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NO. 16088-05

SUPREME COURT - STATE OF NEW YORK
IAS TERM PART 16 NASSAU COUNTY

PRESENT:
HONORABLE LEONARD B. AUSTIN
Justice

Motion R/D: 10-21-05
Submission Date: 10-21-05
Motion Sequence No.: 001/MOT D

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EMERGING VISION, INC., f/k/a STERLING VISION, INC.,
Plaintiff,

- against -

MAIN PLACE OPTICAL, INC., AM-CLAR, INC., AMTON OPTICAL, INC., DR. DENNIS OSIAK, DR. EUGENE BORYSZAK and DR. RICHARD TARBELL,
Defendants,

---x

COUNSEL FOR PLAINTIFF
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Garden City, New York 11530

COUNSEL FOR DEFENDANTS
Meggesto, Crossett & Valerino, LLP
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Syracuse, New York 13203-1977

ORDER

The following papers were read on Plaintiff's motion for a preliminary injunction:

Order to Show Cause dated October 7, 2005;
Affidavit of Brian Alessi sworn to on October 6, 2005;
Affidavit of Peter Rains sworn to on October 30, 2005;
Affirmation of John S. Ciulla, Esq. dated October 6, 2005;
Plaintiff's Memorandum of Law;
Affidavit of Dennis Osiak sworn to on October 17, 2005;
Defendant's Memorandum of Law;
Affidavit of Brian Alessi sworn to on October 19, 2005;
Plaintiff's Reply Memorandum of Law;
Transcript of oral argument of October 21, 2005.

Plaintiff Emerging Vision, Inc. f/k/a Sterling Vision, Inc. ("EVI") moves for a preliminary injunction enjoining Defendants from using the Sterling Optical trade name, trade and service marks, signs and/or commercial symbols in connection with the operation of a retail optical store at the present location of Sterling Optical Center Store No. 25; enjoining Defendants from operating non-Sterling Optical Centers at the location of Store No. 25; compelling Defendants to deliver the customer and patient records relating to the operation of Store No. 25 to EVI; enjoining Defendants from using the telephone numbers and telephone that were used by Store No. 25 prior to the termination of the franchise agreement; and enjoining Defendants from violating the covenant not to compete contained in the franchise agreements for Sterling Optical Center Store No. 30 and Store No. 302.

BACKGROUND

EVI operates and franchises Sterling Optical Centers ("Sterling"). EVI is the successor-in-interest to Sterling Optical Corp.

By franchise agreement dated October 9, 1992, Defendant Main Place Optical, Inc. ("Main Place") was granted a franchise to operate a Sterling Optical Center in the Main Place Mall, 350 Main Street, Buffalo, New York. The franchise agreement designates this location as Store No. 25.

By franchise agreement dated November 30, 1990, Defendant Am-Clar Optical, Inc. ("Am-Clar") was granted a franchise to operate a Sterling Optical Center at the Eastern Hills Shopping Center in Williamsville, New York. The franchise agreement

designates this location as Store No. 30. In July 1992, Am-Clar executed an Assumption and Assignment Agreement relating to Store 30. At the same time, Am-Clar executed a Supplement to the Franchise Agreement for that store.

By franchise agreement dated February 28, 1991, Am-Clar was also granted a franchise to operated a Sterling Optical Center at 746 Alberta Drive, Amherst, New York. The franchise agreement designates this location as Store No. 302.

Defendants Dr. Dennis Osiak ("Osiak"), Dr. Eugene Boryszak ("Boryszak") and Richard Tarbell ("Tarbell") agreed to personally guarantee Main Place's obligation pursuant to the Store No. 25 franchise agreement. They also agreed that they would be bound by the covenant not to compete provisions of the franchise agreement.

Osiak and Tarbell executed agreements by which they personally agreed to be bound by all of the provisions of the Store No. 30 and Store No. 302 franchise agreements.

EVI asserts that Main Place defaulted under the terms of the franchise agreement by failing to make complete and timely payment of royalty fees and the advertising fund contribution and to timely deliver to EVI financial reports and information as required by the franchise agreement. By letter dated August 5, 2005, EVI advised Main Place, Osiak, Boryszak and Tarbell that they were in default under the terms of the franchise agreement and that the franchise agreement would be terminated if the defaults were not timely cured. By letter dated August 30, 2004, EVI advised Main Place, Osiak, Boryszak and Tarbell that it was terminating the Store No.

25 franchise agreement on the grounds that they had not cured the defaults referenced in the August 5, 2005 letter.

EVI asserts that Am-Clar, Osiak and Tarbell have been in default of the provisions of the Store No. 30 franchise agreement since February 2005 and the Store No. 302 Franchise Agreement since January 30, 2005 by failing to pay royalties, advertising fund contributions and other fees due under the franchise agreement, by failing to make the required financial reporting and by failing to allow EVI access to its financial records to so that EVI could conduct an audit. Despite these defaults, EVI has not taken action to terminate the franchise agreements for Stores No. 30 and 302.

The Store No. 25 franchise agreement contains a covenant not to compete which provides that for a period of two years from the assignment, termination or expiration of the franchise agreement that Main Place and the guarantors will not engage individually or as shareholders, partners or owners of any business which is engaged in the sale of contact lenses, prescription and non-prescription eye-wear and eye care products within a five mile radius of the Main Place location or any other Sterling Optical Center.

The Store No. 25 franchise agreement also provides that, upon termination, the franchisee would immediately cease using the Sterling Optical name and marks.

By agreement dated October 9, 1992, Main Place assigned to EVI the telephone number and telephone listings used by EVI in connection with Store No. 25.

The Store No. 30 and Store No. 302 franchise agreements have a covenant not to compete which prohibits Osiak and Tarbell from engaging in a business which sells contact lenses, prescription or non-prescription eye wear or eye care products or services during the term of the agreement or any authorized renewal or extension.

In opposition to the motion, Osiak avers that, with the exception of Stores Nos. 25, 30 and 302 and store in Niagara Falls, all of the Sterling Optical Centers in Western New York have closed. He attributes this the EVI's failure to enforce the covenant not to complete and EVI's failure to use the franchisee's advertising contributions to advertise Sterling Optical stores in the local media as required by the franchise agreement.

The franchise agreements for all of the stores requires EVI to prepare an annual written report regarding the operation of the advertising fund and to make the report available to franchisees upon request. Osiak claims that he has been unable to obtain a copy of the annual report although he has repeatedly requested it.

Osiak asserts that EVI has previously never enforced the non-compete provisions of the franchise agreements despite EVI's knowledge of numerous violations of that provision.

By way of example, Osiak cites Dr. John Bielinski, who had an interest in Store No. 227 in Hamburg, New York, was permitted to work for Council Optical in West Seneca, New York which was less than ten miles from the Sterling Optical store in Hamburg. Dr. Bielinski also worked for an opthomologist, Dr. Leonard Gurevich, who

maintained an office less than two miles from the Sterling Optical store in Hamburg. EVI is alleged to have been aware that Dr. Bielinski's was violating the non-compete provision of the franchise agreement and took no action to enjoin this violation.

Osiak further avers that Boryszak worked at a location directly next door to Sterling Optical's Batavia, New York location in violation of the non-compete clause without EVI taking any action. He further claim that Boryszak has worked for Gold Circle Optical in violation of the non-compete clause for the past five years with EVI's knowledge and acquiescence.

Osiak also claims that Dr. Atkinson, who operates the Sterling Optical store in Niagara Falls, has recently worked for LensCrafters location less than one mile from Store No. 302 with EVI's knowledge and consent.

Osiak urges that EVI should not be given the patient records for Store No. 25. Richard Nyitrai, one of the operators of Store No. 227, avers that, when he closed the store, he contacted EVI's home office for instructions regarding patient records. He never received instructions regarding what should be done with patient records. The records were ultimately transferred to an independent dispenser of contact lenses and eye glasses, South Park Optical, Inc. in Blasdell, New York; not another Sterling Optical franchisee.

DISCUSSION

A. Preliminary Injunction - Standard

The party seeking a preliminary injunction must establish (1) a likelihood of success on the merits, (2) the Plaintiff will suffer irreparable harm in the absence of an injunction and (3) a balancing of the equities favors the granting of an injunction. Aetna Ins. Co. v. Capasso, 75 N.Y.2d 860 (1990); Doe v. Axelrod, 73 N.Y.2d 748 (1988); and Olabi v. Mayfield, 8 A.D.3d 459 (2nd Dept. 2004).

The party seeking the preliminary injunction has the burden of establishing a *prima facie* entitlement to such relief. Gagnon Bus Co., Inc. v. Vallo Transportation, Ltd., 13 A.D.3d 334 (2nd Dept. 2004); and William M. Blake Agency, Inc. v. Leon, 283 A.D.2d 423 (2nd Dept. 2001). A preliminary injunction will be granted only if there is a clear right to the relief upon the law and the undisputed facts. JDOC Construction LLC v. Balabanow, 306 A.D.2d 318 (2nd Dept. 2003); Peterson v. Corbin, 275 A.D.2d 35 (2nd Dept. 2000); Carman v. Congregation De Mita of New York, Inc., 269 A.D.2d 416 (2nd Dept. 2000); and Anastasi v. Majopon Realty Corp., 181 A.D.2d 706 (2nd Dept. 1992).

The party seeking the preliminary injunction must present evidence establishing the likelihood of success on the merits. Moy v. Umeki, 10 A.D.3d 604 (2nd Dept. 2004); and Terrell v. Terrell, 270 A.D.2d 301 (1st Dept. 2001).

B. Store No. 25

Main Place operates Store No. 25. The franchise agreement for Store No. 25 has been terminated in accordance with the terms of the agreement. EVI seeks to

prevent Main Place from using the Sterling Optical name and mark in connection with Store No. 25, to prevent Main Place, Osiak, Boryszak and Tarbell from operating a non-Sterling retail optical store at that location in violation of the covenant not to compete and to enjoin them from using the telephone number and telephone listings for this store.

Covenants not to compete will be enforced if they are reasonable in geographic scope and duration. Mohawk Maintenance Co., Inc. v. Kessler, 52 N.Y.2d 276 (1981).

The covenant not to compete contained in the Store No. 25 franchise agreement runs for a period of two years "... commencing on the date of the assignment, termination or expiration of this Agreement." The agreement was for a period of a period of ten years commencing on October 9, 1992 expiring at midnight on October 8, 2002.

Although Paragraph 16 of the franchise agreement provides a procedure for its renewal, EVI and Main Place do not place before the court any evidence that the agreement was renewed in the method provided in the franchise agreement. When the franchise agreement expired, the parties continued to operate under the terms of the agreement.

If the two year period of the restrictive covenant began to run at the expiration of the franchise agreement, then the period has already expired.

However, where after the expiration of a contract the parties continue to conduct their business under the terms of the expired agreement, an implication arises that the

parties have agreed to a new contract containing the terms as were contained in the old contract. New York Telephone Co. v. Jamestown Telephone Corp., 282 N.Y. 365 (1940); and North American Hyperbaric Center v. City of New York, 198 A.D.2d 148 (1st Dept. 1993). In this case, Main Place and EVI continued to conduct their business relationship after October 8, 2002 in accordance with the terms of the franchise agreement. Thus, the agreement was renewed by implication. The franchise agreement was finally terminated on August 30, 2004.

A restrictive covenant in a franchise agreement will be enforced if it serves the legitimate interest of the franchisor. Carvel Corp. v. Rait, 117 A.D.2d 485 (2nd Dept. 1986); and Carvel Corp. v. Eisenberg, 692 F.Supp. 182 (S.D.N.Y. 1988). A restrictive covenant will be reasonable if (1) the restraint is no greater than is required than to protect a legitimate interest of the franchisor; (2) it does not impose an undue hardship on the franchisee; and (3) is not injurious to the public. See, BDO Seidman v. Hirshberg, 93 N.Y.2d 382 (1999).

A franchisor has a legitimate interest in protecting its proprietary information and trade secrets and in being able to obtain another franchisee for the territory. See, Carvel Corp. v. Eisenberg, *supra,* Xerox Corp. v. Neises, 31 A.D.2d 195 (1st Dept. 1968); Eastman Kodak Co. v. Powers Film Products, Inc., 189 App.Div. 556 (4th Dept. 1919); and Rudiger v. Kenyon, 32 Misc.2d 804 (Sup.Ct. Monroe Co. 1962).

Main Place, Osiak, Boryszak and Tarbell assert that the covenant not to compete should not be enforced because EVI was in default of the franchise agreement and because EVI has waived the enforcement of that provisions.

. A party who has breached a contract cannot enforce a restrictive covenant. Elite Promotional Marketing, Inc. v. Stumacher, 8 A.D.3d 525 (2nd Dept. 2004); and DeCapua v. Dine-A-Mate, Inc., 292 A.D.2d 489 (2nd Dept. 2002).

Defendants assert that EVI is in default of the franchise agreement in that EVI did not prepare a written report of the operation of the Advertising Fund annually and failed to provide a copy of the report to Main Place upon request. (Main Place Franchise Ag. ¶ 6 [B]). There is no evidence in the record which supports this claim.

Osiak avers that he has requested a copy of the report. However, he fails to state when he requested a copy of the report, for what year or years the report was requested, to whom such a request was made, the manner in which the request was made and the response received. A conclusory allegation that he requested a copy of the advertising fund report is insufficient to establish that the report was not prepared or furnished.

Osiak also claims the EVI has waived the enforcement of the covenant not to compete by its repeated and long term failure to enforce that provision.

"A waiver is 'the intentional relinquishment of a known right with both knowledge of its existence and the intention to relinquish it.' (Whitney on Contracts [4th ed., 1946], p. 273.)" Werking v. Amity Estates, Inc., 2 N.Y.2d 43, 52 (1956). See also, City of New

York v. State of New York, 40 N.Y.2d 659 (1976); and Town of Hempstead v. Incorporated Village of Freeport, 15 A.D.3d 567 (2nd Dept. 2005). A waiver must be intentional and knowing. Krainciunas v. Suburban Propane Gas Co., 114 A.D.2d 936 (2nd Dept. 1985).

In this case, there is no evidence that EVI knowingly and intentionally permitted Drs. Boryszak, Atkinson or Bielinski to work for retail optical shops that competed with Sterling Optical Centers. Osiak has established that these individuals violated the covenant not to compete. However, there is no evidence that EVI was aware of their violation or that it affirmatively consented thereto. In fact, even though Boryszak is a defendant in this action, he did not submit an affidavit indicating that EVI was aware of and consented to his working for a competitor of EVI. EVI denies knowledge of any of the violations of the restrictive covenant. The conclusory allegation that EVI was aware of and consented to the violations of the covenant not to compete is not a substitute for evidence supporting this claim.

Defendants have not established the EVI waived enforcement of the covenant not to compete or breached the franchise agreement. EVI has a legitimate interest in preventing a former franchisee whose franchise has been terminated from using its name, service marks and commercial symbols. It also has a legitimate interest in seeking a new franchisee for the location in question unfettered by competition from the former franchisee.

Therefore, Main Place, Osiak, Boryszak and Tarbell must be enjoined, during the pendency of this action, from using the Sterling Optical trade name, trade and service marks, signs and other commercial symbols. Main Place must also be enjoined, during the pendency of this action, from using the telephone number and listing it assigned to EVI and from operating a non-Sterling Optical store at that location.

The enforcement of the covenant not to compete as to Osiak, Boryszak and Tarbell would prevent them from working as optometrists for a period of two years within a five mile radius of the Main Place store or any other Sterling Optical Center.

New York has a strong public policy against enjoining a person from engaging in one's chosen profession. See, Columbia Ribbon & Carbon Mfg. Co. v. A-1-A Corp., 42 N.Y.2d 496 (1977); and Reed Roberts Assocs. v. Strauman, 40 N.Y.2d 303 (1976). Such a restrictive covenant or covenant not to compete will be enforced provided that it is reasonably limited in scope (geography) and duration and only to the extent that it is necessary to protect EVI from unfair competition stemming from the use or disclosure of trade secrets or confidential information or customer lists. Millbrandt & Co., Inc. v. Griffin, 1 A.D.3d 327 (2nd Dept. 2003); and IVI Environment, Inc. v. McGovern, 269 A.D.2d 497 (2nd Dept. 2000).

In this regard, EVI has failed to make a *prima facie* showing of entitlement to a preliminary injunction. EVI seeks enforcement of the covenant not to compete against Osiak, Boryszak and Tarbell on the grounds that they threaten to take action which are in violation of EVI's rights. While the covenant not to compete may be reasonable as to

scope and duration, EVI has failed to present any evidence that Osiak, Boryszak or Tarbell have engaged in or are threatening to engage in unfair competition by using EVI's trade secrets or confidential information.

Since EVI has failed to establish that Osiak, Boryszak and/or Tarbell are engaging, or are threatening to engage, in unfair competition, EVI has failed to establish a likelihood of success on the merits. For the same reason, EVI has failed to establish it will sustain irreparable harm. Therefore, EVI cannot be granted a preliminary injunction enjoining Osiak, Boryszak and/or Tarbell from working as optometrists so long as their prior association with Sterling is not publically disclosed and they do not use Sterling's phone number and listing.

EVI also seeks to compel delivery of the patient records for patients at Store No. 25. EVI is not licensed to practice either medicine or optometry (Education Law Art. 131-Medicine; Art. 143-Optometry). EVI is a domestic business corporation. As such, it cannot not practice medicine or optometry. See, United Calendar Mfg. Corp. v. Huang, 94 A.D.2d 176 (2nd Dept. 1983). Medical records and notes which contain entries relevant to medical history, examination, treatment or care are property of the health care provider who provided the care or treatment. Prohealth Care Assocs., LLP v. April, 4 Misc.3d 1017(A), (Sup.Ct. Nassau Co. 2004); Lewis v. Clement, 1 Misc.3d 464 (Sup.Ct. Monroe Co. 2003); and In the Matter of Culbertson, 57 Misc.2d 391 (Surr. Ct. Erie Co., 1968). Since the records of treatment provided to the customers are records

of the health care provider, Defendants cannot be compelled to turn those records over to EVI.

C. Stores Nos. 30 and 302

Am-Clar is the franchisee for Stores Nos. 30 and 302. EVI asserts that Am-Clar has been in default of its obligations to pay royalties, advertising contributions and other fees and in failing to make the required financial reports and provide EVI with access to its records to conduct an audit for Store No. 302 since January 2005 and for Store No. 30 since February 2005. Despite these defaults, EVI has not given Am-Clar notice of its intent to terminate the franchise agreement for either location as it could under the respective agreements.

The franchise agreements for Stores Nos. 30 and 302 contain a restrictive covenant which prohibits Osiak and Tarbell, who are the shareholders of Am-Clar from working for or having an ownership interest in or being employed by retail optical store other than another Sterling Optical Center. This relief is sought to prevent Osiak and Tarbell from operating a retail optical store at the location of Store No. 25 which is not a Sterling Optical Center.

The court cannot grant such relief at this time. Osiak and Tarbell are not presently operating a retail optical store in violation of the covenant not to compete provisions of the franchise agreement for Stores No. 30 and 302 .

CPLR 6301 permits the court to issue a preliminary injunction when "...the defendant threatens or is about to do...an act in violation of plaintiff's rights respecting

the subject of the action, and tending to render the judgment ineffectual." See, Poling Trans. Corp. v. A & P Tanker Corp., 84 A.D.2d 796 (2nd Dept. 1981).

This action was commenced with the filing of a summons with notice. This application is for a preliminary injunction. The "Notice" portion of the summons indicates that this is an action for "breach of franchise agreements, guaranties and related agreements." The relief sought is an unspecified sum of money and a permanent injunction. The "Notice" does not indicate against whom injunctive relief is sought or the specific nature of the injunction relief being sought.

While Am-Clar, Osiak and Tarbell may be in default in payment of the money due under the terms of the franchise agreements for Stores Nos. 30 and 302, EVI has not taken any action to terminate the franchises for these stores. EVI appears to be seeking a money judgment against the Defendants for their failure to make payment of the sums due under the terms of franchise agreements for these stores. A preliminary injunction may not be obtained by a plaintiff seeking a money judgment for breach of contract. Credit Agricole Indosuez v. Rossiyskiy Kredit Bank, 94 N.Y.2d 541 (2000); and Dinner Club Corp. v. Hamlet on Olde Oyster Bay Homeowners Assoc., Inc., 21 A.D.3d 777 (1st Dept. 2005).

Am-Clar, Osiak and/or Tarbell are not presently violating nor have they threatened to violate the franchise agreements for Store Nos. 30 and 302 so as to warrant the issuance of a preliminary injunction. Therefore, a preliminary injunction cannot be issued.

D. Undertaking

The party seeking a preliminary injunction must post an undertaking in an amount that will pay the Defendants damages and costs if it is determined that the preliminary injunction was erroneously issued. Margolies v. Encounter, Inc., 42 N.Y.2d 475 (1977); and CPLR 6312(b). In this case, the granting of the preliminary injunction will effectively prevent the Defendants from operating Store No. 25. However, that franchise agreement appears to have been properly terminated so as to trigger EVI's rights thereunder. The damage Defendants would sustain if it were established that the preliminary injunction was improvidently granted and not substantial since their ability to work is unfettered. Thus a undertaking in the sum of $7,500.00 is appropriate.

Accordingly, it is,

ORDERED, that Plaintiff's motion for a preliminary injunction is **granted** to the extent that Defendants are enjoined from using the Sterling Optical trade name, trade and service marks, signs and/or commercial symbols in connection with the operation of Sterling Optical Center No. 25, from operating a non-Sterling Optical retail optical store at the location of Sterling Optical Center No. 25 and from using the telephone number and telephone listing for Sterling Optical Center No. 25, during the pendency of this action, and, in all other respects, is **denied**; and it is further,

ORDERED, that the preliminary injunction is conditioned upon Plaintiff posting an undertaking in the sum of $7,500.00 within ten (10) days of the date of this Order. Such

undertaking may be in the form of a surety, a deposit with the County Clerk of Nassau or by posting such sum in an interest bearing escrow account of counsel for Plaintiff. Such undertaking shall remain in effect until further order of this Court or stipulation executed by the parties or their counsel. In the event the undertaking is not posted in accordance herewith, Plaintiff's motion is **denied** in its entirety; and it is further,

ORDERED, that counsel for the parties shall appear for a preliminary conference on February 10, 2006 at 9:30 a.m.

This constitutes the decision and order of this Court.

Dated: Mineola, NY
January 11, 2006

HON. LEONARD B. AUSTIN, J.S.C.

ENTERED
JAN 17 2006
NASSAU COUNTY
COUNTY CLERK'S OFFICE