STATE OF NORTH CAROLINA COUNTY OF MECKLENBURG	IN THE GENERAL COURT OF JUSTICE SUPERIOR COURT DIVISION 07-CVS-21932
COVENANT EQUIPMENT CORPORATION, D/B/A WHOLESALE FORK LIFTS, Plaintiff, vs. FORKLIFT PRO, INC., BUCKY W. CALDWELL, TIMOTHY SMITH and WILLIAM CARNIE, Defendants.	**DEFENDANT BUCKY W. CALDWELL'S REPLY MEMORANDUM IN SUPPORT OF MOTION TO DISMISS**

Defendant Bucky W. Caldwell, ("Caldwell"), by and through counsel, files this Reply Memorandum in support of his Rule 12(b)(6) Motion to Dismiss for Failure to State a Claim. Replying to the Plaintiff's Memorandum of Law, Caldwell respectfully shows unto the Court as follows:

SUMMARY OF REPLY

Plaintiff inaccurately asserts in its brief that the South Carolina Trade Secrets Act ("SCTSA") "specifically allow[s] nondisclosure agreements unlimited by time or territory." In actuality, the statutory provision cited by the Plaintiff in support of its argument is drawn more narrowly that the Plaintiff acknowledges, and carves out only a portion of the Court's ruling in Carolina Chem. Equip. Co., Inc. v. Muckenfuss, 471 S.E.2d 721 (S.C. Ct. App. 1996). The confidentiality agreement in question does not fall within the purview of the referenced SCTSA provision for two separate reasons, both of which will be discussed below, and under the rationale set forth in Muckenfuss is therefore unenforceable.

THE SCTSA DOES NOT AUTHORIZE NONDISCLOSURE AGREEMENTS WITH UNLIMITED TIME AND TERRITORY

The Plaintiff misstates the effect of the SCTSA amendment referenced in its brief, and cites only a magazine article in support of its unfounded assertion that South Carolina nondisclosure agreements are allowed to be unlimited as to time and territory. In fact, Muckenfuss is still binding precedent in South Carolina. The SCTSA merely carved out an exception for statutorily-defined "trade secrets," and only then as to duration and geographic scope.

As set forth in its opinion, the Muckenfuss Court's holding that the confidentiality agreement at issue was invalid was not only limited to a lack of time and territory restrictions. In addition to noting that "the restraint is unlimited as to time and territory," the Court also found that it was "far greater than necessary to protect any legitimate business interest." Id. at 723.

In support of this latter basis, the Court noted that the restraint: (1) was "harsh and oppressive in curtailing the legitimate efforts of [the employee] from earning a livelihood"; (2) "would prevent [the employee] from using the general skills and knowledge he acquired"; and (3) was "not reasonable from the standpoint of sound public policy because of its effects on both the employee and the competitive business environment." Id. at 724.

Following the Muckenfuss decision, the South Carolina legislature carved out a partial exception to the Court's ruling. It amended the SCTSA to provide (in pertinent part) that a contractual duty not to disclose a trade secret "must not be considered void or unenforceable or against public policy for lack of a durational or geographical limitation." S.C. Code Ann. 39-8-30(D) (1997). Contrary to the Plaintiff's argument, the limitation only applies to "trade secrets," as such term is defined at S.C. Code Ann. 39-8-20(5) (1997). It does not extend to

confidentiality agreements which seek to restrict the disclosure of information outside the scope of the statutorily-defined "trade secret."

There are two notable omissions from the above statutory provision. First, the statute does not prohibit courts from continuing to interpret overly restrictive confidentiality agreements as non-compete agreements – it only prevents courts from invalidating an agreement not to disclose "trade secrets" on the basis of time or geography. Second, the statute leaves open the ability for courts to invalidate all confidentiality agreements - even those limited only to trade secrets - on a basis other than a lack of temporal or geographic restriction: that such agreements are greater than necessary to protect any legitimate business interest.

In support of its argument that Muckenfuss is inapplicable following the SCTSA amendment, the Plaintiff cites only a magazine article. However, it is readily apparent that the judiciary has not agreed with the opinion of the article's authors that Muckenfuss was overturned, as the Muckenfuss approach to construing overly restrictive confidentiality agreements has been relied upon following the SCTSA amendment. In Nucor Corp. v. Bell, 482 F. Supp. 2d 714 (D.S.C. 2007), the Court, citing Muckenfuss, held an overly restrictive confidentiality agreement to the same standards as a non-compete agreement, and found that it was invalid upon a basis other than lack of geographic or temporal restriction.

A reading of the SCTSA amendment, in tandem with a thorough analysis of the Muckenfuss and Nucor decisions, draws out two important points for consideration: First, confidentiality agreements that seek to restrict information outside the statutory definition of a "trade secret" remain subject to the Muckfuss holding and may be invalidated for any number of reasons, including lack of geographic or temporal restrictions. Second, even overly-restrictive confidentiality agreements that are limited to "trade secrets" may be invalidated for reasons other

than a lack of geographic or temporal restrictions. Both of these points provide a basis for the invalidation of the instant confidentiality agreement and the Court's dismissal of the Plaintiff's Sixth Cause of Action.

THE CONFIDENTIALITY AGREEMENT IS GREATER THAN NECESSARY TO PROTECT ANY LEGITIMATE BUSINESS INTEREST OF THE PLAINTIFF

Assuming *arguendo* that the confidentiality agreement in question is limited only to items that are included within the statutory definition of a "trade secret," the agreement is still invalid. As set forth above, the SCTSA does not bar a Court from examining a confidentiality agreement as a non-compete, and does not prohibit the invalidation of such an agreement on the basis that it is greater than necessary to protect any legitimate business of the employer. In this case, the confidentiality agreement is overly broad on its face, because it has the effect of prohibiting Caldwell from owning another wholesale forklift business in perpetuity.

The Plaintiff takes mutually inconsistent positions in its brief and Complaint regarding the overly restrictive nature of the confidentiality agreement. In its brief, the Plaintiff claims that the confidentiality agreement is not overly restrictive, and tacitly admits that the agreement does not prevent Caldwell from using any covered information – just from disclosing it. However, under the reasoning proffered by the Plaintiff in its Complaint, Caldwell could not take ownership of a forklift company without violating the confidentiality agreement.

The Plaintiff's only allegation of a breach of the confidentiality agreement is that Caldwell disclosed the information in question to Defendant Forklift Pro, Inc. ("Forklift Pro") (see Complaint par. 41), his own company. The Plaintiff further alleged that Caldwell was the sole or majority shareholder of Forklift Pro, as well as its registered agent (see Complaint par. 12). In essence, the Plaintiff's sole claim of breach is that Defendant "disclosed" the information

to the corporate entity he created and owned. This is a novel attempt to re-characterize a confidentiality agreement in an attempt to circumvent the fact that Caldwell's non-compete agreement had long expired. However, this approach is not authorized by existing law.

Based on the Plaintiff's line of reasoning, Caldwell could never start a competing wholesale forklift business, because his knowledge would always be imputed to the company he owned. Courts in numerous jurisdictions (including North Carolina) recognize that the knowledge of such a shareholder is imputed to the corporation. See, e.g., DeCarlo v. Gerryco, Inc., 46 N.C. App. 15, 264 S.E.2d 370 (1980); Whitten v. Bob King's AMC/Jeep, Inc., 292 N.C. 84, 231 S.E.2d 891 (1977). See also, Baker v. Latham Sparrowbush Assoc., 72 F.3d 246 (2d Cir. 1995). As such, any business of which Caldwell became an owner would automatically and by operation of law be charged with knowledge of the information at issue.

The Plaintiff's argument exposes the true nature of the restrictive covenant at issue. Although the restriction is couched in the guise of a confidentiality agreement, it has the practical effect of restricting Caldwell's ability to form a competing business, as set forth above. Moreover, the agreement seeks to restrict in perpetuity Caldwell's ability to share, among other things, his "know-how" and "contacts with customers," which further restricts his ability to form a new business or go to work for another company. The Plaintiff acknowledges this in its Complaint - although the other non-compete covenant contained in the same document had long since expired, the Plaintiff alleges in Paragraph 42 of the Complaint that Caldwell was "unlawfully competing" with the Plaintiff. As the Muckenfuss Court similarly concluded, the Plaintiff cannot be permitted to curtail Caldwell's legitimate efforts to earn a livelihood by interpreting a confidentiality agreement in such a manner so as to restrict competition.

Should this Court find that "imputation" and "disclosure" of information are functionally dissimilar, a different analysis entails an identical result. In such a case, the information at issue would have been imputed to Forklift Pro when it was formed by Defendant Caldwell. Although it is difficult to conceptualize how a "disclosure" of information by Caldwell to his own company would occur, any subsequent disclosure of that information by Caldwell to Forklift Pro could not be a violation of any agreement, since the information was already known by Forklift Pro at the time of the alleged disclosure.

The SCTSA amendment at issue does not prohibit this Court from construing this restrictive covenant as a non-compete, and from invalidating it on the basis that it is greater than necessary to protect any legitimate business interest of the Plaintiff. Under the Plaintiff's own reasoning, enforcing the restriction would have the effect of preventing Defendant Caldwell from ever owning any other forklift business, since such information would be imputed to his business by operation of law.

THE CONFIDENTIALITY AGREEMENT EXTENDS BEYOND STATUTORILY-DEFINED "TRADE SECRETS," AND MAY ALSO BE DISMISSED DUE TO LACK OF GEOGRAPHIC AND TEMPORAL RESTRICTIONS

Although the Plaintiff references the SCTSA, it does not attempt to argue that the information sought to be protected consists solely of "trade secrets," as such term is defined under South Carolina law. To the contrary, the confidentiality agreement in question seeks to prevent the disclosure of "*any* non-public, proprietary *or* confidential information obtained from *or* relating to the Business, the Seller *or* the Purchaser." (emphasis added) Especially in light of the fact that the above lists are set forth in the disjunctive, this is an extremely broad array of information that goes far beyond the limited definition of "trade secret" set forth in the South Carolina Code. In fact, nowhere in the document in question does the phrase "trade secret" even

appear. The examples provided include Caldwell's "know-how," which is clearly not a trade secret.

Despite the principles noted by the Court in Muckenfuss, the Plaintiff impermissibly attempts to restrict Caldwell's "know-how" and "contacts with customers," among other undefined things that exceed the limited statutory definition of a trade secret. As the items contained in the agreement exceed those protected under the SCTSA, the exception to Muckenfuss created by the South Carolina legislature does not apply. Consequently, the Court may also invalidate the confidentiality agreement on the basis that it is unlimited as to time and geographic scope.

In addition to the fact that the confidentiality agreement is "far greater than necessary to protect any legitimate business interest" of the Plaintiff, it is also invalid due to its lack of temporal and geographical restrictions. As such, Caldwell respectfully requests that the Court dismiss the Plaintiff's Sixth Cause of Action.

THE COURT SHOULD APPLY THE TERMS OF THE DOCUMENT AS DEFINED

Lastly, in response to an additional issue raised by the Plaintiff in its brief, the Court should apply the term "Business" strictly as it is defined in the document attached to Caldwell's prior brief as Exhibit A. The term is defined twice in the document (both times on page 2), and is unambiguous. Under South Carolina law, such clear and unambiguous language alone should determine the agreement's force and effect. See, e.g., Conner v. Alvarez, 328 S.E.2d 334 (S.C. 1985).

In its brief, the Plaintiff advances the unique position that the language contained in its own restrictive covenant is vague, and should be either interpreted or removed by this Court. However, in South Carolina, non-compete agreements are strictly construed against the

employer. See, e.g., Rental Uniform Service of Florence, Inc. v. Dudley, 301 S.E.2d 142 (S.C. 1983). Under the Plaintiff's own argument, the parties to the agreement are left to wonder what is meant by a twice-defined term that appears multiple times therein. Under that reasoning, the confidentiality agreement remains unenforceable. Although South Carolina has not addressed this specific issue, the North Carolina Court of Appeals held in Farr Associates, Inc. v. Baskin, 138 N.C. App. 276, 530 S.E.2d 878 (2000), that a restrictive covenant was unenforceable in part because it was unduly vague. In sum, if the Plaintiff's argument that the term "Business" is used in a manner that is not as defined, then the Court should find that the agreement is impermissibly vague, and dismiss the Plaintiff's Sixth Cause of Action.

The Plaintiff's argument that Paragraph 6 of Exhibit A somehow permits the Court to simply strike the use of the term "Business" is likewise untenable. In addition to the reticence of South Carolina Courts to engage in "blue penciling," the express language of Paragraph 6 provides that such blue penciling may only occur if a restriction is "unenforceable." In this case, while the restriction is likely broader than the Plaintiff intended, it is certainly not unenforceable. Therefore, there is no reason for the court to strike it from the document.

CONCLUSION

For all of the reasons set forth above and in Caldwell's first brief filed in support of his Motion to Dismiss, Caldwell respectfully requests that this Court dismiss the Plaintiff's Sixth Cause of Action against him. Even if the confidentiality agreement was limited to statutorily-defined "trade secrets," it is far greater than necessary to protect any legitimate business interest of the Plaintiff. Moreover, because the agreement encompasses more than just "trade secrets," the SCTSA does not prohibit the Court from invalidating the agreement on the grounds that it is unlimited as to time or geographic scope.

Respectfully submitted,

This the 4th day of June, 2008.

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CERTIFICATE OF COMPLIANCE

I do hereby certify that the foregoing **DEFENDANT BUCKY W. CALDWELL'S REPLY MEMORANDUM IN SUPPORT OF MOTION TO DISMISS** complies with Rule 15.8 of the General Rules of Practice for the North Carolina Business Court.

This the 4th day of June, 2008.

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CERTIFICATE OF SERVICE

I do hereby certify that service of the foregoing **DEFENDANT BUCKY W. CALDWELL'S REPLY MEMORANDUM IN SUPPORT OF MOTION TO DISMISS** was this date served on the parties and counsel of record by electronically filing with the Business Court and was also served on the parties and counsel of record by electronic mail, as previously agreed upon by the parties, to the following:

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