THE STATE OF SOUTH CAROLINA
In The Supreme Court

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S.C. SUPREME COURT

APPEAL FROM GREENVILLE COUNTY
Court of Common Pleas

The Honorable D. Garrison Hill
Circuit Court Judge

App. Case No. 2018-001140

Unpublished Opinion No. 2018-UP-078 (S.C. Ct. App. filed February 7, 2018)

DAVID WILSON, INDIVIDUALLY AND DERIVATIVELY ON BEHALF OF CAROLINA CUSTOM CONVERTING, LLC, ... Plaintiff,

vs.

JOHN GANDIS, ANDREA COMEAU-SHIRLEY, ZOI FILMS, LLC, AND CAROLINA CUSTOM CONVERTING, LLC, ... Defendants,

JOHN GANDIS AND ANDREA COMEAU-SHIRLEY, ... Third-Party Plaintiffs,

vs.

CAROLINA CUSTOM CONVERTING, LLC,
..... Third-Party Defendant and Counterclaim Plaintiff,

vs.

DAVID WILSON, STEVE NORVELL, NEOLOGIC DISTRIBUTION, INC. AND FRESH WATER SYSTEMS, INC.,

Of Whom David Wilson, Neologic Distribution, Inc., and Fresh Water Systems, Inc., are the .....Respondents,

and

JOHN GANDIS, ANDREA COMEAU-SHIRLEY, AND CAROLINA CUSTOM CONVERTING, LLC, ... Petitioners.

BRIEF OF PETITIONER CAROLINA CUSTOM CONVERTING, LLC

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TABLE OF CONTENTS

TABLE OF AUTHORITIES

Cases

Statutes

Other Authorities

STATEMENT OF ISSUES ON APPEAL

I. Whether the Court of Appeals Erred By Failing to Apply the Correct Legal Standard of the South Carolina Trade Secrets Act and Thereby Erred in Concluding that the Company Did Not Prove a Trade Secret Existed.

II. Whether the Court of Appeals Erred By Failing to Apply the Correct Legal Standard of the South Carolina Trade Secrets Act and Thereby Erred in Concluding that the Company Did Not Sufficiently Safeguard its Confidential Information.

III. Whether the Court of Appeals Erred By Failing to Apply the Correct Legal Standard of the South Carolina Trade Secrets Act and Thereby Erred in Concluding the Company Was Not Entitled to Damages Under its Trade Secret Misappropriation Claim.

INTRODUCTION

The South Carolina Trade Secrets Act ("the Act") is vital to the protection of intellectual property and capital investment in South Carolina. The Act protects "know-how," engineering, testing, and other investment required to bring a product to market in addition to identifying the niche market for products. The lower courts' oversimplification of the trade secret analysis places South Carolina businesses in jeopardy of unfair competition and intellectual property theft. This case presents an opportunity for this Court to interpret the Act, protect businesses that invest in South Carolina, and remove obvious tension between the Act and this Court's prior decision in *Atwood Agency v. Black*, 374 S.C. 68, 646 S.E.2d 882 (2007).

In *Atwood*, this Court held that a list of past renters and rental homes did not constitute a trade secret because the information was publicly available. The circuit court in this case relied upon that decision to conclude that, among other items, a list of suppliers and customers developed by the Petitioner, Carolina Custom Converting, LLC ("CCC" or "the Company"), for its business did not constitute a trade secret because some of the information was gleaned from public sources. Accordingly, when CCC's former VP of Sales took CCC's confidential information with him and started a brand new, competing company, CCC was left with no legal recourse under this Court's precedent because portions of its confidential information were publically available.

There is tension between the holding of *Atwood* and the language of the Act. Specifically, the Act provides that:

> "[a] trade secret may consist of a simple fact [or] item . . . which, although individually could be perceived as relatively minor or simple, collectively . . . may be the basis of a . . . commercial strategy. The collective effect of the items . . . must be considered in any analysis of whether a trade secret exists ***and not the general knowledge of each individual item*** . . . ."

S.C. Code Ann. § 39-8-20(5)(b) (emphasis added). Contrary to the above-emphasized language of

the Act, in a trade secret case involving a compilation of information, *Atwood* appears to instruct the bench and bar that the mere existence of publically available information defeats trade secret protection. Accordingly, CCC respectfully requests that this Court remedy this tension, reverse the court of appeals, and remand this case for a new trial or a trial on damages.

STATEMENT OF THE CASE

This is an appeal from a business litigation matter from the Greenville County Court of Common Pleas. Respondent David Wilson ("Wilson")[1] and John Gandis ("Gandis") formed CCC in 2007. By 2012, Wilson had departed from the Company and filed a complaint against Gandis and Andrea Comeau-Shirley ("Shirley")[2] regarding a corporate governance dispute. Ultimately, Wilson amended his complaint to include claims against the Company. As a result, the Company counterclaimed and, relevant to this appeal, brought claims against Wilson and his new employers, Neologic Distribution, Inc. ("Neologic") and Fresh Water Systems, Inc ("FWS") for violation of the Act.[3]

The corporate governance and trade secret case[4] was tried non-jury before the Honorable D. Garrison Hill, with the trial including four days of testimony and one morning of closing argument. On the afternoon following oral argument, the circuit court issued a letter-ruling finding that CCC did not prove its trade secret claims. App. pp. 1827-29.[5]

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1 CCC's former VP of Sales.

2 Shirley was a minority shareholder of the Company.

3 CCC had previously brought a separate action against Wilson and Neologic alleging trade secret violations, among other claims. *Carolina Custom Converting, LLC v. David Wilson and Neologic Distribution, Inc.*, C/A No. 2013-23-CP-03474. That action was dismissed pursuant to Rule 41, SCRCP once CCC was made a party to this action and asserted counterclaims.

4 Other claims not relevant to this appeal were involved.

5 Appendix page numbers are located in the bottom right-hand corner of the Appendix.

The court concluded that because the confidential information was accessible by the public, it did not qualify as a trade secret. App. pp. 1827-28. The circuit court further concluded that CCC did not sufficiently safeguard its confidential information because CCC did not employ "eternal vigilance" to protect it—the Act, however, only requires efforts that are "reasonable under the circumstances." App. p. 1828. Finally, the circuit court concluded that CCC was not entitled to damages. App. p. 1829.[6]

Importantly, in denying FWS and Neologic's counterclaim that the trade secret claim was brought in bad faith, the circuit court correctly acknowledged that "[e]vidence shown at trial demonstrated that Neologic/[FWS] used CCC's confidential information and that CCC was justified in bringing the trade secrets claim." App. p. 1831. The court of appeals issued an unpublished opinion affirming and adopting the circuit court's order. App. pp. 2559-61.

FACTUAL BACKGROUND

A. Description of CCC

CCC was founded in November of 2007; its base of operations and headquarters is in Anderson, South Carolina. Gandis is the President of the Company and manages the Anderson facility. Wilson was the Vice President of the Company and managed the sales. The Company distributes plastic films throughout the United States, Mexico, and Canada. The plastic films that CCC distributes are used in a variety of applications, including the food industry for packaging and product labeling purposes. App. p. 21, lns. 21-23. CCC also distributes metallized plastic films, which are used in the flexible duct industry (*i.e.*, the heating and air industry). *See* App. p. 898,

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[6] With all due respect to the circuit court, the absence of routine post-trial briefing limited its ability to properly analyze the facts to the law. It is important to note that when counsel for CCC proposed a post-trial briefing schedule, Wilson's counsel objected. App. p. 889, ln. 2-p. 890, ln. 18.

lns. 3-6. In addition, CCC distributes specialized films into niche markets, such as white board manufacturers. App. p. 893, lns. 2-17.

CCC primarily operates as an intermediary in the market place, connecting film customers with film suppliers. App. p. 899, lns. 4-12. Accordingly, CCC's lifeblood is based upon both its customer relationships and supply relationships. In this category of business, CCC has gone through a thorough qualifying process whereby it first understands the customer's technical needs, and then works to select a specific film suitable to meet those needs. App. p. 894, lns. 20-25. The qualifying process, which is done at the customer's plant, is undertaken to test the film (or multiple films) in a number of different capacities to ensure suitability for the customer's end-product. App. p. 934, lns. 3-10. A qualifying process can take a number of months or even longer. *E.g.*, App. p. 311, lns. 7-20. Once a film is qualified, CCC can serve as that customer's film supplier.

CCC supports other customers on an as needed basis. For these customers, a request for supply is generated in the regular course of business, and CCC competes to meet that customer's requirements as soon as possible. App. p. 902, lns. 11-17. CCC developed an electronic vendor reference guide and an inventory reference program to make this process significantly more efficient. App. p. 900, ln. 23-p. 904, ln. 4. CCC seeks to fill these requests for supply from its own film stocks, and other times it must enter the open market to purchase these films. In both instances, CCC makes use of the electronic vendor reference program and the inventory reference program, in addition to its employee's experience. *Id.* Finally, when a customer needs a film tailored to a specific width, CCC has the machine assets to convert the film down to the required width and length—that is, it has machines at its Anderson facility that can trim a 60-inch wide roll of film down to 35 inches. *See* App. p. 34, lns. 2-4.

B. CCC Financial Operations Pre-Litigation

CCC made a profit in each of its first three years: 2008-2010. App. p. 609, lns. 3-5. And in 2010, it posted a banner profit exceeding $1 million as a result of a world-wide film shortage. CCC was able to capitalize on the film shortage because it purchased large amounts of film inventory. App. p. 674, lns. 11-25. With inventory on-hand, CCC was able to service a larger number of customers that it did not previously service in 2008-09. *See* App. p. 676, ln. 23-p. 677, ln. 1. During its successful start-up years, CCC grew to a company of roughly 24 employees. App. p. 49, lns. 20-24. In 2009, CCC opened an office in Greenville, South Carolina. By the second half of 2011, Wilson was primarily supporting CCC's sales force from Greenville, and was not interacting with the customers on a regular basis. App. p. 425, lns. 1-12.

In 2011, CCC's profitability ended and it posted a substantial loss. App. p. 609, lns. 3-5. Specifically, CCC lost $456,000 in 2011. App. p. 255, lns. 8-15. The financial health of the Company led to strife among the members of CCC regarding how to reverse the negative financial trend. As a result, Wilson began looking to exit the Company and with the full intention of taking all of the corporate value—the trade secrets—with him.

C. Wilson Prepares to Leave CCC and Take its Trade Secrets with Him

In January of 2012, Wilson began finalizing plans to leave CCC and join a film sales company in Tennessee named FilmTech, Inc. ("Filmtech") App. p. 506, ln. 12-p. 509, ln. 18; pp. 1730-31, 1735, 1740. On January 9, 2012, Wilson entered CCC's secure server, App. p. 906, lns. 5-9, and downloaded all of CCC's customer and supplier contact information. App. p. 891, ln. 10-

p. 892, ln. 3; p. 1346. The next day, he ate dinner with FilmTech's owner, Mark McGarel ("McGarel").[7] App. p. 1730.

> On January 16, 2012, at 12:11 pm, Wilson sent an e-mail to McGarel regarding his plans:
>
> Hi Mark,
>
> I look forward to the opportunity to join your organization. . . . Here are the points of discussion for our agreement.
>
> . . .
>
> 4. Full time employee with draw or salary of $8k per month for a period of time until my commission reaches a level that supports my needs. ***My goal will be to move as much of the business I manage at CCC to Filmtech as quickly as possible. In addition, I will work to bring prospective business that CCC has been working on our qualifying over the past 3 to 6 months.***

App. p. 1735; p. 506, ln. 19-p. 507, ln. 22 (emphasis added).

Later that day, at 5:34 pm, Wilson sent a follow-up email to McGarel. App. pp. 1740-48. In that e-mail, Wilson went line-by-line through CCC's current markets and customers. He also attached CCC's 2012 budget forecast, which included CCC's projected customer sales and the prospects that CCC was working to secure. *Id.*; *see also* App. p. 508, ln. 17-p. 509, ln. 14. Importantly, the attachment hid the names of the customers and the prospects. *E.g.*, App. p. 1743 (Column A). Wilson knew to hide these names because if he did not, then he would be giving away the trade secrets. Wilson testified that it was his plan to take all of the confidential information and use it at FilmTech. App. p. 508, ln. 17-p. 509, ln. 14. Ultimately, McGarel passed on Wilson's proposal to join FilmTech. During their discussions, McGarel had inquired about potential legal ramifications. App. p. 1742.

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[7] Wilson initially approached McGarel to determine whether FilmTech would be interested in acquiring CCC. To that end, Wilson had McGarel sign a non-disclosure agreement. The conversation, however, quickly turned to Wilson joining FilmTech. App. p. 506, lns. 15-18.

As discussed below, instead of joining FilmTech, Wilson took everything he had planned to bring to FilmTech, and instead took it to NeoLogic and FWS. There is no question that Wilson took all of CCC's confidential information with him. App. p. 529, lns. 1-18.

D. Wilson Destroys Evidence

During the first part of January, when Wilson was attempting to join FilmTech, he concurrently sought to either negotiate the purchase of his equity interest by CCC or purchase the other members' interest. By this time, all parties had retained legal counsel. *See* App. p. 509, ln. 18-p. 510, ln. 2. At some point during the negotiations, Wilson's counsel led the Company's counsel to believe that Wilson was leaving CCC. App. p. 173, lns. 2-17; p. 445, ln. 14-p. 446, ln. 13. As a result, CCC's information technology consultant disconnected the Greenville office from CCC's server. *See id.* Gandis took this action to prevent Wilson from downloading CCC's confidential information from the server and taking it with him. On the afternoon of the next day (January 17), Gandis travelled to the Greenville office with a member of law enforcement to remove Wilson and prevent him from taking CCC's property. App. p. 174, ln. 18-p. 175, ln. 8. Despite Gandis' efforts, Wilson took two CCC computers and a Blackberry telephone when he left the Greenville office that day. *Id.*; *see also* App. p. 510, lns. 10-16.

On January 19, CCC's counsel sent a letter (via facsimile) to Wilson's counsel. App. pp. 1749-51. The letter notified Wilson that he had taken company property, which included "proprietary information, trade secrets, and other intellectual property," and instructed him "not to destroy, copy, sell or use any of this property, including the computer data." App. p. 1749. After receiving this warning, Wilson then erased all of the data on both computers, and the Blackberry. App. p. 510, ln. 25-p. 524, ln. 2; *see also* App. p. 922, ln. 23-p. 924, ln. 2. Wilson admitted that he erased this information after receiving notice not to do so. App. p. 524, lns. 3-6. As an explanation

for his actions, Wilson claimed that he transferred CCC's data from these devices prior to erasing them. App. p. 510, ln. 24-p. 524, ln. 24.[8]

E. Wilson Joins FreshWater Systems, Inc. and Neologic Distribution, Inc.

Upon leaving CCC, Wilson immediately started siphoning CCC's customers. App. p. 526, ln. 20-p. 527, ln. 25. He first began doing so with the financial backing of FWS. *Id.*; *see also* App. p. 1800 ("What's your proposal on the profit allocation to FWS?"). FWS is a business owned by Wilson's brother-in-law, Steve Norvell. App. p. 751, ln. 18-p. 752, ln. 2. Soon thereafter, he continued siphoning CCC's customers through a company named Neologic, App. p. 752, lns. 19-23; p. 1804, which was a "sister" company to FWS.[9] *Id.* Notably, while Neologic/FWS was not in the film business, it created a film division when Wilson began working there. App. p. 752, lns. 12-23.

In its first year of existence, Neologic/FWS conducted over $135,000 worth of business with CCC customers. App. p. 1362. In 2013, Neologic/FWS conducted over $580,000 worth of business with CCC customers. *Id.* By the time of trial, Neologic/FWS had conducted over $980,000 worth of business with CCC customers. *Id.*

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[8] The destruction of evidence in this case was substantial. Wilson's efforts to minimize this fact were not supported by the record, and the circuit court's decision not to address or acknowledge Wilson's spoliation was confounding.

[9] These two companies were essentially the same entity. The Neologic balance sheet showed that all monies used by it flowed from FWS, and that FWS employees worked for Neologic. App. p. 759, ln. 3-p. 760, ln. 3; pp. 1363-65. Although later disputed at trial, during a Rule 30(b)(6), SCRCP, discovery deposition, Neologic testified that it paid for Wilson's attorney fees and treated the payment as an "overhead expense." App. p. 2437, lns. 9-16; p. 2438, lns. 3-14; p. 756, ln. 1-p. 758, ln. 25.

STANDARD OF REVIEW

"In an action at law tried without a jury, an appellate court's scope of review extends . . . to the correction of errors of law." *Temple v. Tec-Fab, Inc.*, 381 S.C. 597, 599–600, 675 S.E.2d 414, 415 (2009). "Determining the proper interpretation of a statute is a question of law," and questions of law are reviewed de novo. *Lambries v. Saluda Cty. Council*, 409 S.C. 1, 7, 760 S.E.2d 785, 788 (2014) (citations omitted). In addition, an appellate court will disturb the trial court's findings when "they are found to be without evidence that reasonably supports those findings." *Temple*, 381 S.C. at 600, 675 S.E.2d at 415.

ARGUMENT

A. Legal Standard – Trade Secrets

The Act, S.C. Code Ann. § 39-8-10 *et seq.* (1997), "arguably establishes the most comprehensive compilation of trade secret laws in the United States." *Employees Beware: Employer Rights Under the South Carolina Trade Secrets Act*, Kirk T. Bradley, Note, 49 S.C. L. REV. 597, 597-98 (Spring 1998). Pursuant to Section 39-8-30(B):

> ***Every employee*** who is informed of or should reasonably have known from the circumstances of the existence of any employer's trade secret ***has a duty to refrain from using or disclosing the trade secret*** without the employer's permission ***independently of and in addition to*** any written contract of employment, secrecy agreement, noncompete agreement, nondisclosure agreement, or other agreement between the employer and the employee.

(emphasis added). Accordingly, regardless of the existence of a written agreement, Section 39-8-30(B) imposes upon all employees a duty to refrain from using or disclosing their employer's trade secrets without the employer's permission.

Section 39-8-20(5) defines a trade secret as:

> (a) information including, but not limited to, a formula, pattern, compilation, program, device, method, technique, product, system, or process, design, prototype, procedure, or code that:

> (i) derives independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by the public or any other person who can obtain economic value from its disclosure or use, and
>
> (ii) is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
>
> (b) A trade secret may consist of a simple ***fact, item***, or procedure, or a series or sequence of items or procedures which, although individually could be perceived as relatively minor or simple, collectively can make a substantial difference in the efficiency of a process or the production of a product, or ***may be the basis of a*** marketing or ***commercial strategy***. The collective effect of the items and procedures must be considered in any analysis of whether a trade secret exists and ***not the general knowledge of each individual item*** or procedure.

(emphasis added). Furthermore, Section 39-8-20(2) defines misappropriation as: "(a) acquisition of a trade secret of another by a person by improper means; [or] "(b) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; . . . ."[10]

"A complainant ***is entitled to recover actual damages for misappropriation*** of trade secrets." S.C. Code Ann. § 39-8-40(A) (emphasis added). The phrase "is entitled to recover" demonstrates a legislative intent to impose liability upon the misappropriator of a trade secret. Therefore, if a complainant proves that his or her trade secret was misappropriated, then the complainant is entitled to damages. Such damages "may include both the actual loss caused by misappropriation or the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss." S.C. Code Ann. § 39-8-40(B). In addition, "[i]n lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty for a misappropriator's unauthorized disclosure or

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[10] "Improper means" includes, but is not limited to theft, the breach of a duty to maintain secrecy, or the breach of a duty imposed by common law or statute. S.C. Code Ann. § 39-8-20(1).

use of a trade secret." *Id.*

The court may also award "***separate*** exemplary damages" if it finds that the misappropriator willfully, wantonly, or recklessly disregarded the complainant's rights. S.C. Code Ann. § 39-8-40(C) (emphasis added). In cases where the court awards damages under Section 39-8-40(C), such damages may be up to twice the amount awarded under Section 39-8-40(A). *Id.*

B. The Court of Appeals Erred by Concluding No Trade Secrets Existed

1. CCC's Confidential Information is a Trade Secret

"The cardinal rule of statutory construction is to ascertain and effectuate the intent of the legislature." *Hodges v. Rainey*, 341 S.C. 79, 85, 533 S.E.2d 578, 581 (2000) (citations omitted). "Under the plain meaning rule, it is not the court's place to change the meaning of a clear and unambiguous statute." *Id.* Indeed, "[w]here the statute's language is plain and unambiguous, and conveys a clear and definite meaning, the rules of statutory interpretation are not needed and the court has no right to impose another meaning." *Id.* "'What a legislature says in the text of a statute is considered the best evidence of the legislative intent or will.'" *Id.* (quoting Norman J. Singer, *Sutherland Statutory Construction* § 46.03 at 94 (5th ed. 1992)). "'Therefore, the courts are bound to give effect to the expressed intent of the legislature.'" *Id.*

The court of appeals erred in adopting the circuit court's failure to apply the plain language of the Act. As detailed above, Section 39-8-20(5)(b) provides:

> A trade secret ***may consist of a simple fact, item, or procedure***, or a series or sequence of items or procedures which, ***although individually could be perceived as relatively minor or simple, collectively can make a substantial difference in the efficiency of a process*** or the production of a product, ***or may be the basis of a marketing or commercial strategy***.

(emphasis added). The plain language of Section 38-8-20(5)(b) makes clear that a compilation of customer and supplier information is a trade secret, provided that it either makes a substantial

difference in the efficiency of a process or is the basis of a commercial strategy. *Id.*; *see also* *Williams v. Riedman*, 339 S.C. 251, 284, 529 S.E.2d 28, 45 (Ct. App. 2000) (Goolsby, J. concurring) ("I do not construe [the majority opinion] to hold that a customer list cannot be a trade secret and therefore not protected under the [Act]."); S.C. JUR. INTELLECTUAL PROPERTY § 77 & n.1 (noting that "customer lists and other sales and marketing information can be trade secrets."). Clearly, the customer and supplier lists developed by CCC are entitled to trade secret protection under the plain, unambiguous language of the Act.

Here, CCC spent significant corporate time, effort, and resources developing its customer and supplier lists. App. p. 893, lns. 10-18; p. 894, ln. 20-p. 895, ln. 17; p. 896, ln. 24-p. 897, ln. 5; p. 898, lns. 3-14; p. 899, lns. 1-17; p. 900, ln. 8-p. 904, ln. 24 (detailing the corporate time, effort, and resources expended by CCC in developing its confidential information).[11] In considering this evidence, the circuit court and court of appeals failed to acknowledge that the efforts involved in locating the correct film for a customer required significant intellectual input by CCC, App. p. 893, lns. 5-17, and gave little weight to the complexity of the supplier market and the resources CCC utilized in navigating that market to locate the correct film for each customer. App. p. 895, lns. 7-10. The circuit court also failed to give proper weight to the confidential nature of CCC's electronic vendor reference program and inventory reference program, App. pp. 1577-630, both of which improved CCC's efficiency and provided it with a competitive advantage. App. p. 902, lns. 9-17; *see also* App. p. 1704 (***Wilson*** noting the competitive advantage of CCC is its ability "turn an order faster than [its] competition.").

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[11] This is further evidenced by the fact – which Wilson acknowledged in his own appellate brief – that in a year where CCC had roughly $7 million in sales, only half of those sales were from customers Wilson brought from his prior company. App. p. 2517.

Specifically, CCC's electronic vendor reference program, which operates through Excel, App. p. 900; lns. 24-25, was developed over time with the input of several CCC employees, including Shirley. App. p. 901, lns. 6-10. It contains information ***compiled by CCC*** detailing different film manufacturers, specific films types, and manufacturer codes, all of which improve efficiency.[12] App. p. 901, lns. 1-20. Similarly, CCC's inventory reference program was developed to improve efficiency by providing a searchable system that immediately shows what inventory CCC has available at any given time. App. p. 902, ln. 18-p. 903, ln. 7. These programs are clearly comprised of "simple fact[s] . . . [that] although individually could be perceived as . . . minor or simple, collectively [made] a substantial difference in the efficiency of [CCC's] process[es] . . . [and were] the basis for [CCC's] commercial strategy." S.C. Code Ann. § 39-8-20(5)(b).[13] Accordingly, the circuit court's conclusion that no trade secret existed should be reversed.

2. Other Jurisdictions Treat This Information as a Trade Secret

Courts from numerous jurisdictions treat this information as a trade secret. *See N. Atlantic Instruments, Inc. v. Haber*, 188 F.3d 38, 46 (2d Cir. 1999) (listing several New York cases that found customer lists to be a protected trade secret); *see also Webcraft Tech.'s, Inc. v. McCaw*, 674 F. Supp. 1039, 1044-46 (S.D.N.Y. 1987) (holding that a customer list ***which took time and effort***

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[12] For example, when a customer calls and provides a description of a desired product, CCC can simply input the customer's specifications into the electronic vendor reference program, and it will quickly generate a result that provides CCC with every manufacturer that makes the desired type of film. App. p. 902, lns. 4-8.

[13] CCC's confidential information also "***derives independent economic value*** . . . from not being generally known to, and not being readily ascertainable by proper means by the public or any other person who can obtain economic value from its disclosure or use." § 39-8-20(5)(a)(i) (emphasis added). Indeed, Wilson agreed in open court that CCC's confidential information was valuable. App. p. 998, lns. 9-13 (Wilson's counsel stating, "they didn't want to give us the customer list because that customer list has such value. Well, ***we agree it has value.***") (emphasis added).

to develop, including the development of a specialized knowledge of the customer's operations and needs, was a confidential and valuable trade secret); *Home Pride Foods, Inc. v. Johnson*, 634 N.W.2d 774, 781-82 (Neb. 2001) (holding that a customer list was a trade secret where "time and effort ha[d] been expended to identify particular customers with particular needs or characteristics[,]" as "[s]uch lists are distinguishable from mere identities and locations of customers that anyone could easily identify as possible customers"); *W. Plains, L.L.C. v. Retzlaff Grain Co. Inc.*, 927 F. Supp. 2d 776, 783–84 (D. Neb. 2013) (quoting *Johnson*, 634 N.W.2d at 782, for the same proposition); *Fred's Stores of Miss., Inc. v. M & H Drugs, Inc.*, 725 S.2d 902, 909-910 (Miss. 1998) (holding that a customer list was a trade secret); *Unified Brands, Inc. v. Teders*, 868 F. Supp. 2d 572, 583 (S.D. Miss. 2012) (citing *Fred's Stores*, 725 So.2d at 911, and recognizing that "pricing and customer-related information . . . has been found to be [a] trade secret").

3. The Court of Appeals Erred by Incorrectly Applying Legal Authority

The court of appeals also erred in adopting the circuit court's misapplication of *Atwood Agency v. Black*, 374 S.C. 68, 646 S.E.2d 882 (2007). Section 39-8-20(5)(b) provides that "[t]he collective effect of the items and procedures must be considered in any analysis of whether a trade secret exists ***and not the general knowledge of each individual item or procedure***." (emphasis added). However, in holding that CCC's confidential information was not a trade secret because portions[14] of it were procured from public sources, App. pp. 1827-28, the circuit court apparently

[14] Wilson's own witness – Bruce Hotmer – testified that not all of CCC's confidential information was available to the public. App. p. 355, lns. 2-5 ("Well, you wouldn't find [the products customers needed] in the Thomas Register, according to my memory. Now, if they've changed, I would be surprised.").

believed that *Atwood* stood for the proposition that information is not entitled to protection under the Act if it is publically accessible.

Contrary to the circuit court's interpretation, *Atwood* cannot stand for the proposition that confidential information is precluded from trade secret protection merely because it is based upon information from the public domain. *Servo Corp. of Am. v. General Elec. Co.*, 393 F.2d 551, 555 (4th Cir. 1968) ("But if [the cited case] holds that the mere presence in the public domain of the information upon which a trade secret is based precludes recovery for breach of a confidential relationship, we decline to follow it."); *accord BBA Nonwovens Simpsonville, Inc. v. Superior NonWovens, LLC*, 303 F.3d 1332, 1339 (Fed. Cir. 2002) (citing pre-*Atwood* South Carolina federal district court decision for the proposition that, "[i]t is well settled law that the fact that part, or even eventually all, of the components of a trade secret are matters of public law or public knowledge does not prohibit a claim of trade secret"); *see also In re Wilson*, 248 B.R. 745, 750 (M.D.N.C. 2000) (noting that "'[t]he principle that because a secret is of such a nature that it can be discovered by lawful means does not deprive its owner of a right to protection from those who obtain it unlawfully is not only generally accepted, it is also sagacious.'") (quoting *Biodynamic Techs., Inc. v. Chattanooga Corp.*, 664 F. Supp. 607, 611 (S.D. Fla. 1986)).

Indeed, were this the law, it would create an "insurmountable [burden because the reality is that] trade secrets frequently contain elements that by themselves may be in the public domain but together qualify as trade secrets." *The Boeing Co. v. Sierracin Corp.*, 738 P.2d 665, 675 (Wash. 1987) (citing *Servo Corp.*, 393 F.2d at 555); *see also Rivendell Forest Prods., Ltd. v. Georgia–Pacific Corp.*, 28 F.3d 1042, 1046 (10th Cir. 1994) ("'[A] trade secret can include a system where the elements are in the public domain, but there has been accomplished an effective, successful and valuable integration of [those] elements and the trade secret gave the claimant a competitive

advantage which is protected from misappropriation.'").

In *Atwood*, this Court considered whether a "homeowners list" and a "renters list" were trade secrets within the home rental industry. *Id.* at 71, 646 S.E.2d at 883. In a split decision,[15] the *Atwood* Court held that neither list was entitled to trade secret protection due to the "undisputed fact that a list of all the homeowners in Edisto Beach and their contact information [was] a matter of public record available at Town Hall." *Id.* at 72, 646 S.E.2d at 884. In so holding, this Court also noted that the defendant was "contacted directly by Atwood renters after Atwood sent out an announcement of her departure." *Id.* at 72, 646 S.E.2d at 884.

The facts of this case are fundamentally different than the facts in *Atwood*. Here, unlike the information at issue in *Atwood*, CCC's confidential information was not merely sitting at a "Town Hall" for anyone to simply review. Rather, as detailed above, CCC expended significant corporate time, effort, and resources developing its confidential information. *See Johnson*, 634 N.W.2d at 782 (noting that customer lists containing confidential information "are distinguishable from mere identities and locations of customers that anyone could easily identify as possible customers"); *see also W. Plains, L.L.C.*, 927 F. Supp. 2d at 783–84 (noting same); *Ecolaire Inc. v. Crissman*, 542 F. Supp. 196, 206 (E.D. Penn. 1982) (noting that customer lists which contain confidential customer data are of "considerably greater value than information contained in publicly available directories"); *Craig Outdoor Advertising, Inc. v. Viacom Outdoor, Inc.*, 528 F.3d 1001, 1018-19 (8th Cir. 2008) (noting that public information gained "only after, ***extensive, time-consuming research*** [is] information entitled to protection") (emphasis added).

CCC's business is also substantially more complex than the Edisto Beach vacation home

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[15] Two members of this Court would have held that the "renters list" was as a trade secret. *Atwood*, 374 S.C. at 74, 646 S.E.2d at 884.

rental industry. Specifically, CCC's business involves working with customers to qualify a film – which can take months[16] – before entering into long-term supply relationships. App. p. 909, lns. 11-15; *see also* App. p. 311, lns. 7-20 (Wilson's own witness detailing the complexity of the qualification process). The qualifying process requires CCC to expend a substantial amount of corporate time, effort, and resources in order to locate the correct film and the most suitable supplier of that film for each customer. Indeed, locating the most suitable supplier is often the most valuable information to CCC because it provides CCC with a competitive pricing advantage. *E.g.*, App. p. 894, ln. 7-p. 896, ln. 8; *see also Elm City Cheese Co. v. Federico*, 752 A.2d 1037, 1040-41, 1053 (Conn. 1999) (noting that cheese company's commercial strategy of locating "return milk" for use in its processes was a trade secret as it allowed the cheese company to purchase its raw goods at a much lower cost); *Sigma Chemical Co. v. Harris*, 794 F.2d 371, 373 (8th Cir. 1986) (noting that "which suppliers supplied chemicals at the requisite quality and price was not in public domain" and protected as a trade secret). Nevertheless, the circuit court failed to appreciate the complexity of the qualification and supplier identification process, the corporate energy that CCC devoted to it, and the fact that the qualification process helped CCC develop much of its confidential information.

Furthermore, and likewise contrary to the facts in *Atwood*, documentary evidence proved that Wilson contacted and solicited CCC's customers after he left CCC. *E.g.*, App. pp. 1800-02 ("When [Wilson] told them [he] had left CCC weeks ago"); *see also* App. p. 1369 (Wilson stating, "Good catching up with you today. As discussed, my new company is Neologic Distribution. I am still in the film industry and able to supply you with any film requirements you have . . . Stop by

[16] During the qualifying process, many times a CCC employee was required to travel to the customer's plant for trial runs. *E.g.*, App. p. 934, lns. 3-10.

to see me when you are in the Greenville area."); App. p. 1337 (Wilson stating, "I hope you are well. As you may have heard, I left [CCC] in January. I am still very much in the film business . . . I hope to hear from you soon. Let me know when you expect to order film again in the future."). In addition, Wilson admitted on cross-examination that he began soliciting CCC customers via email when he began working for Neologic/FWS. App. p. 528, lns. 24-25.

Atwood also did not involve competitive pricing. Unlike the price that a home rental company charges, which is expressly advertised, CCC does not advertise the price that its customers pay because it would allow a competitor to underbid CCC based on CCC's pricing information. *See Webcraft Tech.'s*, 674 F. Supp. At 1046 (holding that pricing information is a trade secret); *see also Teders*, 868 F. Supp. 2d at 583 (denying motion to dismiss and recognizing that pricing information has been found to be a trade secret). Notably, Wilson was doing just that, as he and Neologic/FWS were underbidding CCC based on their possession of CCC's confidential pricing information. App. p. 893, ln. 18-p. 894, ln. 2; p. 896, lns. 2-20; p. 897, lns. 6-11; pp. 1375-76 ("These prices are very attractive."); *see also* App. p. 1417 (showing $448.38 (approximately 0.57%) profit on $79,255.10 sale).

The court of appeals also erred in adopting the circuit court's misapplication of *Carolina Chemical Equipment Co. v. Muckenfuss*, 322 S.C. 289, 471 S.E.2d 721 (Ct. App. 1996) to the facts of this case. The circuit court's holding cited *Muckenfuss* for the proposition that Wilson's prior industry experience precluded CCC's confidential information from becoming a trade secret. However, in *Muckenfuss*, the plaintiff did not claim that the defendant "took actual customer lists, pricing lists, or formula cards with him." *Id.* at 297, 471 S.E.2d at 725. Rather, the plaintiff alleged the misappropriation stemmed from the defendant's use of "knowledge he acquired during the 17 years he was employed" by the company. *Id.* at 297, 471 S.E.2d at 725.

Here, Wilson did not simply use knowledge he had previously acquired from the film industry. Rather, Wilson ***admitted*** that he took CCC's confidential information, App. p. 529, lns. 1-18, which he then used ***to start a brand new film division*** at Neologic/FWS. App. p. 1831 ("Evidence shown at trial demonstrated that ***Neologic/[FWS] used CCC's confidential information*** and that CCC was justified in bringing the trade secrets claim.") (emphasis added). Wilson's effort to downplay his misappropriation by claiming that he gained information independently from his years in the film industry misses the point. *Webcraft Tech's.*, 674 F. Supp. at 1046 ("Although the friends and acquaintances acquired [through] business dealings in an industry is not generally considered a trade secret, different considerations apply where a list of useful and influential contacts among customers and prospects is accumulated with considerable effort for the benefit of the employer."); *see also Fred's Stores*, 725 So.2d at 909 ("[I]t is this very work effort or process of acquiring and retaining clientele, that constitutes a protectable trade secret.").

"There is little doubt that information which [Wilson] learned while employed at [CCC] concerning customer preferences and . . . pricing is protectable." *Webcraft Tech's.*, 674 F. Supp. at 1046. While Wilson has claimed that he did not need CCC's confidential information to compete, "the fact remains that [Wilson] took the list and no doubt it helped h[im] remember far more than []he could have remembered without it." *Id.*; *see also Johnson*, 634 N.W.2d at 782 (noting that if the information on the customer list was readily available, then why go to the trouble of obtaining it). Moreover, while certain portions of CCC's confidential information were publically available, CCC still devoted an immense amount of company time, effort, and resources into developing it. Such information is entitled to protection under the plain language of Section 39-8-20(5)(b), which follows well-established law that the mere presence of publically accessible

information does not defeat trade secret protection.

C. The Court of Appeals Erred in Applying an Improper Legal Standard When it Analyzed Whether CCC Sufficiently Safeguarded its Confidential Information

The court of appeals erred in adopting the circuit court's application of an improper legal standard when it determined that CCC failed to sufficiently safeguard its confidential information. Section 39-8-20(5)(a)(ii) only requires the owner of a trade secret to employ "efforts that are ***reasonable under the circumstances***" to maintain the secrecy of the trade secret. (emphasis added). However, in holding that CCC failed to sufficiently safeguard its confidential information, App. p. 1822, the circuit court failed to apply the "reasonable under the circumstances" standard. Instead, the circuit court adopted an improper legal standard from an ***unpublished*** opinion of the Fourth Circuit Court of Appeals, holding that "[a] party claiming a trade secret violation must exercise 'eternal vigilance,' which 'calls for constant warnings to all persons to whom the trade secret has become known and obtaining from each an agreement, preferably in writing, acknowledging its secrecy and promising to respect it.'" App. p. 1828 (quoting *Hill Holliday Connors Cosmopulos, Inc. v. Greenfield*, 433 Fed. Appx. 207 (4th Cir. 2011)).

The *Greenfield* court obtained the "eternal vigilance" standard from *Lowndes Products, Inc. v. Brower*, 259 S.C. 322, 191 S.E.2d 761 (1972). However, *Lowndes* is no longer controlling law, as the "reasonable under the circumstances" standard superseded the "eternal vigilance" standard with the enactment of the Act in 1997.[17] As a result, the circuit court's holding that CCC was required to employ efforts that were "eternally vigilant" to protect its confidential information constitutes clear reversible error.

[17] As its name suggests, the "eternal vigilance" standard requires efforts that are more vigorous than efforts that are simply "reasonable under the circumstances."

Notably, when considering the facts of this case under the proper, "reasonable under the circumstances" standard, it is clear that CCC's efforts to safeguard its confidential information complied with the Act. The undisputed testimony at trial established the following:

- When Wilson left CCC, only three of CCC's 24 employees had access to all of CCC's confidential information: Wilson, Gandis, and Shirley. App. p. 906, lns. 8-9;
- The confidential information was located on a password-protected server. App. p. 906, ln. 7; *see also Fred's Stores*, 725 S.2d at 910-11 (holding reasonable efforts were met where access to the "computer on which the list was stored was obtainable only through a password" and the "number of employees who had access to it was limited");
- When CCC was led to believe that Wilson was going to leave, his access to the server was disabled. App. p. 173, lns. 11-14; p. 445, ln. 22-p. 446, ln. 13;
- When the threat of a misappropriation occurred, CCC acted to maintain the secrecy of its confidential information. App. pp. 1716-18 (evidencing extensive efforts by Shirley and Gandis to ensure that the secrecy of CCC's confidential information was protected, including detailed instructions and warnings given to Wilson regarding not sharing CCC's confidential information with third parties);
- When Gandis met Wilson to get him to leave the Greenville office, he brought along a member of law enforcement in an attempt to prevent Wilson from taking CCC property with him. App. p. 174, lns. 1-14.

Because these efforts were "reasonable under the circumstances," this Court should reverse on this basis as well.

D. The Court of Appeals Erred in Concluding that CCC Was Not Entitled to Damages

The court of appeals erred in adopting the circuit court's conclusion that CCC was not entitled to damages. As detailed above, Section 39-8-20(2) defines misappropriation as: "(a) acquisition of a trade secret of another by a person by improper means; [or] "(b) acquisition of a trade secret of another by a person who knows or has reason to know that the trade secret was acquired by improper means; . . . ." Critically, Section 39-8-40(A) provides that a "complainant ***is entitled to recover actual damages for misappropriation*** of trade secrets." (emphasis added).

Under the plain language of the Act, the inquiry is straightforward: were CCC's trade secrets misappropriated? If the answer is yes, and it plainly is, then CCC was entitled to recover its actual damages. *Id.*; *see also* S.C. Code Ann. § 39-8-40(B)-(C) (detailing how to measure damages for misappropriation of a trade secret). The actual damages suffered by CCC are self-evident. When Wilson left CCC, he immediately began siphoning CCC's customers. App. p. 526, ln. 20-p. 527, ln. 25; p. 752, lns. 19-23; p. 1804. Thereafter, Neologic/FWS – ***for the first time*** – began participating in the film business and with CCC's customers. App. p. 752, lns. 12-23. From the time Wilson joined Neologic/FWS through the start of trial, Neologic/FWS conducted over $980,000 worth of business with CCC customers. App. p. 1362. As detailed above, this figure was artificially low because Wilson and Nelologic/FWS underbid CCC in order to "buy" the customers. App. p. 1417.

CCC's entitlement to damages is further bolstered by *Williams*, *supra*. In *Williams*, the court of appeals considered whether the defendant's actions constituted misappropriation of a trade secret. In concluding that they did not, the court made the following factual findings:

- There was no evidence that the defendant took any tangible customer information. *Id.* at 281, 529 S.E.2d at 43.
- There was no evidence that the defendant actively solicited her employer's customers. *Id.* at 281, 529 S.E.2d at 43.
- The defendant denied that she planned to solicit her employer's customers after termination. *Id.* at 280, 529 S.E.2d at 43.
- Every client the defendant had at her new company was a client from a company that she had previously sold to her former employer. *Id.* at 281, 529 S.E.2d at 44.

The facts in *Williams* stand in stark contrast to the facts of this case. Here, the circuit court failed to give proper weight to the following facts:

- Wilson ***admitted*** that he took CCC's confidential information, which included customer lists, supplier lists, pricing information, prospective customer lists, an

electronic vendor reference program, and an inventory reference program. App. p. 529, lns. 1-18.

- CCC presented testimony that Wilson and Neologic/FWS were improperly conducting business based on information gained through the discovery process. App. p. 899, ln. 18-p. 900, ln. 7; p. 905, ln. 4-p. 906, ln. 4; pp. 1427-33.

- Wilson admitted that at the time he left CCC, he was primarily running the sales force rather than interacting with customers. App. p. 425, lns. 1-12.

- Emails proved that Wilson and Neologic/FWS were using CCC's confidential information. *E.g.*, App. pp. 1346, 1371-72, 1375-76, 1401-16, 1418-60, 1577-630.

- Neologic/FWS produced financial information showing that they were conducting business with CCC's customers. App. p. 1362.

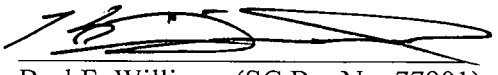
- 23 of Neologic/FWS's 27 customers were CCC's customers. App. p. 906, lns. 17-24. Furthermore, although some of them were Wilson's customers prior to him joining CCC, almost half – including CCC's largest customer (Imperial Manufacturing) – were customers that CCC obtained on its own. App. p. 906, ln. 23-p. 908, ln. 25.

The circuit court's conclusion that the "evidence merely demonstrated that Wilson was able to conduct business with some of CCC's former customers after his ouster from CCC" misses the mark. App. p. 1829. In analyzing whether CCC was entitled to damages under Section 39-8-40(A), the only determination the circuit court needed to make – which it in fact did make – was whether Wilson misappropriated CCC's confidential information. *See* App. p. 1831 ("Evidence shown at trial demonstrated that ***Neologic/[FWS] used CCC's confidential information*** and that CCC was justified in bringing the trade secrets claim.") (emphasis added). In light of this finding, the circuit court's conclusion that CCC was not entitled to damages should be reversed.

CONCLUSION

Based upon the arguments and authorities herein, CCC respectfully requests that this Court reverse the court of appeals' decision affirming the circuit court's improper application of the Act, and remand this case for a new trial or a trial on damages.

Respectfully submitted,



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December 17, 2018
Greenville, South Carolina

THE STATE OF SOUTH CAROLINA
In The Supreme Court

APPEAL FROM GREENVILLE COUNTY
Court of Common Pleas

The Honorable D. Garrison Hill
Circuit Court Judge

App. Case No. 2018-001140

Unpublished Opinion No. 2018-UP-078 (S.C. Ct. App. filed February 7, 2018)

DAVID WILSON, INDIVIDUALLY AND DERIVATIVELY ON BEHALF OF CAROLINA CUSTOM CONVERTING, LLC, ... Plaintiff,

vs.

JOHN GANDIS, ANDREA COMEAU-SHIRLEY, ZOI FILMS, LLC, AND CAROLINA CUSTOM CONVERTING, LLC, ... Defendants,

JOHN GANDIS AND ANDREA COMEAU-SHIRLEY, ... Third-Party Plaintiffs,

vs.

CAROLINA CUSTOM CONVERTING, LLC,
..... Third-Party Defendant and Counterclaim Plaintiff,

vs.

DAVID WILSON, STEVE NORVELL, NEOLOGIC DISTRIBUTION, INC. AND FRESH WATER SYSTEMS, INC.,

Of Whom David Wilson, Neologic Distribution, Inc., and Fresh Water Systems, Inc., are the .....Respondents,

and

JOHN GANDIS, ANDREA COMEAU-SHIRLEY, AND CAROLINA CUSTOM CONVERTING, LLC, ... Petitioners.

PROOF OF SERVICE

I certify that I have served the **BRIEF OF PETITIONER CAROLINA CUSTOM CONVERTING, LLC**, by depositing a copy of same in the United States Mail, postage prepaid, on December 17, 2018, addressed to its attorneys of record:

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