

## NON-DISCLOSURE AGREEMENTS IN SOUTH CAROLINA

by Michael A. Mann

© 2001 Nexsen Pruet Jacobs & Pollard, LLC

There are three ways to protect an idea: by telling no one, by getting a patent on it, and by contract. As a practical matter, telling no one guarantees that the owner of the secret will not make a lot of money with the idea. Patents, on the other hand, are not available for protecting every idea and, when they are available, take time to get. A contract, on the other hand, can be quickly used in circumstances where a disclosure of an idea is necessary, but no patent rights exist to protect it. Contracts to hold ideas and related information in confidence are called “non-disclosure agreements” or “confidential disclosure agreements.”

Many states have enacted the Uniform Trade Secrets Act that generally provides for remedies for misappropriation of trade secrets by employees and others. South Carolina, one of these, enacted the South Carolina Trade Secrets Act on July 1, 1997. This act has “teeth”; that is, it provides a range of remedies for misappropriation of trade secrets but allows the parties to provide alternative or additional remedies. For example, it provides that a person who is aggrieved by misappropriation of a trade secret by improper means – which includes breach of duty of confidentiality imposed by a non-disclosure agreement – may bring a civil action within three years of the misappropriation to recover damages. In addition, the plaintiff may enjoin actual or threatened misappropriation, disclosure, use or other wrongful acts pertaining to the trade secret. In the case where a person engages in certain egregious acts designed to injure the owner of the trade secret or benefit a third party, criminal penalties and fines are available.

Damages for trade secret misappropriation include the actual loss resulting from the misappropriation and, to some extent, the unjust enrichment caused by the misappropriation. In appropriate cases, damages can be based on a reasonable royalty for the unauthorized disclosure or use of a trade secret. In the case of wilful, wanton or reckless disregard of the plaintiff’s rights, exemplary damages may be awarded up to double the actual damages suffered by the trade secret owner as a result of the misappropriation. Attorney’s fees are available to the prevailing party in the case of bad faith on the part of the plaintiff or defendant or in the case of wilful misappropriation.

If the statute provides for remedies and damages for trade secret misappropriation, and if it defines what a trade secret is, what is left for a non-disclosure agreement say? Simply put, the statute provides no remedies or damages to someone who *voluntarily* discloses a secret to a third party notwithstanding the fact that the third party then proceeds to make use of the secret for his own benefit or discloses it to others. To bring the third party within the scope of the statute’s remedies, the third party must be under a contractual duty not to disclose or use the trade secret. That is the purpose of the non-disclosure agreement.

All contracts should cover certain basic information, such as the names of the parties. In addition, it is frequently helpful to provide a little background so that it is clear why one party is

disclosing secret information to the other. In addition, a confidential disclosure agreement should state the specific topic of the secret (without of course disclosing the secret) and specify how the secret will be conveyed and in what form so that the parties will know what is that the disclosing party deems to be a secret when the time comes to disclose it.

The heart of a non-disclosure agreement, however, is a statement as to what the disclosing party wants the other party to do with the disclosed information (and by express provision, to not do anything else with the information). At the very least, the disclosing party wants the other party to hold that information in confidence and not disclose it without permission. But the disclosing party ought also to state the purpose for which the information is being disclosed. For example, the agreement could state that the purpose for which disclosure is made is “so that the receiving party can evaluate it to determine its interest in acquiring rights in the trade secret” or “to be able to quote a price on manufacturing products made using the trade secret.”

The party receiving the confidential disclosure needs protection, too. It should not have to keep information in confidence if that information is already widely known – or at least known to it before the disclosure – or if the disclosing party discloses the same information to others without an obligation on their parts to hold it in confidence. The receiving party may want a time limit on its obligation, although the failure to include limits as to duration or geographical extent do not prevent enforcement of the non-disclosure agreement in South Carolina. Other provisions can be added to fit the circumstances.

When an idea that has been kept in confidence needs to be disclosed to another party, consider using a non-disclosure agreement for safeguarding your trade secret when you must disclose them. Under South Carolina law, these agreements are fully enforceable and can provide you with significant remedies and damages in the event of misappropriation of your trade secret.