

IN THE COURT OF APPEALS OF OHIO

TENTH APPELLATE DISTRICT

Columbus Bookkeeping & Business Services, Inc.,	:	
	:	
Plaintiff-Appellee,	:	No. 11AP-227
v.	:	(C.P.C. No. 10CVC-11-17408)
	:	
Ohio State Bookkeeping, LLC et al.,	:	(REGULAR CALENDAR)
	:	
Defendants-Appellants.	:	
	:	

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D E C I S I O N

Rendered on December 30, 2011

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*Wesp/Barwell, LLC, Gregory P. Barwell, E. Joel Wesp and Jud R. Mauger, of counsel, for appellee.*

*Carroll, Ucker & Hemmer, LLC, and David W. T. Carroll, for appellants.*

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APPEAL from the Franklin County Court of Common Pleas.

BRYANT, P.J.

{¶1} Defendants-appellants, Ohio State Bookkeeping, LLC ("Ohio State BK"), Scott Jones, Cheryl K. Hughes, and Debbie Petrella, appeal from a judgment of the Franklin County Court of Common Pleas granting the motion for preliminary injunction of plaintiff-appellee, Columbus Bookkeeping & Business Services, Inc. ("Columbus

BK"), and concluding defendants violated R.C. 1333.61. Because the evidence does not support the trial court's conclusion that plaintiff's client list is a trade secret under R.C. 1333.61(D), we reverse.

## **I. Facts and Procedural History**

{¶2} On November 29, 2010, plaintiff filed a complaint seeking injunctive and monetary relief against defendants, plaintiff's two former employees Hughes and Petrella, their business associate Jones, and their business entity Ohio State BK. The complaint alleged defendants misappropriated trade secrets, breached confidences, interfered with business and contractual relations, breached a duty of good faith and loyalty, and converted plaintiff's documents and files. The court conducted a hearing on plaintiff's motion for preliminary injunction on December 29 and 30, 2010. Because the facts are integral to the issue on appeal, we address them in some detail.

{¶3} According to plaintiff's evidence, Columbus BK, doing business since 1954 and incorporated as a limited liability company in 1998, supplies companies with payroll, bookkeeping, and income tax services. The owner of Columbus BK, Mark Centofanti, purchased slightly more than a 50 percent interest in the business in October 1998 for \$165,000; in 2006, he paid \$300,000 for his partner's interest, including client lists and goodwill, and became the sole owner. At the time of the hearing, the business had approximately 500-520 clients and six employees.

{¶4} On August 12, 2010, Hughes, who had worked at Columbus BK for 12 years, suddenly left her job. Centofanti testified Hughes told the receptionist she was upset and quitting. Hughes had been plaintiff's office manager, and her job duties were

to oversee payroll processing and to prepare financial statements. In that capacity, Hughes handled approximately 80 percent of the clients.

{¶5} At the end of August, Petrella orally informed Centofanti that she was retiring; she did not tell Centofanti she was joining Hughes at Ohio State BK. Petrella had been the payroll supervisor for ten years and worked with all the payroll clients. She trained her replacement, and her last day was October 7, 2010. Centofanti testified that between Hughes and Petrella, the two knew approximately 80-85 percent of all his clients. Neither Hughes nor Petrella signed noncompetition agreements.

{¶6} Centofanti described the steps he took to protect Columbus BK's client information. According to Centofanti, the only written client lists were kept in his office and were maintained on a software system protected with a password; the database was kept on a secure, password-protected computer system. He did not allow any employee access to the entire client list. Rather, employees were given smaller subsets of the list to perform the service needed for each job, and those lists were to be maintained in a confidential manner for employees only. Centofanti acknowledged the filing cabinets at the office were not locked, but testified the public did not have access to them since the office and the building in which it was located were locked at night. He admitted on questioning that the landlord provided janitorial services at night, but added that those individuals only took the trash.

{¶7} Centofanti further testified each employee had his or her own computer and was not permitted to keep individual passwords posted on the computer. Computer passwords were to be shared only in emergency situations, as when certain machines

had particular software necessary to the task. Centofanti admitted some employees had lists of client names with work to be completed each month, but stated those lists were not visible to the public.

{¶8} Although Columbus BK shared a receptionist and office space with another company, Contemporary Business Solutions, Columbus BK did not share a client list or give Contemporary Business Solutions access to Columbus BK's client files. The two companies shared 12 clients and the 12 associated files, but Centofanti testified he asked Contemporary Business Solutions to request those files when needed, not to just take them from the office. Centofanti believed the employees of Contemporary Business Solutions, as certified public accountants and enrolled agents, were required to follow a professional code of ethics and to keep client information confidential.

{¶9} Centofanti testified he sponsored one client gathering in 2008 where some clients, spouses, and employees, were invited to a restaurant and encouraged to mingle and meet each other. Moreover, clients and non-clients were permitted to place brochures and business cards promoting their businesses in the reception area of plaintiff's offices. Centofanti sometimes recommended a business to a client, but the business may or may not have been a client of Columbus BK.

{¶10} The former employees testified to somewhat different facts. Hughes testified she, at the time of trial, owned 40 percent of Ohio State BK. She began to set up Ohio State BK the day she left Columbus BK and sent solicitation letters to some of Columbus BK's clients in an effort to recruit their business and let the clients know

where to find her. She testified she did not copy any client lists when she left Columbus BK. She explained that Exhibit 16, a then current list of Ohio State BK clients, included former Columbus BK clients she contacted from her memory. Of the approximately 40 clients listed on Exhibit 16, about 30 were payroll clients of Columbus BK. At the time of the hearing, approximately 25 had begun, or were to begin, using Ohio State BK services by January 1, 2011.

{¶11} According to Petrella, some employees, however, kept their passwords on their computers or desks or "would just shout back and forth what password to log onto the computer." (Tr. 214.) The employees' computers were not routinely turned off at night, and in those circumstances a password was not necessary to log onto the system. Contemporary Business Solutions employees took files and the payroll book, but only regarding the shared clients. Petrella testified she did not take a printed client list when she left Columbus BK.

{¶12} Testimony indicated one of the vacant cubicles in the office, not open to the public, had client files in cubbies that were similar to post office boxes. Client names were on the cubbies, but Centofanti testified the public could not see the client names unless one was using binoculars. Although Petrella testified the names on the cubbies could be seen from outside the window if one looked "hard enough," she admitted she did not go outside to see if the names were visible from outside the window; she was "assum[ing]" they were visible, especially since the janitorial service usually left lights on in the office overnight. (Tr. 213, 217-18.) Similarly, Jacob Sheperd stated he does not cover up the client names in his office during the night and, with bushes, grass, and a

parking lot outside his office window, one would probably need binoculars to see the client names on the cubbies.

{¶13} The administrative assistant and receptionist, Linda McCarty, testified no list of clients was kept in the reception area, and she had a password to access her computer. She did not allow the public to roam freely through the office but escorted persons to particular offices or to the conference room across the hall. She, however, admitted a few clients were permitted to visit employees without escort.

{¶14} Hughes testified she printed a computer password list and distributed it to plaintiff's employees in 2008 or 2009. She also testified the office door was generally unlocked on Saturday mornings during tax season for tax clients. On one such Saturday, she found someone trying to access the internet on McCarty's computer. She also noted Contemporary Business Solutions had access to the computer system for its tax clients. Hughes did outside work for several Columbus BK clients or had relationships with clients outside the office. For example, her daughter worked for LA Tan, one of plaintiff's business clients.

{¶15} With that evidence, the trial court found defendants violated R.C. 1333.61 in their unauthorized use of Columbus BK's trade secrets in the form of client lists, but it found no violation regarding plaintiff's price matrix. Analyzing the other factors appropriate to injunctive relief, the trial court concluded a preliminary injunction was appropriate. By order filed February 8, 2011, the trial court granted plaintiff a preliminary injunction, finding defendants violated R.C. 1333.61 with respect to plaintiff's customer lists and enjoining defendants per the terms of the order until January 2012.

## II. Assignments of Error

{¶16} Defendants appeal, assigning the following errors:

1. The trial court abused its discretion in finding clear and convincing evidence that the Appellee's customer identities are trade secrets under RC 1333.61(D).
2. The trial court abused its discretion by enjoining Appellants from soliciting or servicing business from business with whom some or all Appellants had outside personal and business relationships and who were customers of Appellee.
3. The trial court abused its discretion by enjoining Appellants from soliciting or servicing business with customers that Appellee acknowledged were not trade secrets.

### III. First Assignment of Error – Client Lists as Trade Secrets

{¶17} Defendants' first assignment of error contends the trial court abused its discretion in finding clear and convincing evidence that plaintiff's client identities are trade secrets under R.C. 1333.61(D). R.C. 1333.61(D) defines trade secret to mean "information, including the whole or any portion or phase of any \* \* \* business information or plans, financial information, or listing of names, addresses, or telephone numbers, that satisfies" two prongs. Initially, it must "derive independent economic value, actual or potential, from not being generally known to, and not being readily ascertainable by proper means by, other persons who can obtain economic value from its disclosure or use." Secondly, it must be "the subject of efforts that are reasonable under the circumstances to maintain its secrecy."

{¶18} The Supreme Court of Ohio adopted six factors to consider in analyzing a trade secret claim: (1) the extent to which the information is known outside the

business; (2) the extent to which it is known to those inside the business, i.e., by the employees; (3) the precautions taken by the holder of the trade secret to guard the secrecy of the information; (4) the savings effected and the value to the holder in having the information as against competitors; (5) the amount of effort or money expended in obtaining and developing the information; and (6) the amount of time and expense it would take for others to acquire and duplicate the information. *State ex rel. The Plain Dealer v. Ohio Dept. of Ins.* (1997), 80 Ohio St.3d 513, 524-25, citing *Pyromatics, Inc. v. Petruziello* (1983), 7 Ohio App.3d 131, 134-35.

{¶19} "While no single factor of the *Plain Dealer* test is dispositive, \* \* \* 'a business or possessor of a potential trade secret must take some active steps to maintain its secrecy in order to enjoy presumptive trade secret status' because 'once material has been publicly disclosed, it loses any status it ever had as a trade secret.' " *Thermodyn Corp. v. 3M Co.* (N.D. Ohio, 2008), 593 F.Supp.2d 972, 986, quoting *Heartland Home Fin., Inc. v. Allied Home Mortg. Capital Corp.* (C.A.6, 2008), 258 Fed.Appx. 860, 862. "Thus, disclosure to potential or actual customers, absent a confidential agreement or understanding, will destroy any protection of that information as a trade secret." *Id.*, citing *R & R Plastics, Inc. v. F.E. Myers Co.* (C.A.6, 1993), 92 Ohio App.3d 789, 802.

{¶20} "In addition to its confidential nature, the purported trade secret must be novel in the sense that it is information not generally known to others in the industry." *Id.*, citing *R & R Plastics, Inc.* at 801. "Evidence of a trade secret is demonstrated by showing the extent to which the information is known outside the business and the

precautions the plaintiff has taken to guard the secret nature of the information." *Id.*, citing *DeBoer Structures, Inc. v. Shaffer Tent & Awning Co.* (S.D. Ohio, 2002), 233 F.Supp.2d, 934, 947.

{¶21} Client lists may be trade secrets. See *Al Minor Assoc., Inc. v. Martin*, 117 Ohio St.3d 58, 2008-Ohio-292. A client list is entitled to trade secret status "only if the information is not generally known or readily ascertainable to the public." *State ex rel. Lucas Cty. Bd. of Commrs. v. Ohio Environmental Protection Agency*, 88 Ohio St.3d 166, 173, 2000-Ohio-282, quoting *State ex rel. The Plain Dealer* at 529. As a result, a client list entitled to trade secret status typically includes not only the name of the business but information not available to the public, such as the name of a contact person, a non-public telephone or cell phone number, an email address, and other pertinent business data known only because of the client relationship. See, e.g., *Al Minor Assoc.* Indeed, such information is the value in a client list. The company typically has spent many hours of labor and interaction to develop the information reflected in the list, and disclosure to a competitor grants the competitor a tremendous advantage in not having to spend the time and money to develop that same information.

{¶22} Here, by contrast, the evidence does not indicate the client list consists of any information but the names of the entities that do business with plaintiff and perhaps a billing address; the testimony at trial lacked specifics. Nothing in the evidence suggests that any sensitive information, otherwise unavailable to the public, is included in the list. As such, it falls short of the type of client list that usually is afforded trade secret status.

{¶23} Equally as important, the evidence does not reflect that Hughes or Petrella took a client list, written or memorized. Centofanti did not testify that Hughes and Petrella took a list; Hughes and Petrella denied taking a printed list; and neither testified they took a memorized list. At most, Hughes said she remembered the names of some of the clients.

{¶24} Moreover, the evidence revealed that plaintiff did not maintain secrecy about the identity of its clients. Despite Centofanti's testimony concerning efforts to maintain confidentiality about the names of those businesses plaintiff serviced, undisputed evidence revealed numerous instances where plaintiff made public the names of its clients.

- In 2008, plaintiff sponsored a social gathering for clients, spouses, and employees. In doing so, plaintiff made known to all present at least some of the names on its client list.
- Plaintiff allowed the names of clients to be placed on the reception desk where the public had full access to them.
- Plaintiff permitted certain of its clients to walk unescorted through the office where the names of other clients were displayed in the cubbies in the office.
- Plaintiff allowed a tax consulting business in the same building to share client files and to have access to plaintiff's computers. In that regard, the testimony indicated the office door was left open on some Saturdays in tax season, allowing persons to

enter the offices where client names were displayed and to attempt access to the receptionist's computer.

{¶25} Even within the office, secrecy was not maintained. Although Centofanti testified to measures to keep secret the client lists on the computer, undisputed evidence indicated employees freely shouted passwords in the office or kept their password on their computers or desks, permitting access to all the information spread throughout the computers in the office. Moreover, some employees' computers routinely were not turned off at night, eliminating the need for a password to gain access to the computer's information. Janitorial employees, though charged with collecting trash, had access to those computers and unlocked filing cabinets.

{¶26} In the final analysis, plaintiff seeks, in effect, to enforce a non-existing noncompetition agreement against defendants by invoking the statutory provisions governing trade secrets. Had a handful of plaintiff's clients transferred their business to defendants, plaintiff likely would not be claiming a trade secret, but might wish it had entered into noncompetition agreements with defendants. The present situation is not vastly different. Hughes and Petrella developed business relationships with several of plaintiff's customers during the time they worked for plaintiff. Although at least some of the clients were solicited to follow them to Ohio State BK, such circumstances do not suggest the relationship or the name of the client is a trade secret; they suggest a noncompetition agreement was needed to protect plaintiff from employees who leave Columbus BK.

{¶27} Indeed, the trial court tacitly recognized its order in effect was enforcing a noncompetition agreement rather than finding a trade secret, because it issued the preliminary injunction for a period of time to end on January 12, 2012. If plaintiff's client lists truly were a trade secret, they would remain so until something happened to disclose them to the public. Noncompetition agreements, by contrast, have a limited life span and typically are enforceable for a time period similar to that encompassed in the trial court's preliminary injunction.

{¶28} The six factors the Supreme Court of Ohio set forth in *State ex rel. The Plain Dealer*, coupled with the evidence presented, do not support the trial court's conclusion that plaintiff's client lists are trade secrets. Plaintiff readily permitted members of the public access to the names of at least some of its clients through social functions, through the office and computers, through business cards on the receptionist's desk, and through unlocked cabinet files. In the end, much of the information defendants' possessed arose as a result of their day-to-day exposure to and interaction with plaintiff's clients as a part of their employment duties, the type of information a noncompetition agreement is designed to address.

{¶29} Accordingly, defendants' first assignment of error is sustained.

#### **IV. Second and Third Assignments of Error – Outside Contact with Defendants and Disclosed Clients**

{¶30} Defendants' second assignment of error contends the scope of the trial court's injunction is unreasonably and unlawfully broad because it enjoins defendants from soliciting or servicing plaintiff's clients with whom some or all defendants had personal and business relationships outside of employment with plaintiff. Defendant's

third assignment of error contends the trial court abused its discretion by enjoining defendants from soliciting or servicing business clients whose identities plaintiff acknowledged were not trade secrets.

{¶31} Given our disposition of defendants' first assignment of error, defendants' second and third assignments of error are moot.

#### **V. Disposition**

{¶32} Having sustained defendants' first assignment of error, rendering moot the second and third assignments of error, we reverse the judgment of the trial court, vacate the preliminary injunction, and remand this matter to the trial court to address any remaining issues.

*Judgment reversed and cause remanded.*

KLATT and SADLER, JJ., concur.

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