July 3, 2006

Notice to the bar.

Supreme Court of New Jersey

Advisory Committee on Professional Ethics, Opinion 708

Restrictive Covenants For In-House Counsel

The inquirer asks whether an employer's request that its in-house counsel execute restrictive covenants as a term and condition of employment violates the *Rules of Professional Conduct*.[1] Specifically, the following provisions from a proposed agreement have been identified by the inquirer as potentially violative of the *Rules*:

> 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. …
>
> 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]. …
>
> 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

> (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]. …
>
> 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].

We begin by recognizing that long ago in *Solari Indus., Inc. v. Malady*, 55 *N.J.* 571, 585 (1970), New Jersey abandoned its prior view that such agreements are void *per se* and endorsed "the total or partial enforcement of noncompetitive agreements to the extent reasonable under the circumstances." Accord *Maw v. Advanced Clinical Communications, Inc.*, 179 *N.J.* 439, 447 (2004).

Notwithstanding the viability of restrictive covenants in commercial contexts, our Supreme Court also has made clear that direct and indirect restrictions of this nature on the practice of law violate both the language and the spirit of *RPC* 5.6. In *Jacob v. Norris, McLaughlin & Marcus*, 128 *N.J.* 10 (1992), our Supreme Court held:

> The *Rules of Professional Conduct* govern the practice of law based on ethical standards, not commercial desires. The commercial concerns of the firm and of the departing lawyer are secondary to the need to preserve client choice. The more lenient test used to determine the enforceability of a restrictive covenant in a commercial setting is not appropriate in the legal context.

Id. at 27 (citations omitted). Adopting a rationale first articulated in *Dwyer v. Jung*, 133 *N.J. Super.* 343, 347 (Ch. Div.), *aff'd* 137 *N.J. Super.* 135 (App. Div. 1975), the Supreme Court discussed at length the policy considerations underlying its holding and concluded:

> The history behind [*RPC* 5.6] and its precursors reveals that the *RPC*'s underlying purpose is to ensure the freedom of clients to select counsel of their choice, despite its wording in terms of the lawyer's right to practice. The *RPC* is thus designed to serve the public interest in maximum access to lawyers and to preclude commercial arrangements that interfere with that goal.

Id. at 18 (citing Geoffrey C. Hazard, Jr. & W. William Hodes, *The Law of Lawyering: A Handbook on the Model Rules of Professional Conduct*, p. 486 (1985)). Thus, the New Jersey Supreme Court declared in *Jacob*: "The case law is clear that *RPC* 5.6 and its precursor, *DR* 2-108(A), forbid outright prohibitions on the practice of law." *Id.* at 19.

New Jersey has adopted ABA Model Rules 1.9 and 5.6. Specifically, New Jersey *Rule of Professional Conduct* 5.6 closely tracks the ABA model rule:

> A lawyer shall not participate in offering or making:
>
> (a) a partnership or employment agreement that restricts the rights of a lawyer to practice after the 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 controversy between private parties.

RPC 5.6 (1984).

For its part, the ABA has consistently taken the position that the predecessors to these ethical rules generally prohibited the use of restrictive covenants between lawyers. ABA, Comm. on Prof. Ethics, Formal Op. No. 300 (Aug. 7, 1961); ABA, Comm. on Prof. Ethics, Informal Op. No. 1072 (Oct. 9, 1968). Similarly, the overwhelming majority of state bar associations and courts have decided that it is unethical for a lawyer to be party to an employment or partnership agreement which restricts the right of a lawyer to practice law after the termination of the relationship, except as a condition of the payment of retirement benefits. These states rely on ABA Model Rule 5.6 or DR 2-108(A) (or state versions of those model rules) and find that such non-compete agreements are unethical because they unduly limit the freedom of clients to choose their lawyer and improperly impinge upon the lawyer's professional autonomy.

In 1969, this Committee relied on the ABA's preliminary draft of DR 2-108(A), the predecessor to New Jersey's *RPC* 5.6, to hold a restrictive covenant in a law firm partnership agreement to be unenforceable. ACPE Opinion No. 147, 92 *N.J.L.J.* 177 (March 20, 1969). We concluded that the restrictive covenant at issue was "improper, unworthy of the legal profession, and unethical."

Turning to the precise issue posed by this inquiry, *i.e.*, the ethical impact upon "in-house" or corporate counsel who are asked to sign restrictive covenants purportedly designed to protect the employer's confidential business information and trade secrets, the ABA has rejected the use of such covenants for corporate counsel. ABA, Comm. Prof. Ethics, Informal Op. No. 1301 (Mar. 25, 1975). This opinion and its rationale were affirmed by the ABA in 1994. ABA, Comm. on Ethics and Prof. Responsibility, Formal Op. 94-381 (May 9, 1994).

Likewise, the several jurisdictions that have evaluated the ethical propriety of non-compete agreements for in-house counsel have all concluded that the fact that the lawyer worked in a corporate counsel position did not change or affect the analysis of the restrictive covenant.[2] Similarly, while accepting the applicability of attorney ethics to restrictive covenants for in-house counsel, ethics opinions from Connecticut and Washington have endorsed the use of "savings clauses," providing that the restrictive covenants were to be interpreted to comply with any applicable rules of professional conduct and expressly citing ABA Model Rule 5.6 or its state counterpart. Conn. Bar Ass'n, Comm. on Prof. Ethics, Information Op. No.02-05 (Feb. 26, 2002) (*available at* 2002 WL 570602); Wash. St. Bar Ass'n, Informal Op. No. 2100 (2005) (*available at* http://pro.wsba.org/io/).

Applicability of *RPC* 5.6 to Corporate Counsel. Against this backdrop, we first address the question of whether the New Jersey *Rules of Professional Conduct*

apply to corporate counsel in a situation such as this. Pursuant to *Rule* 1:14, the *Rules of Professional Conduct* "shall govern the conduct of members of the bar and judges and employees of all courts of this State." Therefore, the *Rules of Professional Conduct* would apply to any lawyer who is admitted to practice in New Jersey, regardless of whether the lawyer is working for a law firm or in-house. For in-house counsel who are based in New Jersey but not admitted to practice in this State, the New Jersey Supreme Court recently enacted *Rule* 1:27-2. This rule permits an in-house lawyer to hold a "limited license," which authorizes the lawyer to perform legal work solely for his or her designated employer in New Jersey and requires the lawyer to follow our *Rules of Professional Conduct*. *R.* 1:27-2. Therefore, it is our opinion that in-house or corporate counsel in New Jersey must abide by the *Rules of Professional Conduct*, regardless of whether they are members of the bar of our State.

The Employment Agreement. With respect to the employment agreement specifically cited to us by the inquirer, it contains four distinct provisions which require our analysis. We will review each one separately, because as the Supreme Court instructed in *Jacob*, *supra*, 128 *N.J.* at 154-55, even if certain restrictive covenants which are part of an agreement involving lawyers violate our *Rules of Professional Conduct*, the remainder of the contract may remain enforceable if the offending provision does not defeat the central purpose of the agreement and can be severed.

Post-Employment Restrictions. As mentioned above, the overwhelming majority of jurisdictions in the United States follow the ABA's approach and hold that restrictive covenants affecting lawyers, whether employed by corporations or private law firms, generally violate state ethical standards. Several jurisdictions have found that non-compete agreements designed to protect against the disclosure of a corporation's confidential information and trade secrets are superfluous, due to a lawyer's overriding obligation to maintain client confidentiality.

As for New Jersey, we last spoke on this issue in 1969 in Opinion 147, *supra*, 92 *N.J.L.J.* 177. Thirty-seven years later, the views expressed then retain their vitality and persuasiveness. The New Jersey Supreme Court has consistently taken the same position. Although our Supreme Court in *Maw* recently recognized the increasing importance of restrictive covenants in the commercial world, the Court subsequently reaffirmed the importance of the *Jacob* ban on restrictive covenants for the legal profession. *Community Hosp. Group, Inc. v. Moore*, 183 *N.J.* 36 (2005).

The fact that the restrictive covenant agreement in question arises in the corporate context, rather than within a law firm, is of no moment. The *Court Rules* make clear that in-house counsel in New Jersey, whether licensed by this State or not, are bound to follow our *Rules of Professional Conduct*, including *RPC* 5.6. And the result we reach is consistent with every other state and local committee that has looked at the applicability of this rule to in-house lawyers. Va. St. Bar Conn. Op. LEO#1650, *supra*; Ill. St. Bar Ass'n, Advisory Op. on Prof. Conduct, Op. No. 92-14, *supra*; Conn. Bar Ass'n Comm. on Prof. Ethics, Information Op. No. 02-05, *supra*; Wash. St. Bar Ass'n, Informal Op. No. 2100, *supra*; Phila. Bar Ass'n, Prof. Guidance Com., Guidance Op. No. 96-5, *supra*; Wash. D.C. Bar Ass'n, Op. 291, *supra*.

Thus, we are of the opinion that Section 8(a) of the employment agreement cited by the inquirer violates *RPC* 5.6.

Trade Secrets and Proprietary and Confidential Information. We assume, for purposes of discussion, that the trade secrets and confidential information which the agreement in question seeks to protect would be worthy of protection under New Jersey law.

Although general rules concerning confidential information, *RPC* 1.6, or attorney-client privilege, *N.J.S.A.* 2A:84A-20(d), are easy to state, they are often

difficult to apply to in-house counsel, because legal advice given in the corporate setting "is often intimately intertwined with and difficult to distinguish from business advice." *Leonen v. Johns-Manville*, 135 *F.R.D.* 94, 98 (D.N.J. 1990). Information relating to legal representation of a client, including a corporate client, is confidential pursuant to *RPC* 1.6. Similarly, because in-house lawyers are entitled to the same attorney-client privilege protections as their outside colleagues, *Tucker v. Fischbein*, 237 *F.*3d 275, 288 (3d Cir. 2001), communications made by and to in-house lawyers in connection with representatives of a corporation seeking and obtaining legal advice may be protected by attorney-client privilege, just as communications with outside counsel. *See Upjohn Co. v. United States*, 449 *U.S.* 383, 389-97 (1981). Thus, in the corporate context, client information relating to legal representation, and attorney-client communications, remain protected and confidential.

However, *RPC* 1.6 provides that an attorney's duty to retain confidentiality extends only to information "relating to [legal] representation of a client." Further, communications made by and to the in-house lawyer regarding business matters, management decisions or business advice are not protected by the attorney-client privilege. *E.g., Boca Investing Partnership v. United States*, 31 *F. Supp.*2d 9, 11 (D.D.C. 1998) (citing *United States v. Wilson*, 798 F.2d 509, 513 (1st Cir. 1986)); *United States Postal Svcs. v. Phelps Dodge Refining Corp.*, 852 *F. Supp.* 156, 160 (E.D.N.Y. 1994) ("the attorney-client privilege attaches only to legal, as opposed to business services"); *Barr Marine Products Co., Inc. v. Borg Warner Corp.*, 84 *F.R.D.* 631, 633 (E.D.Pa. 1979) ("The communication must be made by the client to the attorney acting as an attorney and not, *e.g.*, as a business advisor.") For example, our Supreme Court has held that the attorney-client privilege does not extend to lawyers performing non-legal functions, such as conducting workplace investigations. *Payton v. New Jersey Turnpike Auth.*, 148 *N.J.* 524, 550-53 (1997).

Not all duties of an in-house lawyer may involve the practice of law. It is conceivable that an in-house lawyer could obtain confidential information and/or trade secrets which would not be protected by *RPC* 1.6 or the attorney-client privilege. Therefore, it may be reasonable for a corporation to request its lawyers to sign a non-disclosure or confidentiality agreement, provided that it does not restrict in any way the lawyer's ability to practice law or seek to expand the confidential nature of information obtained by the in-house lawyer in the course of performing legal functions beyond the scope of the *RPC*s. [3] Because the terms of the agreement presented by the inquirer make no reference either to the latter's functions and duties as a lawyer or to the *RPC*s, the requirements of Section 3 of the agreement in question are impermissible.

Assignment of Inventions. In reviewing Section 4 of the agreement cited by the inquirer, which purports to assign all "Inventions" as defined therein to the sole ownership of the employer, it appears to the Committee that none of the aspects of this provision relate to legal advice or the practice of law. As such, there do not appear to be any ethical considerations implicated by this provision.

Non-Solicitation of Corporate Employees. Finally, Section 8(b) of the agreement prohibits the inquirer from attempting "to employ, induce or solicit other employees of [Employer] to work for me, any other person, firm, business or corporation" which is a competitor of the inquirer's employer. This issue was directly addressed by our Supreme Court in *Jacob,* which held that an anti-raiding provision such as this one violates our *Rules of Professional Conduct* both with respect to the hiring of other attorneys and also paraprofessionals. Because "[t]he practice of law also involves seeking the best services for one's clients," the Supreme Court concluded that such provisions violate *RPC* 5.6 by interfering directly with the practice of law as well as with a lawyer's ability to best serve his or her clients. *Id.* at 152-54. Our Supreme Court specifically cited to similar results reached in other

ethics opinions. ABA Informal Op. 1417 (1978); District of Columbia Bar Ass'n Op. 181 (1987) (*reprinted in* Nat'l Rep. on Legal Ethics n.10 (1988)). Accordingly, it is our opinion that Section 8(b) of the agreement in question violates *RPC* 5.6.

Footnotes:

1. Because the inquirer is employed as an attorney, we do not address the applicability of the Rules of Professional Conduct upon a restrictive covenant agreement offered to a business person who happens to hold a law degree.

2. Va. St. Bar, Comm. Op. LEO #1650 (Feb. 7, 1995) (available at http://www.vacle.org/opinions/1615.TXT); Phila. Bar Ass'n, Prof. Guidance Comm., Guidance Op. No. 96-5 (May 1996) (available at 1996 WL 337310); Wash. D.C. Bar Ass'n Op. 291 (June 15, 1999) (available at http://www.dcbar.org/for_lawyers/ethics/ legal_ethics/opinions); Maryland State Bar Ass'n, Committee on Ethics, Ethics Docket 91-34 (1991). Cf., Ill. St. Bar Ass'n, Advisory Op. on Prof. Conduct, Op. No. 92-14 (Jan. 22, 1993) (available at 1993 WL 836947).

3. Because the agreement in question contains no such language, we take no position at this time regarding the viability of a "savings clause" as part of restrictive covenants in employment agreements involving lawyers. See Conn. Bar Ass'n, Com. on Prof. Ethics, Informal Op. No. 02-05, supra; Wash. St. Bar Ass'n, Informal Op. No. 2100 (2005), supra.