POST-DEPARTURE RESTRICTIONS ON CORPORATE COUNSEL: WHERE'S THE FOUL LINE?

You've been employed for several years as a staff attorney in the legal department of a large company that has been the leader in the industry. You are ready to take on more responsibility, but internal opportunities do not come along very often. Recently you found out about an opening in the legal department of another company that competes with your current employer. Can you ethically make the move to a competitor?

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The answer is probably "yes"—unless you plan to take the crown jewels with you. But movement of an attorney from one corporate legal department to another, from a corporate legal department to a private firm, or from one private firm to another can raise ticklish ethical issues. Such moves pit the attorney's continuing duties of loyalty and confidentiality toward her former employer[1] against the attorney's right to engage in her profession and provide competent representation to her new client.[2] These issues most often arise in litigation against a former client, or, occasionally, in business matters involving interests that are materially adverse to that of the former client. They may also arise, as reflected above, where the knowledge and skills developed during the course of the prior representation are essential to representing the new client. Ethical guidance here is slim. But there are some lines one cannot transgress.

A STRICT-SOUNDING STANDARD

Of course, if representation of a new client impermissibly conflicts with a prior representation, the attorney's disqualification is required.[3] But there may be a problem even without a conflict requiring disqualification, if there is a possibility that information gained in the prior representation might be used in the new representation. (Of course, a lawyer may never disclose attorney-client privileged information in her new employment.)

Subsection 1.9(c) of the Model Rules of Professional Conduct governs this question of whether information gained in the prior representation can be used in the new representation. The rule provides that a lawyer who has formerly represented a client (or whose present or former firm has done so) 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
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> (2) reveal information relating to the representation except as these Rules would permit or require with respect to a client.[4] (emphasis added)

What does it mean to use the information "to the disadvantage of the former client"? Using information gained

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from a former client in a head-to-head negotiation against that former client would clearly be proscribed.[5] Using the information to aid a new client who competes directly against the former client—such as where the two are bidding against one another for an asset or contract—would likewise be prohibited.[6] But how does this standard apply where the former and current client are merely two competitors seeking larger shares of a large market? Does the answer to this question turn on whether the two clients dominate the market or are merely bit players? Here is where reality overshadows and defines theory. If one were to read the rule to prevent lawyers from moving between competitors, in-house lawyers would be forced to change specialties or possibly move abroad to change jobs. This, of course, is ridiculous.

A MORE PRACTICAL REALITY

To avert an impractical result, the courts have followed Rule 1.9(c)(1) in limiting the type of information that a lawyer is prohibited from using for a new client. Rule 1.9(c) does not prohibit using information obtained through a prior representation, even if to the disadvantage of the former client, where this information has become "generally known" (or where disclosure is otherwise authorized by the Rules).[7] Although the Model Rules do not define "generally known," the Restatement has defined the term as it is used in a similar provision governing client confidentiality and former clients.[8] According to this definition, whether information is "generally known" depends on the circumstances relevant to obtaining the information. Thus information contained in public records is "generally known" if accessible through publicly available indexes and similar means, but not otherwise. But the Restatement's definition is limited to situations where special knowledge or substantial difficulty are not involved:

> 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.[9]

The *Restatement* further provides that "information [that] is part of the general fund of information available to the lawyer" also does not constitute confidential information subject to the bar against subsequent use.[10] As explained in the *Restatement*, if "a lawyer [discovers] a particularly important precedent or devise[s] a novel legal approach that is useful both in the immediate matter and in other representations . . . [the lawyer] may use and disclose that information in other representations . . . . [and] may use such information . . . in a future, otherwise unrelated representation that is adverse to the former client."[11]

One result of the *Restatement* analysis is that innovative legal structures that solve difficult problems may be used in a subsequent representation as long as no confidential client information is disclosed in the process. But once we go beyond pure legal analysis, the question becomes more difficult. Few courts have addressed what constitutes "generally known information" for purposes of Model Rule 1.9(c). One court that adopted the *Restatement*'s definition construed the term to include information about a former client's fraud contained in magazine articles and in published, unsealed, and/or public filings.[12] Another court held that information on a list an attorney had compiled during his employment was *not* generally known information, even though the list compiled publicly available facts about corporate property. The court pointed out that it would require substantial difficulty or expense for an

interested person to compile a similar list.[13]

The meager jurisprudence dealing with the related question of disqualification under Rule 1.9 (a) or (b) sheds some light upon the information that may be used by the attorney in the subsequent, unrelated representation. In *The Hyman Companies, Inc. v. Brozost*,[14] for example, the court focused on the quality of the information received by the attorney in determining whether the attorney should be enjoined from working for a competitor in the retail jewelry business. While general-knowledge information pertaining to the industry, such as "marketing tricks" in selecting sites for retail stores and in setting up store layouts, would not preclude work with the competitor, *specific knowledge* pertaining to the former employer's operations, such as information on particular leases, would preclude the subsequent representation.[15] Applying *Brozost's* analysis to subsection (c), the use of general industry knowledge acquired during the prior representation would fall within the "generally known" category of information and would be permissible, while the use of information specific to the former client's business would be prohibited. The line is admittedly easier to articulate than to apply, although transactions at both ends of the spectrum become obvious.

OTHER RESTRICTIONS

In addition to limitations imposed by the ethical rules, restrictions more generally arising out of the employer-employee relationship may also prevent an attorney from using information obtained during the representation of one client in the representation of a subsequent client (including a competitor). For example, an attorney may be enjoined from using information in a subsequent representation where the information constitutes a "trade secret."[16] Like the term "generally known," however, the term "trade secret" does not include matters of public knowledge or general industry knowledge, and does not include what one court has described as "know-how"—i.e., "the experience, knowledge, memory, and skill gained during the employment."[17] Thus trade secret protection may not be available to preclude an attorney from using her knowledge of a former employer's methods of negotiation in a subsequent representation of another client.[18]

An express confidentiality agreement might also restrict an attorney's use of information, although such an agreement probably cannot expand materially the restrictions on the use of information. Its enforceability against an attorney will probably be limited to trade secrets and other confidential information.[19] Rule 5.6 of the Model Rules prohibits an attorney from participating in offering or making an employment or other agreement that restricts the right of the attorney to practice after termination of the relationship. According to the ABA, an agreement that broadly restricts an attorney's future use of information learned during the representation of a client constitutes an impermissible restriction on the attorney's right to practice within the meaning of Rule 5.6, since it "may materially limit his representation of the future client, and further, may adversely affect representation."[20]

HIGH STAKES

Don't minimize the stakes. If you join another corporation's legal department and then use information in violation of Rule 1.9 (or if you violate Rule 1.9 simply by taking the new job), then your new employment can cause major problems and professional embarrassment for both you and your new employer. The ethical prohibition that prevents you from taking actions adverse to your former employer/client can be imputed to the entire corporate counsel's office that you join. Under Rule 1.10(a), your personal disqualification is imputed to the "firm" that you subsequently join, and "firm" as defined in Rule 1.0(c) includes ". . . the legal department of a corporation or other organization." Thus, failing to heed this rule may result in your new employer's entire legal department being prevented from representing the company—a very unhappy result. Fortunately, most lawyers who are leaving a corporation on friendly terms can obtain an agreement from their current and soon-to-be former employer that allows them to join a competitor, provided that there are "walls" or limitations that protect the prior employer. These should, however, be negotiated and agreed to in advance.

A PRE-MOVE CHECKLIST

If you are considering moving from one corporate office to another, here are the points to keep in mind.

- Check the employee handbook, and review any agreements you may have executed when you were hired: There may be express limitations on your ability to work for opposing parties or competitors. If there are, review the ethics rules to determine the extent to which they are enforceable and discuss this with your current employer.
- If the new employer has matters adverse to your current employer, and your involvement would be prohibited under Rule 1.9, consider seeking an agreement from your current employer that so long as you are isolated or walled off from the matter, the current employer will not object to your move. Most clients/employers will agree to this type of limitation.
- Assuming that your new employer is not adverse to your current employer in a pending matter, and that the question is only one of using "information" gained from your prior employer, then try to sort out the information into the

following three categories:

- legal knowledge, research, analysis, and so forth, which standing alone is seldom considered information that you would be prohibited from using in your new position;
- general information about an industry or factual information that is "generally known," which can be used in your new position without restriction (although you should be wary, as there is some disagreement about the scope of "generally known" factual information);
- specific factual information gained from your employer, which cannot be used to the disadvantage of your former employer.

Where you are in doubt, clarify the issue by discussing it with your current employer!

NOTES

1. *See ABA Model Rules of Professional Conduct*, Rule 1.6, cmt. 18; Rule 1.9, cmt. 7 (2004).
2. *Id.*, Rule 1.9, cmt. 4 (2004).
3. The test for disqualification has been characterized as the "substantial relationship test." *See ABA Model Rules of Professional Conduct*, Rule 1.9, cmt. 3. *See also* John K. Villa, *Conflicts of Interest Issues Involving Outside Counsel*, ACCA Docket 19, no. 10 (Nov./Dec. 2001): 56.
4. *Id*., Rule 1.9(c).
5. *See, e.g.*, Kaselaan & D'Angelo Assoc., Inc. v. D'Angelo, 144 F.R.D. 235 (D. N.J. 1992).
6. *See, e.g.*, Maritrans GP, Inc. v. Pepper Hamilton & Scheetz, 602 A.2d 1277 (Pa. 1992).
7. *See, e.g., ABA Model Rules of Professional Conduct*, Rules 1.6(b) and 3.3.
8. *See Restatement (Third) of the Law Governing Lawyers*, § 132, cmt. f (2000).
9. *Id*., § 59, cmt. d.
10. *Id*. at cmt. e.
11. *Id*.
12. Cohen v. Wolgin, No. Civ.A.No. 87-2007, 1993 WL 232206, at *2-*3 (E.D. Pa. June 24, 1993).
13. In re Adelphia Communications Corp., Nos. 02-41729REG, 04 Civ. 219DAB, 2005 WL 425498, at *10 (S.D.N.Y. Feb. 16, 2005).
14. 964 F. Supp. 168 (E.D. Pa. 1997).
15. *Id*. at 173; *see also ABA Comm. on Ethics and Prof. Responsibility*, Formal Op. 99-415.
16. Section 396 of the *Restatement (Second) of Agency* provides that an agent, after termination of the agency, has a duty not to disclose trade secrets or other similar confidential matters obtained for use during the agency. *See generally* Richard A. Lord, *Williston on Contracts* § 54:31 (4th ed. Database updated July 2004).
17. Brozost, 964 F. Supp. at 174.
18. *See* Brozost, 964 F. Supp. at 174.
19. *See Williston on Contracts, supra*, at § 54:33.
20. *ABA Comm. on Ethics and Prof. Responsibility,* Formal Op. 00:417.