COURT OF APPEALS
DECISION
DATED AND RELEASED

April 30, 1997

NOTICE

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No. 95-2809

STATE OF WISCONSIN **IN COURT OF APPEALS**
District II

KARL C. WILLIAMS AND
THOMAS R. WARD,

PLAINTIFFS-RESPONDENTS-
CROSS APPELLANTS,

V.

NORTHERN TECHNICAL SERVICES, INC.,
A WISCONSIN CORPORATION,

DEFENDANT-APPELLANT-
CROSS RESPONDENT.

APPEAL and CROSS-APPEAL from an order of the circuit court for Ozaukee County: THOMAS R. WOLFGRAM, Judge. *Affirmed in part; reversed in part and cause remanded.*

Before Snyder, P.J., Brown and Anderson, JJ.

SNYDER, P.J. Northern Technical Services (NTS) appeals from an order granting summary judgment to Karl C. Williams and Thomas R. Ward (collectively, Williams). The summary judgment order found that a section of a shareholder's agreement which contained nondisclosure and noncompete restraints on the postemployment activities of Williams was overbroad and unreasonable, and thus unenforceable. NTS argues on appeal that the trial court erred in applying § 103.465, STATS., and that the restrictions should have been construed as part of a sale of business agreement. NTS also maintains that even if the court determines that § 103.465 is applicable, the trial court erred in its conclusion that the activity restraint was overbroad and in treating the nondisclosure provision as a noncompete. NTS then argues that when properly construed, the evidence proffered to the trial court warranted a conclusion that Williams breached the agreements with NTS. Williams cross-appeals the trial court's denial of a request for attorney's fees, double costs and interest.

We conclude that the trial court was correct in holding that both the nondisclosure clause and the noncompete agreement were subject to scrutiny under § 103.465, STATS., and in its determination that the nondisclosure clause was overbroad and thus unenforceable. We also concur with the trial court's conclusion that the nondisclosure clause was severable from the noncompete agreement, and therefore separate consideration of the validity of the noncompete agreement was required. We conclude, however, that the provisions of the noncompete agreement meet the prima facie requirements of § 103.465, and that the validity of the disputed agreement, which was then based on a question of reasonableness, was not appropriate for summary judgment. We therefore reverse the grant of summary judgment as to the enforceability of the noncompete

agreement and remand the case for further proceedings. The cross-appeal issue of costs is moot.

The facts underpinning this case are largely undisputed. NTS is a personnel agency that specializes in the recruitment and placement of technically-skilled employees such as engineers, draftsmen and designers. These contract workers are placed with customers and may work at the customers' premises or in-house at NTS. Prior to his resignation, Williams was a vice president at NTS and Ward was a regional manager.

During the course of their employment, Williams and Ward both signed employment agreements and shareholder's agreements. The shareholder's agreements, which were part of a plan enabling certain employees to acquire stock in NTS, contained the nondisclosure/noncompete provisions. The shareholder's agreements included extensive language governing the reacquisition of all shares of stock acquired through this plan in the event of the voluntary or involuntary termination of the covered employee. In addition to the provisions specifying the terms for the reacquisition of any stock owned by the covered employee, the shareholder's agreements also contained a nondisclosure clause, as well as certain provisions prohibiting competition for a period of six months within a fifty-mile radius of any NTS office.[1]

Following a failed attempt to purchase NTS from Merle Cook, the company's principal shareholder, Williams announced his resignation. Ward announced his resignation shortly thereafter. Both men ceased their employment

[1] At the time the noncompete language was imposed, NTS maintained offices in Green Bay, Wisconsin, and Milwaukee, Wisconsin.

with NTS on March 18, 1994. Pursuant to the terms of their respective shareholder's agreements, Williams and Ward sold their stock back to NTS, receiving a combination of cash and promissory notes.[2]

The shareholder's agreements contained the following provisions which are at issue:

> 16. Confidential Information; Agreement Not to Compete.
>
> The Shareholder and the Company recognize that the Shareholder has acquired, and will acquire in the future, information and knowledge with respect to the confidential affairs of the Company … including customers and employees. Accordingly, the Shareholder agrees that, from and after such time as Shareholder shall become an owner of Stock of the Company, including the period subsequent to the voluntary or involuntary termination of the Shareholder's employment with the Company and the sale of such Stock to the Company pursuant to Paragraph 6 hereof:
>
> (a) The Shareholder will not at any time use or disclose to any person not employed by the Company or any of its subsidiaries any such confidential information, without the consent of the Company. ….
>
> (b) The Shareholder will not, without the prior written consent of the Company, directly or indirectly, as an employee, owner, partner, agent or otherwise, participate in any manner, assist or advise any person, firm or corporation engaged in any Competing Business as hereinafter defined (except through ownership of securities listed on a national securities exchange) during

[2] Williams received cash totaling $34,657.19 and a note for $80,866.79; Ward received $12,421.27 in cash and a note in the amount of $24,982.92.

> the term of Shareholder's employment with the Company and for a period of six (6) months after the date of termination within a 50-mile radius of either the County of Milwaukee, Wisconsin, or any other county in which the Company shall maintain an office. For purposes of this Paragraph 16, the term "Competing Business" shall mean … any business in which the Company or any of its direct or indirect subsidiaries is engaged at the date of [employee's] termination.
>
> (c) The Shareholder will not … directly or indirectly, during the terms of the Shareholder's employment with the Company and for a period of six (6) months after the date of termination, as an employee, owner, partner, agent or otherwise, (i) solicit or accept any business in connection with a Competing Business from any customer or client to which the Company … had sent an invoice at any time within the 90-day period immediately prior to the effective date of the Shareholder's termination of employment or (ii) request, induce or advise any such customer or client to withdraw, curtail or cancel its business with the Company or any of its direct or indirect subsidiaries.

Following their departure from NTS, Williams and Ward, along with three other former NTS employees, became shareholders in a newly-incorporated business, The Waterstone Group, Inc. Within days of its incorporation, Waterstone leased office space in Mequon and Green Bay. In late July, Waterstone ran classified advertisements in several newspapers seeking potential contract employees. Waterstone also began to solicit resumes directly from contract employees who had worked for NTS.

Williams and Ward also contacted NTS customers to apprise them of their departure from NTS and of the formation of Waterstone. While these were described as efforts to "keep abreast of needs and trends in the market," Williams admitted that they were very clear with each contact that they were not

able to conduct business at that time, but would be available in September when the noncompete agreement expired. Williams stated that while Waterstone had received several job orders prior to the expiration of the noncompete, it did not submit any potential contract employees for consideration until the noncompete time period had ended.

After discovery, Williams brought a motion for summary judgment. The trial court concluded that § 103.465, STATS., was applicable to the nondisclosure and noncompete covenants in the shareholder's agreement. In applying that statutory section, the trial court determined that because the nondisclosure provision did not contain an express time limitation, it was unreasonable. In addition, the court concluded that the noncompete restraints on Williams and Ward were unreasonable and overbroad. NTS now appeals this determination.

The interpretation of a covenant not to compete is a question of law that is determined without deference to the trial court. *See* ***Streiff v. American Family Mut. Ins. Co.,*** 118 Wis.2d 602, 603, 348 N.W.2d 505, 507 (1984). Summary judgment is appropriate if the moving party establishes a record sufficient to demonstrate that there is no triable issue of material fact on any issue presented. *See* ***Rollins Burdick Hunter, Inc. v. Hamilton,*** 101 Wis.2d 460, 470, 304 N.W.2d 752, 757 (1981). If there are any reasonable doubts as to the existence of a factual issue, they must be resolved against the moving party. *See* ***id.*** If the ultimate issue—the reasonableness of the noncompete agreement—turns upon the totality of the facts and circumstances surrounding them, the parties must be given a full opportunity to develop the necessary evidentiary record. *See* ***id.*** at 471, 304 N.W.2d at 757. In such an instance, summary judgment at an earlier stage of the proceedings is improper. *See* ***id.*** at 471-72, 304 N.W.2d at 757.

In the instant case, the initial question is whether the disputed portions of the shareholder's agreement are to be construed as part of a covenant not to compete, thus subject to § 103.465, STATS., or, as NTS argues, part of a "sale of business" agreement, enforceable to the extent that its terms are reasonable. NTS argues that "[t]he same sale-of-business rules apply to [the] transfer of a partial interest in a company as apply when the entire business is sold." NTS cites to ***Kradwell v. Thiesen,*** 131 Wis. 97, 111 N.W. 233 (1907), for support of this proposition. However, we note that this historic authority predates significant subsequent legislation and we turn to cases decided subsequent to the passage of § 103.465.

In ***Holsen v. Marshall & Ilsley Bank,*** 52 Wis.2d 281, 287, 190 N.W.2d 189, 192 (1971), the supreme court held that a provision in an employer's profit sharing and retirement plan that called for a forfeiture of benefits by employees who engaged in competitive enterprises was subject to the requirements of § 103.465, STATS. The court noted that even if "'the agreement is not expressed as a restriction against competition by the employee, [if] its undoubted object and effect is that of a powerful deterrent to the employee's exercise of the right to compete, … sec. 103.465, Stats., [is] applicable.'" *See* ***Holsen,*** 52 Wis.2d at 285, 190 N.W.2d at 191 (quoted source omitted). Noting there that the employer's primary concern was with limiting competition by former employees after termination of their employment, the court stated that "it is substance, not form, that controls." *See* ***id.***

Conversely, covenants not to compete which are incidental to the sale of a business are not subject to exacting scrutiny. *See* ***Reiman Assocs., Inc. v. R/A Advertising, Inc.,*** 102 Wis.2d 305, 309-10, 306 N.W.2d 292, 295 (Ct. App. 1981). NTS argues that "under the rationale of Reiman, even when a sale occurs

between a business and its employees, the more generous sale-of-business standards will apply so long as the covenant is given in consideration for the sale of stock." However, the ***Reiman*** case differs from the instant case in several significant ways. The covenant in that case *was* part of a sale of business agreement whereby the purchasers of the corporation agreed to certain restraints on their business ventures. Furthermore, the ***Reiman*** covenant did not include any restrictions on the right of the purchasing party to enter employment.[3] *See* ***id.*** Such a covenant is not analogous to the one at issue here.

We conclude that the ***Holsen*** analysis is most analogous to the instant case. Like the ***Holsen*** employee pension plan, which penalized an employee who engaged in proscribed competition after termination, the provisions of the shareholder's agreement were triggered by Williams' termination. As in ***Holsen***, the shareholder's agreement in the instant case provided for specific penalties if the agreement was breached. Finally, our independent review of the shareholder's agreement convinces us that the intent of the NTS shareholder's agreement was to deter former employees who were shareholders from engaging in competition with NTS.

Furthermore, it is clear from the language of the shareholder's agreement that it did not include any provisions pertinent to the purchase of NTS. In fact, when Williams sought to buy NTS from Cook prior to his decision to leave

[3] The covenant in that case merely prohibited the defendant from competing "for the business of producing the *Landhandler* [a quarterly publication distributed by Allis Chalmers to farmers through its dealer network]." We also note that the defendant corporation in that case was initially incorporated by the plaintiff. *See* ***Reiman Assocs., Inc. v. R/A Advertising, Inc.,*** 102 Wis.2d 305, 307, 306 N.W.2d 292, 295 (Ct. App. 1981).

and start up his own company, his offer to purchase was contained in a letter to Cook and was independent of the shareholder's agreement.[4] The form and intent of the shareholder's agreement were to enhance the compensation package for key employees, as well as to provide a measure of control over those same key employees if they decided to terminate their employment. Therefore, consistent with past Wisconsin precedent, *see* ***Gary Van Zeeland Talent, Inc. v. Sandas***, 84 Wis.2d 202, 218, 267 N.W.2d 242, 250 (1978) (applying § 103.465, STATS., to a nondisclosure agreement), we conclude that the nondisclosure clause and noncompete agreements must be considered pursuant to § 103.465.[5]

> We next turn to the statutory provisions of § 103.465, STATS.:
>
> **Restrictive covenants in employment contracts.** A covenant by an assistant, servant or agent not to compete with his or her employer or principal during

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[4] In a letter from Williams to Cook in which Williams discussed an "Offer to Purchase the Assets of Northern Technical Services, Inc.," Williams stated:

> For many reasons, I feel that it is in our mutual best interests for me to make an offer to purchase Northern at this time. I will discuss some of these reasons in this letter and sincerely hope you will see that this offer is a matter of practicality and long range planning. Certainly we will need to discuss specific details of the offer after you and your advisors review it. However, during the past year I have put a lot of time, thought and effort into the offer and I think you will find it detailed, reasonable and comprehensive.

What followed were details of the offer to purchase and a business plan.

[5] In a case applying Wisconsin law to an agreement which contained both nondisclosure and noncompete restraints, ***Nalco Chemical Co. v. Hydro Technologies, Inc.***, 984 F.2d 801 (7th Cir. 1993), the court analyzed a nondisclosure clause according to the statutory mandates of both §§ 103.465, STATS., and 134.90(1)(c), STATS. (trade secrets). The court noted that confidential information may constitute trade secrets if certain criteria are fulfilled. *See* ***Nalco Chem.***, 984 F.2d at 803; *see also* ***Minuteman, Inc. v. Alexander***, 147 Wis.2d 842, 850-53, 434 N.W.2d 773, 777-78 (1989). Neither NTS nor Williams argue that the information at issue in this case was subject to trade secret protection.

> the term of the employment or agency, or thereafter, 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 such restrictive covenant imposing an unreasonable restraint is illegal, void and unenforceable even as to so much of the covenant or performance as would be a reasonable restraint.

There are five basic requirements necessary to the enforcement of a restrictive covenant. *See* ***Chuck Wagon Catering, Inc. v. Raduege,*** 88 Wis.2d 740, 751, 277 N.W.2d 787, 792 (1979). They are: (1) the agreement must be necessary for the protection of the employer; (2) it must cover a reasonable time period; (3) it must cover a reasonable territory; (4) it must not be unreasonable as to the employee; and (5) it must not be unreasonable as to the general public. *See* ***id.***

While the statute provides that any unreasonable portion of the covenant not to compete voids the entire covenant, *see* ***Fields Foundation, Ltd. v. Christensen,*** 103 Wis.2d 465, 471, 309 N.W.2d 125, 129 (Ct. App. 1981), if a clause is not a restraint against competition, then the unenforceability of the clause does not affect the balance of the covenant. *See* ***id.*** at 477, 309 N.W.2d at 131. In ***Fields,*** we held that a liquidated damages clause was not a restraint against competition. *See* ***id.*** In the instant case, two provisions are at issue—a nondisclosure clause and a noncompete agreement. While both provisions are contained in paragraph 16 of the shareholder's agreement, we note that this paragraph is entitled "Confidential Information; Agreement Not to Compete." Thus, the agreement itself suggests that the nondisclosure clause was separate from the noncompete language. Furthermore, the two provisions address different concerns. A nondisclosure restriction seeks to prohibit the dissemination of confidential information to a third party. A noncompete agreement seeks to directly proscribe specific competitive activities by an employee during the

immediate postemployment period. Based on all of these factors, as well as the substance of the language of the nondisclosure, we agree with the trial court that the nondisclosure provision contained in the shareholder's agreement is separate from the noncompete provisions. Therefore, we consider each in turn.

The nondisclosure paragraph provided in relevant part that "[t]he Shareholder will not at any time use or disclose to any person not employed by the Company ... any such confidential information, without the consent of the Company …." The trial court concluded that because this language contains no time limitation, it is unreasonable. Because the nondisclosure language is broadly stated and lacks any time limitation, and because NTS offered no evidence to substantiate the need for a nondisclosure restraint that was not time limited, we conclude that the grant of summary judgment to Williams on the unenforceability of this restraint was proper.[6]

We turn then to the specific provisions of the noncompete agreement. It prohibits the covered employee from "participat[ing] in any manner, assist[ing] or advis[ing] any person, firm or corporation engaged in any Competing Business … for a period of six (6) months after the date of termination within a 50-mile radius of either [Milwaukee County] or any other county in which the Company shall maintain an office." We consider this language in light of the five requirements outlined above, which are to be utilized whenever the enforceability of a restrictive covenant under § 103.465, STATS., is challenged.

[6] We do not intend to suggest that the absence of a time limitation in a nondisclosure agreement is per se unreasonable; indeed, there might be some situations where such restrictions are required for the continued financial well being of the party seeking that protection. *See* ***Nalco Chem.***, 984 F.2d at 803 (concluding that a nondisclosure clause which lacked a time restriction is void and unenforceable unless the confidential information qualifies as a trade secret).

We begin with the question of whether the noncompete agreement covers a reasonable time period and territory.

The time and territory of the noncompete language specifies that the agreement is limited to six months and a fifty-mile radius of any office maintained by NTS. These restrictions as to time and territory meet the requirements of the statute on a prima facie basis. *Cf.* ***Hunter,*** 101 Wis.2d at 462, 468, 304 N.W.2d at 753, 756 (restrictive covenant specifying two-year time limit without territorial limit may be permissible under the statute). We note that the trial court did not find the noncompete agreement to be unreasonable because of its time or territory restrictions. Rather, the trial court questioned the *validity* of the agreement, apart from its time and territory requirements, in making its findings. The validity of the noncompete language is based on the remaining three factors: whether it is necessary for the protection of NTS; whether it is overly harsh or oppressive for Williams; or whether it is unreasonable as to the general public.

In ***Hunter,*** the supreme court noted that under summary judgment methodology, a moving party is required to "'establish a record sufficient to demonstrate to the satisfaction of the court that there is no triable issue of material fact on any issue presented.'" *See* ***id.*** at 470, 304 N.W.2d at 757 (quoted source omitted). There the court held:

> We express no opinion whether either agreement in question is reasonable and thus enforceable, or unreasonable and thus unenforceable. We only conclude that on the strength of the record it is not possible to make that determination, as a matter of law, one way or the other. Particularly where, as here, the ultimate issue – the reasonableness of the agreements – turns upon the totality of the facts and circumstances surrounding them, the parties must be given a full opportunity to develop the necessary evidentiary record.

Id. at 471, 304 N.W.2d at 757.

More recently, in ***General Medical Corp. v. Kobs,*** 179 Wis.2d 422, 435, 507 N.W.2d 381, 386 (Ct. App. 1993), we concluded that on the record presented, we were unable to determine whether an agreement not to compete was reasonably necessary to protect an employer's interests. We recognized that "[p]rotection of a business' stock of customers and their good will is a legitimate interest of the employer," *see* ***id.***, and concluded that:

> [A]ny decision on the totality of the facts as to the reasonableness of the covenant will rest to a significant degree on whether such of General's customers as may have shifted some business to Badger did so because of loyalty to Kobs [the former employee] or for some other reason. And although the record contains affidavits relevant to the dispute, we are not convinced that the parties have had the opportunity to fully develop the necessary evidence.

Id. at 436, 507 N.W.2d at 387. We also quoted the following language from ***Hunter***, 101 Wis.2d at 470, 304 N.W.2d at 757:

> [T]he determination of whether a restraint of this type is reasonably necessary for the protection of an employer can[not] be intelligently made without a consideration of the nature and character of such information, including the extent to which it is vital to the employer's ability to conduct its business, the extent to which the employee actually had access to such information, and the extent to which such information could be obtained through other sources.

General Medical, 179 Wis.2d at 435 n.9, 507 N.W.2d at 386. In addition, the question of whether a restraint is unreasonable to the employee requires consideration of "the extent to which the restraint on competition actually inhibits the employee's ability to pursue a livelihood in that enterprise, as well as the particular skills, abilities, and experience of the employee sought to be restrained." *See* ***Hunter,*** 101 Wis.2d at 470, 304 N.W.2d at 757. Even all of these factors are

not exhaustive because "the very essence of what is reasonable involves the totality of the circumstances." *See* ***id.***

In the instant case, the record before the court consisted of a total of nine affidavits—four submitted by Williams and five by NTS. The rest of the record on summary judgment consisted of business records, letters pertaining to Williams' offer to purchase NTS and a copy of the shareholder's agreement. As outlined above, determining the validity of the noncompete agreement requires consideration of the totality of the circumstances. *See* ***id.*** at 468, 304 N.W.2d at 756. "Whether the determination of the reasonableness of a noncompetition agreement is characterized as a question of law or one of fact, *it still remains one which can be made only upon consideration of factual matters.*" ***Id.*** (emphasis added).

We conclude, as did the supreme court in ***Hunter,*** that based on the factual record before the trial court, it was not appropriate for the trial court to grant summary judgment to Williams. Once the trial court concluded that § 103.465, STATS., applied, Williams, as the moving party, was obligated to show that there were no triable issues of material fact. Yet, as Williams offers in its brief, "[T]he relevant issue is whether Waterstone, Williams or Ward competed with Northern for customers within the restricted territory or for Northern's customers outside the restricted territory." From the affidavits that were submitted by both sides, it is clear that Williams engaged in extensive activities during the noncompete period, including leasing office space within the proscribed area, advertising for potential contract workers and contacting businesses which had used the services of NTS to apprise them of the formation of Waterstone. It is uncontroverted that the majority of the contacts made by Waterstone personnel

during the noncompete period were to businesses and individuals Williams had worked with while at NTS.

In its finding that the noncompete agreement was unreasonable as a matter of law, the trial court focused on what it termed "unlikely contingenc[ies]" in finding the noncompete agreement unenforceable. It concluded that because the agreement contained an "absolute prohibition … from associating with a firm engaged in a competing business" it was overbroad and not reasonably necessary to the protection of NTS. The court opined that this prohibition "literally prevent[ed] plaintiffs from being employed as custodians." In making its findings, the trial court stated that it "*believes* that the covenants not to compete … [are] overbroad and *not reasonably necessary* to the protection of NTS." (Emphasis added.)

Under the holding of ***Hunter*** and ***General Medical,*** we conclude that this determination as to reasonableness was improper on the basis of the record before the trial court. Because the trial court found that the noncompete agreement was unreasonable as a matter of law, the parties were not given an opportunity to develop an "evidentiary record" on the question of the reasonableness of the restraint imposed by the shareholder's agreement. *See* ***Hunter,*** 101 Wis.2d at 471, 304 N.W.2d at 757. In particular, the grant of summary judgment precluded consideration of the following: (1) whether Williams' acts violated an otherwise cognizable covenant not to compete under these facts and circumstances; and (2) whether NTS's restraints were reasonably necessary for the protection of its business.

In sum, we affirm the grant of summary judgment on the issue of the enforceability of the nondisclosure clause. However, we reverse the trial court's

finding that the noncompete agreement was unreasonable as a matter of law and remand the cause for further proceedings consistent with this opinion. Based on the partial reversal of the summary judgment order, the cross-appeal, which raises several issues regarding the imposition of costs, is moot. *See* ***City of Racine v. J-T Enters. of Am., Inc.,*** 64 Wis.2d 691, 700, 221 N.W.2d 869, 874 (1974).

By the Court.—Order affirmed in part; reversed in part and cause remanded.

Recommended for publication in the official reports.