

## **WISCONSIN SUPREME COURT EASES ENFORCEMENT OF NON-COMPETE COVENANTS**

By: Laura A. Lindner  
Kristofor L. Hanson

In its July 14, 2009 decision in *Star Direct, Inc. v. Dal Pra*, 2009 WI 76, the Wisconsin Supreme Court significantly altered the law in Wisconsin with respect to the enforcement of non-compete covenants. The Court's ruling will make it easier for employers in Wisconsin to protect themselves from unfair competition by former employees. In short, reasonable covenants restricting post-termination competitive activities are enforceable even if they are contained in an employment agreement that contains other unenforceable covenants, as long as the covenants are divisible.

The case arose out of an employment agreement signed by Eugene Dal Pra, a route salesperson for Star Direct, a distributor of assorted novelties and sundries to convenience stores and gas stations in the Midwest. The agreement contained several provisions restricting Dal Pra's post-termination activities; specifically: a "business clause" prohibiting Dal Pra from engaging in a competing business with Star Direct; a "customer clause" prohibiting him from soliciting Star Direct's current and recent past customers; and a "confidentiality clause" prohibiting him from using and disclosing Star Direct's proprietary information. Star Direct sued Dal Pra for breach of the agreement after Dal Pra left Star Direct to form his own distribution company, which competed directly with Star Direct.

### **The Reasonableness of the Clauses**

The Supreme Court first considered whether the clauses were reasonably necessary to protect Star Direct's legitimate interests, and held that the customer and confidentiality clauses met that standard, but the business clause did not.

The customer clause prohibited Dal Pra, for a period of 24 months following the termination of his employment, from soliciting Star Direct's current customers, as well as former customers who had been Star Direct customers within one year of the termination. The Court found that Star Direct had a legitimate interest in protecting its relationship with customers and recent past customers, including customers recently serviced by another route salesperson. The Court focused on the investment Star Direct made in developing its customer relationships and Dal Pra's access to information about Star Direct's business and its customers (e.g., pricing of products, profit margins, marketing strategies, customer needs and desires) – information that would give him a unique and unfair advantage in competing against Star Direct in its efforts to retain current customers and "win back" recent past customers. Notably, although the Court recognized that Star Direct had a protectable interest in recent past customer relationships, the Court declined to place any time limit on how long an employer has such an interest, stating: "We render no opinion as to how much time must pass between a customer placing an order and a route salesperson's termination before the employer no longer has a legitimate

protectable interest in that customer. Our holding today under the facts of this case is that the interim of one year is not too long.” *Dal Pra*, ¶ 41.

The confidentiality clause prohibited Dal Pra from using or disclosing information of a proprietary nature for 24 months after his employment with Star Direct ended. Although the Supreme Court found that the clause was not a “model of clarity,” it found that the enumerated examples of information indicated that the clause was intended to protect “information of a confidential and sensitive nature that, if made public or used by Dal Pra, would be deleterious to Star Direct’s business.” *Dal Pra*, ¶ 63. The Court therefore concluded that the confidentiality clause was reasonably necessary for Star Direct’s protection.

The business clause prohibited Dal Pra, for the same 24-month period, from working for a competing business, as well as “substantially similar” businesses, within Dal Pra’s former sales territory with Star Direct. The Court read the “substantially similar” language as referring to a business other than a business “in competition with” Star Direct, and found that such a prohibition was overbroad and not reasonably necessary for Star Direct’s protection. Although not addressed by the Court, the business clause also prohibited Dal Pra from working for a competitor in *any* capacity, which Wisconsin Courts have previously found is also overbroad and unenforceable.

### **The Divisibility of the Clauses**

The Supreme Court then turned to the issue of whether the customer and confidentiality clauses could be enforced despite the unreasonableness of the business clause in the employment agreement. The Court ruled that the invalidity of one clause only invalidates the other clauses if the clauses are not “divisible” into separate covenants.

To determine whether a restrictive covenant is divisible, the Court ruled, requires an inquiry into whether other provisions may be independently read and understood if the unreasonable provision is stricken. Indivisibility will generally be found when there is an intertwining, or inextricable link between various provisions through one or more textual references such that one provision cannot be read or interpreted without reference to the other(s).

The Supreme Court found that the business, customer, confidentiality clauses in Dal Pra’s employment agreement with Star Direct did not reference each other; that compliance with one was not dependent upon compliance with the other; and that each dealt with different interests. Accordingly, the Court ruled that the customer and confidentiality clauses were independently enforceable, despite the inclusion of the unenforceable business clause in the same agreement.

### **Implications of the Supreme Court’s Decision**

The *Dal Pra* decision represents a significant and favorable change in the law for employers that have legitimate interests in enforcing reasonable non-compete agreements. Whereas previously, covenants not to compete were met with extreme

disfavor in that the unenforceability of one clause generally rendered the entire agreement unenforceable, Wisconsin courts can now strike any unenforceable clauses and leave intact the remainder of the agreement so long as the clauses are divisible.

Given the Supreme Court's striking of the business clause in *Dal Pra's* employment agreement, it will likely remain difficult for employers in Wisconsin to enforce covenants restricting employees' ability to work for competitors. However, courts are likely to be more willing to enforce other covenants that prevent unfair competition – e.g., exploiting customer relationships and confidential information – through reasonable restrictions, even if they are contained in agreements with unreasonable restrictions.

It is important to note that while Wisconsin courts can selectively enforce restrictive covenants in the same agreement, the Supreme Court's decision does not alter the statutory prohibition on rewriting restrictive covenants to make them enforceable (a practice commonly referred to as “blue penciling”).

To ensure the enforceability of restrictive covenants, employers in Wisconsin should draft clauses:

- That separately address multiple forms of unfair competition (e.g., an employment agreement that contains separate provisions prohibiting solicitation of customers, working for competitors, and using confidential information).
- That are not textually linked and do not internally refer to each other so that they can be read and interpreted independently.
- That are narrowly tailored to what is reasonably necessary to protect the employer (e.g., to limited periods of time and geographic territories, to truly proprietary information). Even if clauses are separate and divisible, they will not be enforced if they are over-restrictive.

Wisconsin employers with existing employment agreements containing restrictive covenants should review them to ensure they do not contain overbroad and indivisible clauses, and redraft them as necessary. If employers wish to require *existing* employees to sign new or revised agreements containing restrictive covenants, they must offer such employees additional consideration (i.e., some of value like compensation) for doing so. Employers should also be mindful of this change in the law when considering hiring an employee who signed a non-compete covenant with a former employer.