[Cite as *Berardi's Fresh Roast, Inc. v. PMD Ents., Inc.*, 2010-Ohio-5124.]

Court of Appeals of Ohio

EIGHTH APPELLATE DISTRICT
COUNTY OF CUYAHOGA

JOURNAL ENTRY AND OPINION
No. 93920

BERARDI'S FRESH ROAST, INC.

PLAINTIFF-APPELLANT

vs.

PMD ENTERPRISES, INC., ET AL.

DEFENDANTS-APPELLEES

JUDGMENT:
AFFIRMED

Civil Appeal from the
Cuyahoga County Court of Common Pleas
Case No. CV-503660

BEFORE: Celebrezze, J., Rocco, P.J., and Jones, J.

RELEASED AND JOURNALIZED: October 21, 2010

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FRANK D. CELEBREZZE, JR., J.:

{¶ 1} Appellant, Berardi's Fresh Roast, Inc. ("Berardi's"), appeals from a jury verdict awarding it $10,800 on its claim of misappropriation of trade secrets against appellees, PMD Enterprises, Inc. ("PMD") and Michael Caruso, PMD's founder and president. Berardi's takes issue with the jury instructions given by the trial court, the amount of the judgment it was awarded by the jury, the failure of the trial court to grant an off-set against the amount Caruso was awarded for his counterclaim against Berardi's, and the way the trial court calculated interest. After a thorough review of the record and pertinent case law, we affirm.

{¶ 2} Berardi's is a family-owned coffee roaster founded in the mid-1980's by Caruso and his then-wife, Angie Berardi-Caruso.[1] In the late 1990's, the pair divorced. As part of the divorce decree, Angie was permitted to buy out Caruso's share of the business. He signed a three-year noncompetition agreement and a separate deferred compensation agreement providing payments over a three-year period. Berardi's did not timely make those payments and was delinquent at the time of suit in the amount of $53,964. After the expiration of the noncompetition agreement in April 2003, Caruso re-entered the coffee business, forming PMD and doing business as Caruso's Coffee. Caruso pursued the business of West Point Market ("West Point") in Akron, Ohio, a well-known specialty food retailer.

{¶ 3} In the early days of Berardi's, Caruso and Russ Vernon, president of West Point, developed several proprietary blends of coffee to be sold under the West Point name. Vernon and Caruso testified that Vernon specified what the blends should consist of and taste like.[2]

{¶ 4} PMD approached Larry Uhl, the current president of West Point, about switching coffee providers from Berardi's to PMD. Caruso and other employees of PMD met with representatives of West Point for a coffee tasting

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[1]A more detailed history of this case can be found in a prior appeal, *Berardi's Fresh Roast v. PMD Enterprises, Inc.*, Cuyahoga App. No. 90822, 2008-Ohio-5470, ¶3-10 ("*Berardi's I*").

[2]Vernon and Caruso developed several blends including West Point I, West Point II, West Point Espresso, West Point I Decaffeinated, and West Point II Decaffeinated.

and to discuss why PMD could better serve West Point. At a second meeting between the groups, Caruso prepared blends of coffee that Berardi's alleges used its recipes for West Point blends. Satisfied that PMD could provide a smooth transition in suppliers without significant disruption to its customers, West Point switched suppliers.

{¶ 5} Caruso and an employee of PMD, Mark Huelsman, testified that the blends were actually different because PMD used beans originating from different countries in its versions of the West Point blends and that the origin of beans significantly affects flavor. Mr. Uhl testified that the blends were subtly different and that the West Point group preferred Caruso's version of West Point I in a side-by-side comparison.

{¶ 6} After West Point's defection to PMD, Berardi's brought suit against PMD, Caruso, and several PMD employees, alleging breach of a noncompetition agreement, theft of trade secrets, deceptive trade practices, civil conspiracy, tortious interference with contractual relationships, and destruction or conversion of Berardi's personal property. Caruso filed a counterclaim for breach of the deferred compensation agreement. Summary judgment was granted in favor of PMD, which was affirmed in part and reversed in part in a prior appeal to this court in *Berardi's I*, wherein we found that a question of fact remained as to the claim of misappropriation of trade secrets alleged by Berardi's and remanded the case for trial on this issue alone.

{¶ 7} A jury trial was held, which resulted in a finding that Berardi's owned the formulas used to prepare the West Point blends and that PMD and Caruso had misappropriated those formulas in soliciting the business of West Point. The jury awarded Berardi's $10,800 even though Berardi's claimed the yearly sales to West Point totaled $80,000 per year with a 50 percent profit margin.

{¶ 8} The trial court refused to grant Berardi's a set-off of the amount of its judgment from the award granted to Caruso for Berardi's breach of the compensation agreement. The trial court also awarded Caruso interest at the statutory rate of eight percent from the time of the summary judgment, which, at the time of the verdict, made this judgment worth $90,209.11. Berardi's now appeals the jury award and these decisions of the trial court.

Law and Analysis

Procedural Irregularity

{¶ 9} Berardi's has done something odd procedurally. It timely filed a notice of appeal on July 9, 2009, regarding the June 9, 2009 journal entry memorializing the jury's verdict; however, the appeal was dismissed by this court for Berardi's failure to timely file the record. App.R. 11(C). Instead of filing a motion for reconsideration, Berardi's filed a new notice of appeal a few days later assigning the same errors plus a few new ones dealing with the trial court's August 19, 2009 order releasing funds on deposit with the court to Caruso.

{¶ 10} Normally, Berardi's assigned errors from the dismissed appeal would be barred as untimely filed according to App.R. 4(A). However, during the pendency of the present appeal, this court remanded the case to the trial court because the June 9, 2009 journal entry failed to set forth an amount of judgment. This meant that it was not a final, appealable order. *Stump v. Indus. Steeplejack Co.* (Mar. 4, 1993), Cuyahoga App. Nos. 61959 and 61972. Because the journal entry was not a final, appealable order at the time of Berardi's dismissed appeal, this court shall address the merits of these assigned errors.[3] Berardi's, and others seeking appellate review, are reminded that failure to abide by the appellate rules can have severe consequences, such as dismissal.

Improper Jury Instruction

{¶ 11} In Berardi's first assignment of error, it argues that "[t]he trial court committed prejudicial error in instructing the jury that Berardi's could only recover lost profits for a reasonable period of time rather than the actual period of time that [PMD] has continued to misappropriate Berardi's trade secrets in making sales to Berardi's customer West Point."

{¶ 12} "When reviewing a trial court's jury instructions, the proper standard of review for an appellate court is whether the trial court's refusal to give a requested instruction or giving an instruction constituted an abuse of

[3]We are cognizant of this court's ultimate purpose, which includes resolving claims before us on their merits. *DeHart v. Aetna Life Ins. Co.* (1982), 69 Ohio St.2d 189, 192, 431 N.E.2d 644.

discretion under the facts and circumstances of the case. See *State v. Wolons* (1989), 44 Ohio St.3d 64, 68, 541 N.E.2d 443. In addition, jury instructions are reviewed in their entirety to determine if they contain prejudicial error. *State v. Porter* (1968), 14 Ohio St.2d 10, 235 N.E.2d 520." *State v. Williams*, Cuyahoga App. No. 90845, 2009-Ohio-2026, ¶50. To constitute an abuse of discretion, the ruling must be unreasonable, arbitrary, or unconscionable. *Blakemore v. Blakemore* (1983), 5 Ohio St.3d 217, 450 N.E.2d 1140. "'The term discretion itself involves the idea of choice, of an exercise of the will, of a determination made between competing considerations.'" *State v. Jenkins* (1984), 15 Ohio St.3d 164, 222, 473 N.E.2d 264, quoting *Spalding v. Spalding* (1959), 355 Mich. 382, 384-385, 94 N.W.2d 810. In order to have an abuse of that choice, the result must be "so palpably and grossly violative of fact and logic that it evidences not the exercise of will but the perversity of will, not the exercise of judgment but the defiance thereof, not the exercise of reason but rather of passion or bias." Id.

{¶ 13} "'If, taken in their entirety, the instructions fairly and correctly state the law applicable to the evidence presented at trial, reversible error will not be found merely on the possibility that the jury may have been misled. Moreover, misstatements and ambiguity in a portion of the instructions will not constitute reversible error unless the instructions are so misleading that they prejudicially affect a substantial right of the

complaining party.'" (Internal citations omitted.) *Harris v. Noveon, Inc.*, Cuyahoga App. No. 93122, 2010-Ohio-674, ¶22.

{¶ 14} "Effective July 20, 1994, the General Assembly enacted the Ohio Uniform Trade Secrets Act, R.C. 1333.61 through 1333.69, which provides for civil remedies, i.e., injunctive relief and damages, for the misappropriation of trade secrets." *State ex rel. Besser v. Ohio State Univ.*, 87 Ohio St.3d 535, 538-539, 2000-Ohio-475, 721 N.E.2d 1044, citing *State ex rel. The Plain Dealer v. Ohio Dept. of Ins.*, 80 Ohio St.3d 513, 523, 1997-Ohio-75, 687 N.E.2d 661. The purpose of this law "is to maintain commercial ethics, to encourage invention, and to protect employers' investments and proprietary information." *Levine v. Beckman* (1988), 48 Ohio App.3d 24, 548 N.E.2d 267, paragraph six of the syllabus.

{¶ 15} Damages resulting from the misappropriation of trade secrets are generally calculated in the following ways: "Damages may include both the actual loss caused by misappropriation and the unjust enrichment caused by misappropriation that is not taken into account in computing actual loss. In lieu of damages measured by any other methods, the damages caused by misappropriation may be measured by imposition of liability for a reasonable royalty that is equitable under the circumstances considering the loss to the complainant, the benefit to the misappropriator, or both, for a misappropriator's unauthorized disclosure or use of a trade secret." R.C. 1333.63(A).

{¶ 16} The jury was instructed as follows:

{¶ 17} "If you find that Caruso's Coffee has misappropriated Berardi's Fresh Roast's trade secrets and that Caruso Coffee's misappropriation of those trade secrets proximately caused damage to Berardi's Fresh Roast, Berardi's Fresh Roast is entitled to recover compensatory damages that may include number one, the actual loss to Berardi's Fresh Roast caused by the misappropriation.

{¶ 18} "Actual loss means Berardi's Fresh Roast's lost profits. It is for you to determine an appropriate amount of those lost profits and a reasonable period of time over which those lost profits may be recovered based upon the evidence."

{¶ 19} The trial court did not limit the period of time for which the jury could determine damages were appropriate. It left the parties free to argue the appropriate duration, including the entire time PMD had the West Point account. However, the appropriate duration was a question due to the evidence presented in this case.

{¶ 20} Caruso testified that a good coffee roaster could take an unknown blend and produce a similar product through trial and error. Here, Caruso was able to produce comparable products to Berardi's West Point blends in a short amount of time because he knew the recipes for those blends. This saved time and effort in producing his own versions of those blends. Therefore, the misappropriation was not in the sale of a product the same as

Berardi's West Point blends, but in their use to develop a similar product in a short amount of time.

{¶ 21} All parties who testified about the recipes for PMD's versions of West Point's blends testified they were different from Berardi's. They used coffee beans from differing origins that were roasted differently in the final blend. Berardi's relies heavily on the testimony of Vernon, West Point's former president. Vernon testified that you do not change the recipe for a successful product, and the recipes were the same. However, Vernon had retired from West Point in 2001. He had no input in the decision-making process, and did not attend the meetings between PMD and West Point. Huelsman, PMD's roaster who had previously worked at Berardi's, testified that Berardi's used French roasted Mexican beans in the West Point blends, but at PMD, they used Guatemalan beans. Caruso testified that the Guatemalan beans, when dark roasted, did not take on a bitter aftertaste as Mexican beans often did. Uhl, West Point's president, testified that PMD's version of the West Point blends were slightly different and tasted better than the products they were getting from Berardi's.

{¶ 22} A review of other jurisdictions in the area of trade secret damages yields a caveat to the period for which damages may be awarded. "Under the so-called 'head start' or 'lead time' rule, adopted in some jurisdictions, a trade secret defendant's damages may be limited to the time the defendant saved in getting a product to market by virtue of its misappropriation. See Uniform

Trade Secrets Act §§ 2-3 cmts." *Russo v. Ballard Med. Products* (C.A.10, 2008), 550 F.3d 1004, 1020. While no Ohio jurisdiction appears to have addressed this rule outside of the injunction context, the facts of this case lend themselves to its application.

{¶ 23} That issue need not be addressed in order to reach the conclusion that the trial court did not abuse its discretion in instructing the jury. Because of the testimony that the blends produced by Berardi's and PMD were different, the appropriate period to award damages, the length of misappropriation, was a legitimate question before the jury. The misappropriation here was not in the fielding of a competing product identical to Berardi's, but in the rapid development of a similar product based on those trade secrets. Therefore, allowing the jury to determine a reasonable period to calculate damages, including the entire time PMD had the West Point contract, was appropriate.

Manifest Weight of the Evidence

{¶ 24} Berardi's next argues that "[t]he award of $10,800 in Berardi's favor was so low as to be against the manifest weight of the evidence."

{¶ 25} It is well established that when some competent, credible evidence exists to support the judgment rendered by the trial court, an appellate court may not overturn that decision unless it is against the manifest weight of the evidence. *Seasons Coal Co., Inc. v. Cleveland* (1984), 10 Ohio St.3d 77, 80, 461 N.E.2d 1273. The knowledge a trial court gains

through observing the witnesses and the parties in any proceeding (i.e., observing their demeanor, gestures, and voice inflections and using these observations in weighing the credibility of the proffered testimony) cannot be conveyed to a reviewing court by a printed record. *In re Satterwhite*, Cuyahoga App. No. 77071, 2001-Ohio-4137, *citing Trickey v. Trickey* (1952), 158 Ohio St. 9, 13, 106 N.E.2d 772. In this regard, the reviewing court in such proceedings should be guided by the presumption that the trial court's findings were indeed correct. *Seasons Coal Co.*, supra. As the Ohio Supreme Court has stated, "[I]t is for the trial court to resolve disputes of fact and weigh the testimony and credibility of the witnesses." *Bechtol v. Bechtol* (1990), 49 Ohio St.3d 21, 23, 550 N.E.2d 178.

{¶ 26} In the present case, Berardi's evidence of the damages it sustained was limited to the testimony of Brian Leneghan, its current president. He testified that sales to West Point were in excess of $80,000 per year in the three years prior to losing the account. Berardi's submitted an exhibit consisting of a column of years with a corresponding sales figure purporting to show sales to West Point totaling $93,512.25 in 2000, $87,786.13 in 2001, $85,596.05 in 2002, and $35,256.36 for the first part of 2003. Leneghan further testified that Berardi's profit margin on this account was 50 percent. However, no other documentary evidence was submitted detailing costs, profits, overhead, or any evidence to support his testimony. Berardi's also did not offer any evidence showing what

percentage of total sales consisted of West Point blends. Meanwhile, PMD offered more detailed evidence showing that from 2004 to 2009, it had realized a net profit from the West Point account of $8,300.

{¶ 27} R.C. 1333.63(A) allows a party to recover its actual loss. Actual loss is not defined in R.C. 1333 et seq., but the Sixth and Tenth Districts have held that "the award cannot be based upon a gross revenue amount; rather, the total gross billings must be reduced by 'any costs and expenses defendant would have incurred in producing income on the accounts and which should have been deducted from the gross revenue figure to determine defendant's net gain.'" *Try Hours, Inc. v. Swartz*, Lucas App. No. L-06-1077, 2007-Ohio-1328, ¶23, quoting *Wiebold Studio, Inc. v. Old World Restorations, Inc.* (1985), 19 Ohio App.3d 246, 251, 484 N.E.2d 280.

{¶ 28} In *Avery Dennison Corp. v. Four Pillars Ent. Co.* (C.A. 6 2002), 45 Fed.Appx. 479, Four Pillars Enterprises Co. ("FP") paid an Avery Dennison Corp. ("Avery") employee for formulas and information related to its adhesive products. FP used that information to produce similar products, although not exact replicas. FP also overhauled its manufacturing and research procedures and saved significant time in research and development. Id. at 482-483. The *Avery* court found that, "[w]hen the misappropriated trade secret is used to field competing products, the best measure of damages is the plaintiff's lost profits or the defendant's illicit gains. However, where the misappropriated secrets were not directly used to field competing products,

but were used, for example, to save research and manufacturing resources, plaintiffs have used a number of different methods of calculation to determine damages." Id. at 485.

{¶ 29} The jury heard testimony from both sides and was in the best position to gauge the credibility of the witnesses and the conflicting evidence. An award of damages based on the profits realized by the misappropriating party is a recognized method of calculating damages. See *Try Hours*, supra, at ¶29. Therefore, the jury's verdict is not against the manifest weight of the evidence.

Grant of a Set-off

{¶ 30} Appellant also argues that "[t]he trial court committed prejudicial error by awarding prejudgment interest commencing April 19, 2003 on the $53,964 summary judgment Michael Caruso obtained against Berardi's without setting off the $10,800 award to Berardi's for Caruso's misappropriation of Berardi's trade secrets."

{¶ 31} Without citing any law, Berardi's argues that prejudgment interest should only be assessed on the amount awarded to Caruso in his claim against Berardi's for breach of a deferred compensation agreement after the amount of judgment it received against PMD and Caruso was deducted. Berardi's argues interest should be calculated on $41,164, not $53,964.

{¶ 32} The right to set-off one judgment by another is "at the court's discretion, which must be exercised in accordance with sound principles of

equity jurisprudence." *Montalto v. Yeckley* (1944), 143 Ohio St. 181, 183, 54 N.E.2d 421, citing *Diehl v. Friester* (1882), 37 Ohio St. 473; *Barbour v. Natl. Exch. Bank of Tiffen* (1893), 50 Ohio St. 90, 33 N.E. 542. "In the case of *Andrews v. State ex rel. Blair, Supt. of Banks* [(1931)], 124 Ohio St. 348, 178 N.E. 581, 582, 83 A.L.R. 141, this court held: 'A set-off, whether legal or equitable, must relate to cross demands in the same right, and when there is mutuality of obligation.' This was quoted with approval in the case of *Witham v. South Side Building & Loan Association of Lima* [(1938)], 133 Ohio St. 560, at page 562, 15 N.E.2d 149. In 36 Ohio Jurisprudence, 556, it is said: 'It is well settled that, as a general rule, mutuality of the parties is an essential condition of a valid set-off or counterclaim. That is, the debts must be to and from the same persons and in the same capacity. * * * To have the required mutuality, a set-off, whether legal or equitable, must relate to cross-demands in the same right and capacity.'" *Nichols v. Metro. Life Ins. Co.* (1941), 137 Ohio St. 542, 545, 31 N.E.2d 224.

{¶ 33} In this case, the claims differ in obligation. Berardi's was found liable in contract while PMD and Caruso were liable in tort. Caruso's right to deferred compensation is also independent of PMD or Caruso's position with PMD. While these factors are not determinative,[4] they lead to the conclusion that the trial court did not abuse its discretion in setting off Berardi's judgment against Caruso's. Berardi's has an adequate remedy

[4]See *Barbour v. Natl. Exchange Bank of Tiffin*, supra.

because Caruso and PMD are not insolvent. Therefore, Berardi's third assignment of error is overruled.

Statutory Interest

{¶ 34} In Berardi's final assignment of error, it argues that "[t]he trial court committed prejudicial error in awarding Caruso prejudgment interest at [the] rate of 8 [percent] since the date of the summary judgment in 2007, even though the statutory rate has since been reduced to 5 [percent]."

{¶ 35} Ohio has set forth a statutory interest rate to be paid on judgments of its courts. R.C. 1343.03(B) makes clear that interest "shall be computed from the date the judgment, decree, or order is rendered to the date on which the money is paid and shall be at the rate determined pursuant to section 5703.47 of the Revised Code *that is in effect on the date the judgment, decree, or order is rendered. That rate shall remain in effect until the judgment, decree, or order is satisfied*." (Emphasis added.)

{¶ 36} The statute is clear that the interest rate is the rate set forth in R.C. 5703.47 "on the date" of the judgment. The statute further clearly delineates that the "rate shall remain in effect until" the judgment is satisfied. Berardi's attempts to liken R.C. 1343.03 and 5703.47 to a variable-rate debt are not supported by the clear language of the statute. Therefore, its fourth assignment of error is overruled.

Conclusion

{¶ 37} Berardi's prevailed at trial against Caruso and PMD and was awarded $10,800 for misappropriation of its trade secrets. The jury considered all the evidence and arrived at an award of damages reflective of the facts of the case. The trial court did not err in instructing the jury that it could determine a reasonable period of time for damages based on the facts of this case. The jury's verdict was also not against the manifest weight of the evidence. Berardi's has failed to show that the trial court abused its discretion in refusing to set off its judgment against Caruso's 2007 judgment. These judgments were not the same in kind or capacity. Finally, the trial court properly calculated interest on Caruso's 2007 judgment according to the clear language of the statute.

Judgment affirmed.

It is ordered that appellees recover from appellant costs herein taxed.

The court finds there were reasonable grounds for this appeal.

It is ordered that a special mandate be sent to said court to carry this judgment into execution.

A certified copy of this entry shall constitute the mandate pursuant to Rule 27 of the Rules of Appellate Procedure.

FRANK D. CELEBREZZE, JR., JUDGE

KENNETH A. ROCCO, P.J., and
LARRY A. JONES, J., CONCUR