“Non-Competition Agreements”
JA Counter HR Users Group
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What is a “Non-Compete Agreement”?
At bottom, it is a contract. A Non-Compete Agreement is simply an agreement by an employee, former employee, business partner, former business partner, business seller or some other similarly situated party not compete in the business of the other party to the contract.
What does it say?

• The language used in non-competes varies widely, but it generally says something like:

“Employee hereby agrees that while he is employed by the Company and for a period of one (1) year after the termination of this employment with the Company, he will not engage in or carry on any business, directly or indirectly, whether as adviser, principal, agent, partner, officer, director, employee, stockholder, associate, or consultant of any person, partnership or corporation or other business entity, which is engaged in the business of the Company, including, but not limited to, the development and marketing of plant maintenance software, systems, in any manner which competes directly or indirectly, with the Company in any place within the Continental United States.”
Let’s Break that Down.

“Employee … while he is employed by the Company and for a period of one (1) year … he will not engage in or carry on any business, directly or indirectly … which is engaged in the business of the Company, including, but not limited to, the development and marketing of plant maintenance software, systems, in any manner which competes directly or indirectly, with the Company in any place within the Continental United States.”

Who? – Employee  
When? – While employed and 1 year after.  
What? – No competition against employer by involvement with a company in the same business as employer?  
Where? Continental US  
Why? – To be discussed in more detail later.
Why Do you Need a Non-Compete?

1. Protect business and customer relationships;
2. To protect valuable intellectual property;
3. To encourage employees to stay;
4. To make you feel comfortable turning over relationships to an employee;
5. To protect the valuable assets purchased in an acquisition transaction.
Typical Terms

• Competition Restriction
  – That the employee, business seller, partner, etc will not compete with the business of the employer. Sets forth the length of time that the agreement is in place, the geographical scope of the restriction, and the breadth of the restriction.

• Solicitation Restriction
  – No soliciting business, business relationships, or hiring employees, consultants or contractors during a term that is similar to the term set forth in the non-competition covenant.

• Non-Disparagement
  – Employee will not make any disparaging remarks about the employer or the employer’s business.

• Remedies
  – Injunctive Relief is really important.
Practical Considerations

As we will discuss later, how these items are drafted is important in Wisconsin. For example, we will discuss why a relatively recent Supreme Court case makes it important that each of these items be contained in separate, severable paragraphs. It is also important to keep in mind that ultimately reasonableness will be the key to having your restrictions upheld.
Getting Specific on Terms

• How long should the term be?
  – Varies by situation. In a business sale, the term should be longer than in an employment relationship. 3-7 years in a business sale is not unusual, which 1-2 years after termination in the employment context is not unusual.

• What should be covered?
  – In the employment relationship, it is important to keep this narrow and reasonable to those things that “actually” compete with the employer. In a business sale, or partnership situation, it can probably be more broad.

• Territory?
  – Very much depends on the territory. If it is a very specialized employee that covers a lot of ground, then a big territory may be appropriate. If the business is a fairly local, then a small territory should be fine. Do not over-reach on this.
Who Are the Typical Parties to a Non-Competition Agreement?

- Employer, Business, Business Owner, Business Buyer.
- Employee, Business Seller on the Other side, Owner, Business Partner.

The four big ones are
1. Employee / Employer
2. Business Buyer / Business Seller
3. Business Partners
4. Franchisor / Franchisee
Wisconsin Rules

Employment Agreements not to compete are subject to § 103.465, Wis. Stats. which provides:

[A] covenant by an assistant, servant or agent not to compete with his/her employer or principal during the term of employment or agency, or after the termination of that employment or agency, within a specified territory and during a specified time is lawful and enforceable only if the restrictions imposed are reasonably necessary for the protection of the employer or principal. Any covenant, described in this subsection, 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. (Emphasis supplied)
Statute is Vague and Ambiguous. Now What?

- As in many statutes the forgoing is fairly vague and ambiguous and provides little help in trying to structure an enforceable non-competition agreement.

- Now What? When a statute is vague or ambiguous, you must rely on case law and what the courts have said.
What Have the Courts Said?

- Traditionally, Wisconsin Courts have been extremely hostile to non-competition agreements in the employee context. That has begun to change a little recently, beginning with the Wisconsin Supreme Court’s 2009 decision in *Star Direct, Inc. v. Dal Pra*, 2009 WI 76.
- Some of the hostility includes: (i) No blue penciling, (ii) terms must be short, (iii) geographic area must be narrow, (iv) business protected must be narrow and essential, (v) continued employment is insufficient consideration to support a non-compete.
- Resulted in a virtual Strangle Hold on the enforceability of non-competes in Wisconsin.
A Ray of Sunshine
*Star Direct v. Dal Pra*

*2009 WI 76*

Clarifies Wisconsin law and changes the legal landscape of Non-Competes in Wisconsin in favor of the employer.
Star Direct, Inc. v. Dal Pra
2009 WI 76

FACTS

Star Direct distributes merchandise, such as batteries, cigarettes, lighters and toys, to convenience stores. Its principal sales strategy employs the use of route salespersons, who are charged with developing long-term business and personal relationships Star Direct's customers.

Dal Pra worked for a competitor of Star Direct. After Star Direct acquired the competitor, it sought to retain Mr. Dal Pra and offered him a "good" compensation package, which included a $30,000 bonus following 30 months of service. Star Direct conditioned its bonus offer on Mr. Dal Pra's signing a non-competition agreement.
The agreement contained three post-employment restrictions which ran for a period of 24 months following the end of Mr. Dal Pra's employment: (1) prohibited Mr. Dal Pra from stealing those current or former customers of Star Direct with whom Mr. Dal Pra dealt on behalf of Star Direct; (2) prohibited Mr. Dal Pra from "becoming engaged" by a competitor or an organization substantially similar to Star Direct within a 50-mile radius of Rockford, Illinois; and (3) prohibited Mr. Dal Pra from disclosing certain confidential and proprietary information of Star Direct.

Mr. Dal Pra worked for Star Direct for approximately four years and received his bonus of $30,000. He then quit his employment, started his own distribution company and engaged in activities which violated the non-compete agreement. Unsurprisingly, Star Direct sued. It lost at the trial court and the appeals court, as both held the restrictive covenant was not enforceable.
Star Direct, Inc. v. Dal Pra
2009 WI 76

5 IMPORTANT ITEMS FROM THE CASE:

1. Although Wisconsin courts must interpret restrictive covenant agreements in favor of the employee, courts must still interpret such agreements "reasonably" by "giving the words their plain meaning."

2. An employer can take reasonable steps to shield its recent former customers from unfair competition from former employees.

3. Businesses can shield customers from the competitive activities of former employees, even if the former employee has not dealt with the customer in the recent past.
Star Direct, Inc. v. Dal Pra
2009 WI 76

5 IMPORTANT ITEMS FROM THE CASE:

4. A business' failure to have the same or similar restrictive covenant agreements with all similarly situated employees does not render the agreements unenforceable.

5. The existence of an unenforceable post-employment restrictive covenant does not render other, separate restrictive covenants contained in the same agreement as unenforceable as long as the separate provisions may be understood and independently enforced.
Star Direct, Inc. v. Dal Pra
2009 WI 76
A Few More Things...

So, where are we today? Can employers simply put anything they want in a non-compete, point to Star Direct and expect it to be upheld? Far from it.

In fact, in Star Direct, the Court struck down one of the three clauses – what it coined the “Business Clause” for being overly broad. The clause read 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 employer within 50 miles of Rockford, Illinois”
Star Direct, Inc. v. Dal Pra
2009 WI 76

So what is the problem? The court said:

“While having Dal Pra engage in a non-competitive substantially similar business might plausibly have some de minimus or insubstantial affects on Star Direct, the interests do not rise to the level of being reasonably necessary for its protection. A former employee engaged in a similar but non-competitive enterprise poses little if any additional danger to his former employer's business interests than any other member of the public engaged in substantially similar but non-competitive activities.”
What’s the Take Away?

• Use narrow language that is designed to protect the employer.
• Had the agreement simply said that he could not compete in “any business in competition with the business of the employer”, it likely would have been upheld.
• So why didn’t the Court simply line out the offending language and use the rest?
• Remember back to the statute we discussed earlier. No blue lining. In other words, the court will not change these agreements to be enforceable. Instead, the drafter must make sure they are narrowly drafted in order to be enforceable. Further, the burden of proof of reasonableness is on the employer.
• So the take away, is that you or your lawyer need to make sure you protect the actual harm and not some theoretical harm.
What is the take away? (continued…)

While the courts will not save you by blue penciling individual provisions, if the covenants are logically severable, such in Star Direct, it will uphold them.

So when you are drafting, you should draft different, independent, free-standing covenants, so that if one is struck down, the rest can still be enforced.
How do I do that?

What I suggest is that you have different separate clauses in different paragraphs.

So, for example, I will have a non-competition clause in one paragraph. It will be completely self-contained. In other words, it will not reference, be tied to, or relate in any way to any of the other covenants.

Then, I will have a totally separate and independent non-solicitation clause that prohibits any solicitation of actual customers, employees, etc. That way, if one goes, perhaps the other ones can still be enforced.
What Else?

A Quick Note

- In *Star Direct*, the Court struck down the business clause for being overly broad as a result of the “substantially similar” language. However, the court said nothing about the 50 mile radius provision.
- In a subsequent case, a Wisconsin Federal Court held that a radius provision prohibiting competition within 120 miles was too broad. So what gives? 120 miles seems reasonable, doesn’t it?
- The rule in Wisconsin is that the restriction must be “limited to the route or customers defendant actually serviced.”
- In this case, the employee did not service a number of areas in the 120 mile radius. Thus, the court held that it was too broad.
- The problem with this analysis and rule is obvious: Now the employee can use his/her actual knowledge learned while working for the employer to try to obtain new customers that the employer may also want to obtain.
A Possible Solution

• In order to deal with that issue, I believe it is best to comply with the narrow restriction in the non-competition clause, but then to have a separate stand-alone clause that specifically deals with the use of confidential information. I try to make that broad enough so that an employee may be dissuaded from contacting potential customers as well.

• In the alternative, you might consider employing two separate covenants. The first covenant, only covers actual customers. But the second covenant prohibits contact with all “potential customers” in that radius area if the employee knows about the customer as a result of employee’s employment relationship with employer and/or if the employee is using confidential information to obtain an advantage in going after that customer – i.e., the employee knows the employer’s pricing information and undercuts the employer slightly.

• So long as you keep them independent, if they get struck down, the employer should still be fine relying on the narrower provision.
More on Reasonableness

- As we have discussed, restrictive covenants will be upheld if they are reasonable. The problem is that it is difficult to say what is reasonable. A good thing to keep in mind, is that judges are people. So ask yourself (and maybe a confidant) does this feel reasonable to me? And remember, all employees are not all the same. What is reasonable for one person, may not be reasonable for others.

- Think of a salesperson versus a secretary with no customer contact. While it is probably reasonable to protect the employer from the salesperson going to work for a competitor, is it reasonable for the secretary? Ask yourself, what interest of the employer is served or protected? If the only real interest is that you then hold a trump card over the employee, that probably would not be upheld.

- The point is that each situation is different and if you just use one form for all employees, not matter the situation, you are likely to face enforceability issues.
A Few Odds and Ends

• Do not overreach.
• Include a separate trade secret and confidentiality clause.
• Consider paying the employee not to compete (severance agreements are great tools for many reasons).
• Injunctive relief is important and so is your venue.
• There must be consideration.
  – Remember, continued employment is not valid consideration. In other words, an employer may not tell an employee, sign this or your fired and hope to have it enforced. Instead, the employer must pay and probably must pay more than a mere peppercorn. Sometimes you can couple it with a bonus that you were already likely to give.
• Longer terms in a business sale context are generally enforceable. More than 2 years in an employment agreement with an employee is probably going to be trouble.
• Use a severability clause.
ENFORCEMENT

• If you see a violation of your non-competition agreement, how is it enforced?
• I dislike arbitration for this purpose because it could conflict with the Wis. Stat. 103.465. Thus, it will likely be enforced through litigation.
• You will want to try to obtain injunctive relief so the violations cease and damages.
• Remember litigation is expensive and time-consuming (and lawyers are paid by the hour), so make sure it is worth it to you.

QUESTIONS?
GO GATORS!
THANK YOU...

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Introducing
Bakke Norman Employment Attorneys
Adam Jarchow

A native of Clear Lake, Wisconsin, Adam Jarchow began his legal career in Jacksonville, Florida. While there, he practiced in the corporate, business and real estate groups of a respected Florida firm handling mergers and acquisitions, succession planning, real estate, bank loans (both asset based and real estate based) and workouts, securities, entity formation and general contract negotiation and drafting. Desiring to return “home”, Adam joined a large international law firm in Minneapolis where he continued to focus on business transactions. However, when Bakke Norman gave Adam the opportunity to return to northwestern Wisconsin, he jumped at the opportunity. He is presently involved in handling all types of transactions for Bakke Norman’s business, banking, real estate and transactional group.

Licensed by the State Bars of Wisconsin, Minnesota and Florida, he is admitted to practice before the United States District Courts for the Western District of Wisconsin, District of Minnesota and Middle District of Florida. Adam received his juris doctorate in 2004 from the University of Florida’s Levin College of Law, where he graduated in the top 5% of his class and served as the managing editor of the Law Review. Prior to law school, he received his bachelor of science from the University of South Florida in 2001, where he graduated cum laude in Finance.

Peter Reinhardt

Pete is a civil and business litigator with an emphasis on employment law, commercial litigation, and intellectual property disputes. His trial experience includes jury and court trials before administrative, state, and federal courts. He has handled appeals to the State of Wisconsin Court of Appeals, the State of Wisconsin Supreme Court, the Federal 7th Circuit Court of Appeals, and the Federal 8th Circuit Court of Appeals. He has been recognized as among the top 5% of all litigation lawyers in Wisconsin by Super Lawyers, an independent ranking updated annually by Thompson Reuters.

Pete routinely handles sensitive and difficult employment issues for our public section clients. Pete is often able to find creative solutions which save clients time and money.

Pete represents both employees and employers in his employment practice, giving him insight on an opponent’s strategy. He has presented at several State Bar of Wisconsin conventions regarding employment law issues and periodically lectures employers and employer groups regarding employment-related issues.
David focuses his practice on litigating employment law claims. He represents both employers and employees, giving him a unique perspective into issues facing today’s employers.

David has successfully handled numerous cases in state and federal court, as well as in various administrative forums involving the FMLA, WFMLA, Title VII of the Civil Rights Act of 1964, ADA, ADEA, FLSA, 42 U.S.C. § 1983, Wisconsin’s Wage & Hour law, LMRDA, ERISA, COBRA, and claims under the Wisconsin Fair Employment Act (WFEA).

David is licensed to practice law in Wisconsin and Minnesota, and he has given presentations to help educate employers about employee related issues in the workplace.

Tom has over 25 years of experience representing small businesses and municipalities. He assists closely held businesses with all aspects of business planning, including choice of entity, capital formation, ongoing business financing, contract negotiation, noncompete and nondisclosure agreements, mergers and acquisitions. In that time, he has worked on a number of issues that arise for municipalities, including ordinance drafting, negotiation and preparation of developer’s agreements, frac sand mining, moratoriums, advising on open meetings, public records and conflict issues. He also represents community banks in financial workouts, including the structure and documentation for significant commercial loans.

A founder of Bakke Norman in 1985, Tom has served as the firm’s managing shareholder since 1999. He has worked in various capacities with the State Bar of Wisconsin, helping plan and develop the Wisconsin Solo & Small Firm Conference and acting as chair of the Law Office Management Section. Tom is a member of the economic development boards for Baldwin and New Richmond and a director of the St. Croix County Economic Development Corporation. He also served on the Baldwin-Woodville Area School Board for 15 years.
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