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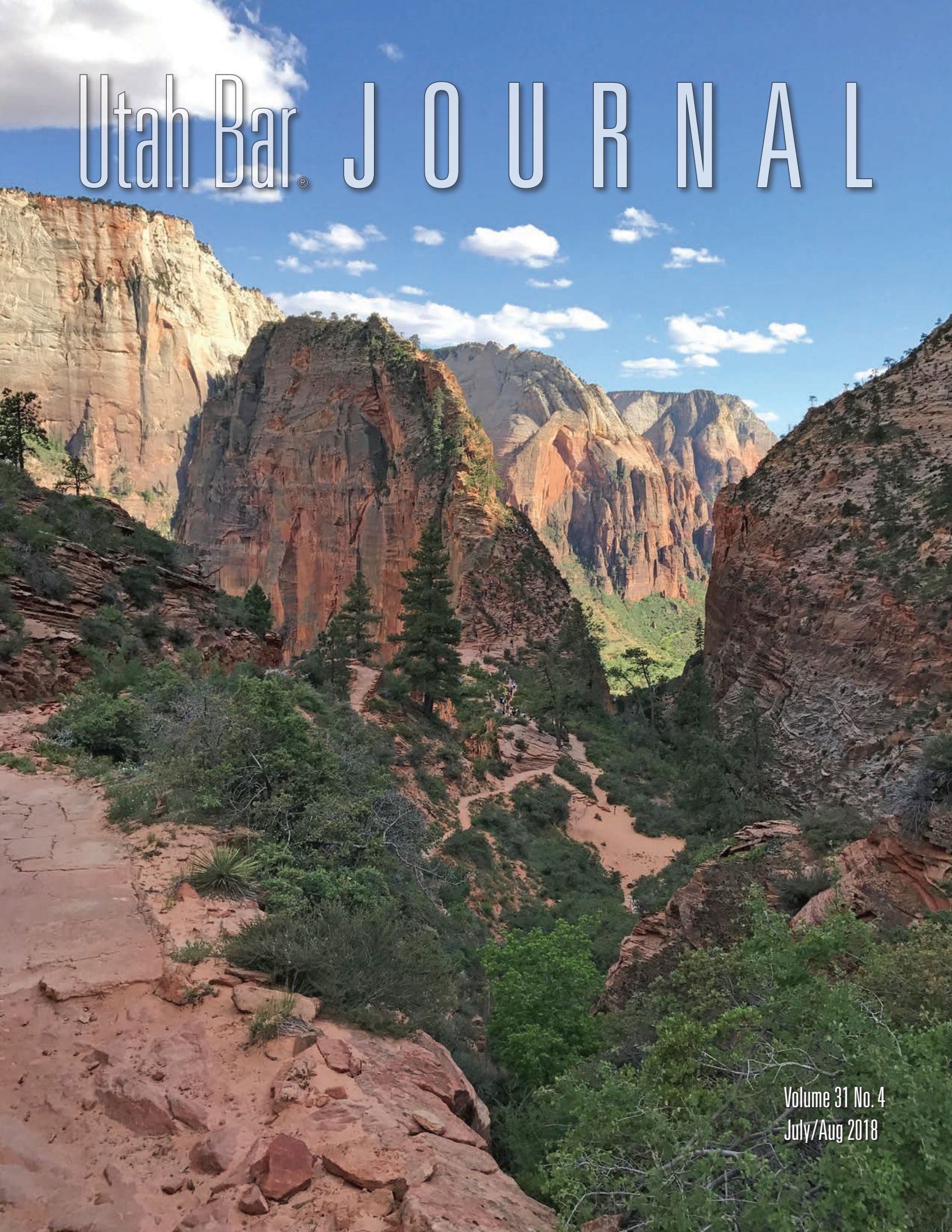

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Non-Compete Agreements for In-House Counsel

by Keith A. Call and Taylor P. Kordsiemon

Recent history demonstrates there are but three certainties in life: death, taxes, and an annual fight at the Utah State Legislature over non-compete agreements.

In each of the last few years, state legislators have introduced bills aimed at restricting the ability of employers to enforce non-compete agreements against their employees. Governor Herbert signed House Bill 251 into law in 2016, limiting the length of any non-compete period in an employment contract to one year. In 2017, a measure that would have required employers to pay extra consideration to enter a non-competition agreement with an employee was voted down. Finally, a law imposing a prohibition on non-compete agreements in the news media market passed earlier this year. Governor Herbert has vowed that any further attempts to legislate non-compete agreements during his administration "will be met with a veto." Dennis Romboy, *Utah Gov. Gary Herbert Reverses Previous Stance, Signs Bill Targeting Broadcasters*, Deseret News, Mar. 29, 2018, https://www.deseretnews.com/article/900014224/utah-gov-gary-herbert-reverses-previous-stance-signs-bill-targeting-broadcasters.html.

> *"Each time Utah has moved to restrict the use of non-competition agreements, it has faced intense opposition from segments of the business community."*

Even as Utah clamps down on non-compete agreements generally, there is mounting debate nationwide regarding the use of non-compete agreements for in-house attorneys.

Utah Rule of Professional Conduct 5.6 bars attorneys from entering agreements that would restrict the right to practice. The rule is generally understood as making any non-compete agreement between attorneys unenforceable. However, whether Rule 5.6 applies to in-house counsel seems less obvious.

To date, the American Bar Association (ABA) and seven state bar ethics committees have addressed the question. Two states allow non-competes for in-house counsel provided that they include a "savings clause," limiting the application of a non-compete to non-legal employment. In other words, the attorney is free to leave his or her current employer to represent competitors in a legal capacity but can be prohibited from non-legal jobs with a competitor. The ABA and each of the other five states have upheld the prohibition, opining that non-competition agreements between corporations and their in-house counsel are unenforceable. Kevin D. Horvitz, *An Unreasonable Ban on Reasonable Competition: The Legal Profession's Protectionist Stance Against Noncompete Agreements Binding In-House Counsel*, 65 Duke L.J. 1007, 1030–31 (2016); ABA Comm. on Ethics & Prof'l Responsibility, Formal Op. 94-381 (1994).

KEITH A. CALL is a shareholder at Snow Christensen & Martineau. His practice includes professional liability defense, IP and technology litigation, and general commercial litigation.

TAYLOR P. KORDSIEMON is a student at the University of Virginia School of Law and a law clerk at Snow, Christensen & Martineau.

The leading ethics opinion on this subject comes from New Jersey. Deciding to uphold the prohibition against in-house lawyer non-competes, the New Jersey Committee on Professional Ethics justified its decision by asserting that the purpose behind the rule is "to ensure the freedom of clients to select counsel of their choice." N.J. Comm. on Prof'l Ethics, Formal Op. 708 (2006). That a non-competition agreement arises in a corporate context, rather than a law firm, does not matter. *See id*. at 4. Corporations must be free to hire the counsel of their choice, the same as individuals. Ethical rules concerning conflicts of interest and retaining client confidences, combined with confidentiality agreements, are sufficient to protect corporate interests regarding trade secrets and proprietary information. *Id*.

While the ABA and the majority of states that have looked at the question agree that Rule 5.6 applies to in-house counsel, that application has been subjected to intense professional and academic criticism. Critics argue that the justifications underlying the ban on non-competes for attorneys generally do not apply to in-house counsel. The concern about clients being free to hire the counsel of their choice usually arises because it is undesirable for an attorney to be prohibited from working with a current client because the attorney chooses to leave his or her firm. The client would be forced to discontinue the relationship even though the client may have formed a close and trusting relationship with his or her attorney. However, in-house counsel, by definition, only serve one client, and so could not possibly continue to serve their existing clients if they chose to leave for another company. It is thus nonsensical (the argument continues) to protect existing corporate clients from losing their choice of representation via non-compete agreements. Horvitz, *supra* at 1033–34.

Critics of applying Rule 5.6 to in-house counsel also claim that the ethical rules requiring attorneys to avoid conflicts and maintain confidentiality are insufficient to protect corporate interests. In-house attorneys often act in a dual role, acting as counsel and also providing business advice. That is important because confidentiality rules only bind a lawyer for information the lawyer obtains relating to the legal representation of the client. Therefore, an in-house attorney who moves to a competing company may not be ethically bound to protect information obtained in the attorney's role as a business professional rather than legal representative. In that way, the in-house attorney is similar to any other type of corporate employee who has access to proprietary information. Critics argue that the justifications for enforcing non-competition agreements against any other employee are equally valid when applied to in-house counsel because the confidentiality rules do not capture the full range of in-house counsel responsibilities. *See id*. at 1041–44.

Each time Utah has moved to restrict the use of non-competition agreements, it has faced intense opposition from segments of the business community. As Utah continues to attract more business, and particularly as the tech sector grows in Silicon Slopes, the importance of clarifying Rule 5.6 and its application to in-house counsel will become more pressing. As of yet, there is no clear guidance from Utah authorities on the matter. While it would not be surprising to see more debate in the Utah Legislature, we doubt the legislative branch will address non-competes among lawyers any time soon. In-house lawyers will want to stay closely tuned to see how this area of the law continues to develop.

AUTHOR'S NOTE: *Every case is different. This article should not be construed to state enforceable legal standards or to provide guidance for any particular case. The views expressed in this article are solely those of the authors.*