FACTS REGARDING THE DAL PRA CASE

Eugene Dal Pra ("Dal Pra") worked for a company called Star Direct, Inc. ("Star Direct"). Dal Pra formerly had been a salesperson who worked for a company called CB Distributors. Star Direct purchased Dal Pra's route, and offered Dal Pra an employment agreement, including three non-competition clauses. Dal Pra accepted the offer, which included a $30,000 bonus upon the completion of 30 months of service.

Dal Pra's employment agreement contained three separate clauses which Wisconsin law treats as "non-competition agreements." The first clause the Court referred to as the "**customer clause**." This clause provided as follows:

> "[F]or twenty-four (24) months, after termination of Employee's employment with Employer, Employee shall not interfere with, or endeavor to entice away from Employer any person, firm, corporation, partnership or entity of any kind whatsoever which is a customer of Employer or CB Distributors, or which was a customer of Employer or CB Distributors within a period of time of one year prior to the termination of Employee's employment with employer, for which Employee performed services or otherwise dealt with on behalf of Employer or CB Distributors or relative to which Employee obtained special knowledge as a result of his position with Employer; and Employee shall not approach any such customer or past customer for any such purpose or knowingly cooperate with the taking of any such action by any other person, firm, corporation, or entity of any kinds."

The non-competition agreement contained a second clause, which the Supreme Court called the "**business clause**." The business clause provided as follows:

> "[F]or a period of twenty-four (24) months after termination of Employee's employment with Employer, Employee shall not, directly or indirectly. . .become engaged in any business which is substantially similar to or in competition with the business of the Employer, within a fifty (50) mile radius of Rockford, Illinois."

Finally, the contract included what the Court called the "**confidentiality clause**," which provided as follows:

> "Independent of any obligation under any other Paragraph of this Contract, Employee shall not, at any time during the term of his employment with Employer and for a period of twenty-four (24) months following the termination of his employment with Employer, regardless of who initiated the termination, communicate, divulge or disclose for use by himself or any other person, firm, corporation, partnership, joint venture, association or other entity whatsoever, any information or knowledge, known, disclosed or otherwise obtained by him during his employment by Employer or CB Distributors, including but not limited to information and knowledge conceived, discovered or developed by Employee

> or CB Distributors and including but not limited to any of Employer's or CB Distributors proprietary products or procedures, any of Employer's or CB Distributors trade secrets, any of Employer's or CB Distributors customer lists, or any of Employer's or CB Distributors marketing techniques which are not generally known in the business community, and which relate to the business of the Employer or CB Distributors or are in the nature of trade or business secrets of Employer or CB Distributors. Employee shall not at any time, during the period of his employment with Employer or at any time thereafter, copy, reproduce, retain, communicate, divulge or disclose to any other party the contents of the mailing list(s) of any of Employer's or CB Distributors customers... Employee will have special pricing information and information regarding how Employer prices various products. This information is specifically held by both parties to be confidential. In no event shall Employee reveal this information to any other employer or other entity."

Dal Pra worked for Star Direct for approximately four years, and received his $30,000 bonus after 30 months of service. He quit, then went into business in violation of his non-competition agreement. Star Direct sued Dal Pra; and the trial court held that all three clauses – the "customer clause," the "business clause," and the "confidentiality clause," were unreasonable and therefore unenforceable as a matter of law. The trial court also held that each of the three clauses was indivisible from and "inextricably entwined" with the other two clauses.

The Court of Appeals agreed with the trial court that the business clause was unreasonable. The Court of Appeals also concluded that the business clause was indivisible from the other two clauses. The Court of Appeals did not evaluate the reasonableness of the customer clause on its own, or the reasonableness of the confidentiality clause, or its divisibility from the business or customer clauses.

DIVISIBILITY

The most prominent issue presented to the Supreme Court was actually decided near the end of the decision – the divisibility of the restrictive covenants. Wisconsin law treats non-competition agreements as "prima facie suspect as restraints of trade that are disfavored at law, and must withstand close scrutiny as to their reasonableness." *Streiff v. American Family Mutual Insurance Company*, 118 Wis. 2d 602, 611 (1984). Moreover, the Wisconsin statute governing non-competition agreements, Wis. Stat. § 103.465, provides that "[a]ny covenant…imposing an unreasonable restraint is illegal, void and unenforceable even as to any part of the covenant or performance that would be a reasonable restraint." This clause in Wis. Stat. § 103.465 is generally referred to as the "no blue pencil" rule. In some states, if a court finds that some part of a non-competition agreement is overbroad or unreasonable, the court is permitted to modify the clause, or strike a portion of the clause, in order to render the clause valid and enforceable. Section 103.465 has the effect of barring such "blue penciling" of non-competition agreements. Under Wisconsin law, if one portion of a non-competition covenant falls, the entire covenant falls.

What if two (or in this case three) covenants are contained in the same employment agreement? The Wisconsin Supreme Court addressed this question in *Streiff*. In *Streiff*, there were two clauses which were governed by § 103.465. The agreement in that case provided that a terminated insurance agent could receive payment for extended earnings only if he refrained from certain competitive practices.

Two non-competition covenants in *Streiff* were "textually linked via a cross-referential third provision such that it was impossible to read, evaluate, or apply one without referring to the others." *Dal Pra* ¶ 67. The Supreme Court in *Streiff* held that the provisions in that case were "intertwined and the covenant must be viewed in its entirety, not as divisible parts." *Streiff*, 118 Wis. 2d at 613. And so the rule, following *Streiff*, apparently was that, if an agreement contains multiple non-competition clauses, the clauses must be viewed as a whole (so that, if one clause is found to be invalid, all of the clauses fail) if the clauses are "intertwined," so one must read all of the clauses in order to understand any one.

In *Mutual Service Casualty Insurance Company v. Brass*, 2001 WI App. 92, 242 Wis. 2d 733, however, the Court of Appeals greatly expanded *Streiff*. The Court of Appeals "construed *Streiff* as providing that provisions are intertwined and indivisible when 'they govern several similar types of activities and establish several time and geographical restraints.' " *Brass*, 242 Wis. 2d 733, ¶11; cited at *Dal Pra*, ¶ 70. In other words, under *Brass*, if two clauses both address post-employment competition, and if one is unreasonable, then both are invalid. The Supreme Court in *Dal Pra*, as noted above, rejected *Brass*, holding: "[T]he expansive reading of *Streiff* offered in *Brass* does in fact render nearly all covenants not to compete unenforceable if one provision of one of the covenants is unreasonable. We do not believe Wis. Stat. § 103.465 or *Streiff* compel this result." *Dal Pra*, ¶ 77.

INTERPRETATION

A second significant aspect of the Court's decision materially changes the way in which the lower courts have been interpreting noncompetes. A growing trend by those attempting to invalidate these clauses has been to argue an implausible scenario to the court in which the employer would have no protectable interest, in order to demonstrate overbreath. The Supreme Court in *Dal Pra* put an end to that trend. It clarified that noncompetes are, at their core, contracts and should be interpreted reasonably.

The Court explained that although, "[it] read[s] restrictive covenants in favor of the employee[,]" "..[t]his does not mean that [it] make[s] an effort to read a clause unreasonably in order to find the clause unreasonable and unenforceable against the employee." Instead, the Supreme Court indicated that its task is to "rightly and fairly interpret non-compete agreements as contracts." This means that the court should interpret them so as to "avoid absurd results, giving the words their plain meaning, reading as a whole, and giving effect where possible to every provision."

The question of the appropriate interpretation arose in *Dal Pra* case because the confidentiality clause was, in the Supreme Court's own words, "put gently, [not] a model of clarity." At its core,

it barred Dal Pra, for 24 months following his termination, from using or disclosing "any information or knowledge, known, disclosed or otherwise obtained by him during his employment by Employer or CB Distributors." On its face, this sentence alone may have been too broad. One can imagine information that one learns while at work that is not confidential, such as, the products in the employer catalogue. This sentence on its face restricts the employee from releasing such information. And, prior to the *Dal Pra* decision, the Wisconsin courts might well have struck this covenant as unenforceable.

For example, in *Milprint, Inc. v. Flynn*, the Wisconsin Court of Appeals concluded that a non-disclosure of confidential information provision was unenforceable because it was too broad, covering all concepts or ideas reasonably related to the business or prospective business of the employer. 2006 WI App 223, ¶ 2 (Wis. Ct. App. 2006). First, the *Milprint* court held that the clause was unreasonable because the employee could not be reasonably expected to know what he could disclose about his experience with the employer. Second, the *Milprint* court also suggested that it was overbroad because it prevented disclosure of such a broad array of information to any person, not just competitors.

In *Dal Pra*, the Supreme Court found it inappropriate to review the sentence set forth above in isolation. Instead, the Court reviewed the paragraph as a whole. The paragraph set forth numerous examples of protected information, such as "marketing techniques which are not generally known in the business community," and proprietary products or secrets. The Supreme Court found that the inclusion of these proprietary modifiers demonstrated the intent that only confidential information be protected and that otherwise, such language would be meaningless. The Supreme Court concluded that "[t]he only reasonable construction of the clause considered in its totality is that it prohibits Dal Pra's use of confidential information of the type identified in the examples – information of a confidential and sensitive nature that, if made public or used by Dal Pra, would be deleterious to Star Direct's business."

EMPLOYER'S PROTECTABLE INTEREST IN RESTRICTING SOLICITATION OF RECENT FORMER CUSTOMERS WHOM EMPLOYEE SERVICED

Prior to *Dal Pra*, recent decisions have suggested that an employer may not have a protectable interest in restricting its employees from soliciting former customers or prospective customers. Mainly, this argument derived from *Equity Enterprises, Inc. v. Milosch*, in which the Wisconsin Court of Appeals determined that Equity did not have a protectable interest in prohibiting Milosch from soliciting the customers he had serviced within his fifteen years with Equity as an insurance salesperson. 2001 WI App 186, 633 N.W.2d 662 (2001). The Supreme Court found *Milosch* clearly distinguishable, stating, "[w]hile an employer's prospects of rekindling customer relationships fades considerably over 15 years, we believe under the facts of this case that an employer is entitled to an opportunity to recoup the considerable investment of resources it made in developing and fostering customer relationships and business opportunities that were active as recently as one year prior to the employee's termination." In *Dal Pra*, the Supreme Court easily concluded that employers have a protectable interest in recently "former" customers. "We render no opinion," the Supreme Court stated, "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." *Dal Pra*, ¶ 41.

MUST EVERYONE SIGN THE NONCOMPETE?

It is an often-repeated argument by employees that an employer cannot demonstrate an underlying protectable interest, such as customer relationships, if it does not require every one of its employees (salespersons, for example) to have non-competes. This argument largely derives from the case of *NBZ, Inc. v. Pilarski*, 185 Wis.2d 827, 520 N.W.2d 93, 1994-1 Trade Cases P 70,640, 9 IER Cases 1030 (Wis.App., Jun 08, 1994). In *Pilarski*, the Court of Appeals suggested that if an employer does not have every similarly situated employee sign a non-competition agreement, it follows that the employer must not really *need* an agreement. In this case, Dal Pra made this same argument – that Star Direct could not have a protectable interest to support the noncompete because some of Dal Pra's salesperson colleagues did not have noncompetes. Although the Court did not address that question on a broad scale, on the facts of this case, it was "untroubled by the fact that not every salesperson had a noncompete." Moreover, it provided some helpful parameters for demonstrating in what circumstances not having uniform agreements would not defeat the noncompete. In that regard, the Supreme Court found that Star Direct was still able to demonstrate a protectable interest supporting the restrictions for the following two reasons: (1) It had paid Dal Pra a significant consideration – a $30,000 retention bonus - contingent upon signing a noncompete, demonstrating that he was very valuable and had perhaps maintained very good customer relationships; and (2) Star Direct had been consistent since 2002, when it purchased the company, that all new employees signed noncompetes.

EMPLOYER'S PROTECTABLE INTEREST IN RESTRICTING SOLICITATION OF CURRENT CUSTOMERS WHOM EMPLOYEE DID NOT RECENTLY SERVICE

Although early Wisconsin non-compete cases recognized the reasonableness of prohibiting competition beyond those persons with whom the employee had direct contact if the employee had confidential information that would provide him an advantage over competition, the seemingly more recent trend of the courts was to require restrictions to only apply to those with whom the employee had recent contacts. Perhaps this stemmed from a failure to understand a restriction based on a concern for disclosure and use of confidential information as opposed to a restriction based on goodwill developed from a customer relationship. In *Dal Pra*, the Supreme Court took a large leap toward some of those earlier cases. It ruled that "Dal Pra learned information either about the customers and/or about Star Direct's business that would give him a unique advantage against Star Direct if he was allowed to pursue current and recent past customers, even those with whom he had not recently dealt." *Dal Pra*, ¶ 48. As a result, the Supreme Court indicated that it was reasonable for Star Direct to restrict Dal Pra from soliciting current customers with whom he had not recently dealt.

TAKING ADVANTAGE OF THE RULING

Dal Pra offers considerable support to employers in an area of law that often causes great anguish and frustration. Although Wisconsin non-compete law is still one of the most stringent in

the country, the Wisconsin Supreme Court has sent a clear sign via *Dal Pra* that non-compete matters will now be interpreted reasonably.

Practical implications

- It had previously been a good idea to have non-competition, confidentiality, and other agreements on separate forms. This is no longer necessary.
- The most important step for employers now is to make sure that various clauses are linguistically severable – that each can stand alone without reference to the other.
- Employers should review and update all Wisconsin non-competition agreements. Virtually all agreements can be improved in light of *Dal Pra*.