Model Rule 1.6 imposes a duty of confidentiality under which attorneys may not reveal information relating to the representation of a client. In 2012, the ABA added paragraph (c) to the rule, requiring attorneys to make reasonable efforts to prevent the inadvertent or unauthorized disclosure of or unauthorized access to information relating to the representation of a client (see Practice Note, Attorneys' Duties to Protect Client Data: Duty of Confidentiality). Most states have adopted a similar rule.

Even though ABA Model Rule 1.6 already imposes a duty of confidentially on attorneys, the ABA Model Rules do not prohibit an attorney from entering into and complying with a separate confidentiality agreement if the terms of the confidentiality agreement:

- Do not restrict the practice of law.
- Are not broader than the obligations imposed in ABA Model Rule 1.6.

State courts and bar associations have affirmed this application of ABA Model Rule 1.6 (or state corollary) to confidentiality agreements, such as in:

- **Connecticut.** Connecticut Bar Association Standing Committee on Professional Ethics Informal Opinion 19-02 (December 18, 2019) found that confidentiality agreements that merely restrict the disclosure of information by the clients' attorneys do nothing more than ratify confidentiality obligations attorneys already have to their respective clients and former clients under Connecticut RPC Rules 1.6 and 1.9. These agreements generally do not impermissibly restrict the attorney's right to practice under Connecticut RPC Rule 5.6(2) because they do not impinge on the attorney's freedom to represent other clients.
- **Nevada.** Nevada State Bar Standing Committee on Ethics and Professional Responsibility Formal Opinion No. 56 (December 10, 2019):
  - found that the confidentiality provision of an agreement between an in-house attorney and the company is too broad and violates Nevada RPC Rule 5.6;
  - noted that an attorney's duty of confidentiality is already broad under Nevada RPC Rule 1.6(a) and restricts the attorney from using confidential information of a former client to that client's disadvantage under Nevada RPC Rule 1.9;
  - concluded that the agreement, which requires the attorney to keep confidential all information resulting from any task assigned to the attorney, unduly expands the scope of Rules 1.6 and 1.9 and violates Rule 5.6 because it restricts the attorney from using their legal knowledge and skills to practice; and
  - suggests that attorneys can avoid ethical violations under Rule 5.6 by adding a savings clause to restrictive covenants that reference relevant

professional conduct rules and provide that restrictive covenants be interpreted consistent with these rules.

- **New York.** New York Committee on Professional Ethics Opinion 858 (March 17, 2011) found that a general counsel may ethically require staff attorneys to sign a confidentiality agreement to protect information not otherwise protected under the New York RPC, if the agreement makes plain that the confidentiality obligations do not:
  - restrict the attorney's right to practice after termination; and
  - expand the scope of the attorney's duty of confidentiality under the rules.

For general information on confidentiality agreements, see Confidentiality and Nondisclosure Agreements Toolkit.

Misappropriation of Trade Secrets

State and federal laws barring misappropriation of trade secrets apply equally to attorneys as they do to non-attorneys. For example, in *Sandberg v. STMicroelectronics, Inc.*, 600 S.W.3d 511 (Tex. App. 2020), *review denied* (June 11, 2021), the Court of Appeals of Texas upheld a trial court order permanently enjoining the appellant, a tax attorney, from using or disclosing the attorney's former employer's confidential information.

Other courts have also deemed permanent injunction to be an appropriate means of protecting confidential information held by an attorney. For example, in *American Motors Corp. v. Huffstutler*, the court enjoined a former employee-attorney from disclosing trade secrets, confidential information, or matters of attorney-client privilege or attorney-client work product of the former employer (575 N.E.2d 116 (Ohio 1991)).

Attorneys are not immune from claims grounded in state and federal laws protecting trade secrets, copyright, and other intellectual property or confidential and proprietary information. However, those claims must be adequately presented to survive a motion to dismiss. For example, in *Whiteslate, LLP v. Dahlin*, the in-house attorney faced state and federal claims of misappropriation of trade secrets after leaving the employer to take an in-house counsel role with one of the former employer's clients. The former employer failed to sufficiently plead that the in-house attorney had misappropriated any bona fide trade secrets, as required to prove violation of both the Defend Trade Secrets Act of 2016 (DTSA) and the California Uniform Trade Secrets Act (CUTSA). (2021 WL 2826088 (S.D. Cal. July 7, 2021) and see State Q&A, Trade Secret Laws: California, Question 2.)

For more information on protecting trade secrets, see:

- Practice Note, Protection of Employers' Trade Secrets and Confidential Information.
- Practice Note, Trade Secrets Litigation.
- Standard Document, Employee Confidentiality and Proprietary Rights Agreement.
- Trade Secrets and Confidential Information Best Practices at Hiring Checklist.
- Trade Secrets and Confidential Information at End of Employment Checklist.
- Trade Secret Laws, State Q&A Tool.

Inevitable Disclosure Doctrine

The doctrine of inevitable disclosure of trade secrets is used by employers to seek protection against the disclosure of trade secrets and proprietary information when a former employee goes to work for a competitor. While not all states recognize the inevitable disclosure doctrine, some employers have successfully invoked the doctrine in different courts. For example:

- In *PepsiCo, Inc. v. Redmond*, the US Court of Appeals for the Seventh Circuit:
  - affirmed an injunction prohibiting a senior executive from taking a similar position at a direct competitor. In that case, the plaintiff, PepsiCo, argued that because the senior executive possessed intimate knowledge of PepsiCo's pricing architecture, marketing plans, and other trade secret information relating to Pepsi's sports drink, All Sport, the use and disclosure of PepsiCo's trade secrets in the senior executive's new position at its competitor was not merely threatened but inevitable; and
  - noted the district court's finding that the senior executive's conduct in leaving PepsiCo suggested that the executive "could not be trusted to act with the necessary sensitivity and good faith" required to protect PepsiCo's trade secrets.

  (54 F.3d 1262 (7th Cir. 1995).)
- In *Vendavo, Inc. v. Long*, the Northern District of Illinois described a three-factor analysis used in light of PepsiCo to help determine when a trade secret disclosure may be inevitable, assessing:
  - the level of competition between the former employer and the new employer;
  - whether the employee's position with the new employer is comparable to the position the employee held with the former employer; and

  - the actions the new employer has taken to prevent the former employee from using or disclosing trade secrets of the former employer.

(397 F. Supp. 3d 1115 (N.D. Ill. 2019).)

Given that attorneys are not exempt from federal or state trade secret laws and absent any prohibition in ABA Model Rule 5.6, the inevitable disclosure doctrine appears to apply to attorneys in states that recognize the doctrine. However, there is limited authority on this issue, with only a South Carolina ethics opinion referencing the application of the doctrine to attorneys.

South Carolina Bar Ethics Advisory Opinion 00-11 (2000) opines that:

- While South Carolina RPC Rule 5.6 bars in-house counsel from entering into a non-compete agreement that prohibits them from working for a similar corporation for a period of years, there are various other legal mechanisms to protect a company from the disclosure and misappropriation of their trade secrets.
- One of those mechanisms protecting a company's trade secrets is the doctrine of inevitable disclosure.
- Under the law of trade secrets and consistent with the provisions of South Carolina RPC Rules 1.6, 1.7, and 1.9, in some circumstances, accepting employment with one employer may preclude certain other later employment. Rule 5.6 is not so broad that it changes that result.

Not all states recognize the inevitable disclosure doctrine. Some courts are reluctant to recognize inevitable disclosure claims because the claims may effectively prevent an employee from accepting a new job, even where the employee is not violating any contractual or other obligation. For example:

- California courts consistently reject the inevitable disclosure doctrine. The California Court of Appeal:
  - rejected the former employer's suggestion that it apply the inevitable disclosure doctrine, which permits a trade secret owner to prevent a former employee from working for a competitor, despite the owner's failure to prove the employee has taken or threatens to use trade secrets, by demonstrating that the employee's new job duties inevitably causes the employee to rely on knowledge of the former employer's trade secrets;
  - held that the inevitable disclosure doctrine is contrary to California law and policy because it creates an after-the-fact covenant not to compete that restricts employees' mobility (see also *Bayer Corp. v. Roche Molecular Sys., Inc.*, 72 F. Supp. 2d 1111, 1120 (N.D. Cal. 1999)); and
  - opined that at trial, an employer must produce evidence of an actual or threatened misappropriation to obtain an injunction against a former employee.

(*Whyte v. Schlage Lock Co.*, 101 Cal. App. 4th 1443 (2002).)

- The Georgia State Court found that that the inevitable disclosure doctrine is not an independent claim under which a trial court may enjoin an employee from working for an employer or disclosing trade secrets (*Holton v. Physician Oncology Servs.*, LP, 292 Ga. 864 (2013)).

For more information on the inevitable disclosure doctrine, see Practice Notes:

- Employment Litigation: DTSA Claims: Inevitable Disclosure Doctrine.
- Trade Secrets Litigation: Inevitable Disclosure of Trade Secrets.
- Non-Compete Agreements with Employees: Protection in the Absence of Non-Competes: Inevitable Disclosure.

For information on the jurisdictions that recognize inevitable disclosure, see Trade Secret Laws: State Q&A Tool: Question 17.

Practical Tips

Before signing any non-competition, non-solicitation, or confidentiality agreements, both in-house and law firm attorneys should consider not only whether the agreements are enforceable, but also whether they may be subjecting themselves to professional sanctions. The enforceability of restrictive covenants against attorneys is an evolving issue that depends on the specific language of the agreement and the jurisdiction in which enforcement is sought.

Both in-house and law firm attorneys should consider:

- For in-house counsel frequently assuming dual roles as both legal and business advisors, the decision in Colorado's *DISH Network* (for a case summary, see Colorado). The court found the non-compete agreement between the employer and the in-house attorney to be valid. While an outlier decision, Dish Network suggests that in-house counsel should not assume, without further analysis, that they are not subject to non-compete provisions.
- In addition, while certain restrictive covenants may not be enforceable against in-house counsel, they are still bound by ABA Model Rules 1.6 and 1.9 to preserve the former employer's confidentiality and not act adversely towards it.

- For law firm attorneys in partnership roles, even if employee non-solicitation clauses are deemed unenforceable, they must be mindful of their fiduciary obligations to the partnership to refrain from competing with the partnership in the conduct of its business before its dissolution.
- If requested to enter into restrictive covenant agreements, attorneys should raise the ethical concerns with their employer.

Companies considering whether to implement and enforce restrictive covenants against in-house counsel should be aware that:

- These agreements may be unenforceable.
- Requesting in-house counsel to sign these agreements may place in-house counsel in tenuous positions where counsel risks committing an ethical violation by signing the agreement.
- Non-compete agreements may be enforceable against in-house counsel for non-legal work, but the distinction between legal and non-legal work is often blurred.
- Any restrictive covenants should include a savings clause that explicitly references the relevant professional conduct rules and provides that the restrictive covenants be interpreted consistent with these rules.