Daekyo Am., Inc. v Gunsberger
2015 NY Slip Op 32372(U)
December 15, 2015
Supreme Court, Kings County
Docket Number: 505946/15
Judge: Mark I. Partnow
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At an IAS Term, Part 43 of the Supreme Court of the State of New York, held in and for the County of Kings, at the Courthouse, at Civic Center, Brooklyn, New York, on the 5th day of November, 2015.

PRESENT:

HON. MARK I. PARTNOW,
Justice.

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DAEKYO AMERICA, INC.,

Plaintiff,

- against -

Index No. 505946/15

JOSHUA GUNSBERGER AND JEI SELF-LEARNING SYSTEMS, INC.,

Defendants.

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The following papers numbered 1 to 9 read herein:

	Papers Numbered
Notice of Motion/Order to Show Cause/ Petition/Cross Motion and Affidavits (Affirmations) Annexed	1-3
Opposing Affidavits (Affirmations)	5-6, 7-8
Reply Affidavits (Affirmations)	
Affidavit (Affirmation)	
Other Papers Memoranda of Law	4, 9

Upon the foregoing papers, plaintiff moves by way of an order to show cause seeking an order: 1) enjoining defendants Joshua Gunsberger (Gunsberger) and JEI Self-Learning Systems (JEI) (collectively defendants) from operating an education/learning center at 60

Broadway in Brooklyn, New York (the Williamsburg Location), or within 25 miles thereof; 2) enjoining defendants from operating an education/learning center in Greenpoint in Brooklyn, NY, or within 25 miles thereof (which includes the Williamsburg location); 3) requiring defendants to immediately comply with the post-termination covenants of each Franchise Agreement, including removing and returning to Daekyo all signs and things using any trademarks of Daekyo ("Eye Level", etc.,); 4) requiring defendants to immediately return to Daekyo all confidential and proprietary information of Daekyo, including the Operations Manual and customer/student lists; and 5) requiring defendants to immediately contact all telephone companies and to forward all telephone calls to telephone numbers advertised or listed in association with the Daekyo name and/or "Eye Level" marks to be call forwarded to Daekyo or its designee.

Background

Daekyo is a franchiser of children's learning centers, under the name Eye Level Learning Center and related trademarks. It has over 225 franchises in the United States with approximately 30 located in New York. According to the complaint, Daekyo contends that it entered into a franchise agreement with Gunsberger as franchisee for the operation of an Eye Level Learning Center in Greenpoint, Brooklyn located at 33 Nassau Avenue. The complaint indicates that the Greenpoint Center opened in February 2012 and that the franchise agreement was terminated on September 18, 2014. Daekyo contends that it also had a franchise relationship with Gunsberger for another center located at 60 Broadway in

Williamsburg, Brooklyn (the Williamsburg Center) which began operating on or about July 20, 2010. Plaintiff contends that Gunsberger closed the Williamsburg Center on or about February 18, 2015 and is now operating a JEI Learning Center at the same location in violation of the franchise agreement. Plaintiff maintains that JEI is a direct competitor of Daekyo and the franchise agreements have in-term and post-term non-compete covenants. The post-termination non-compete covenant precludes competition within 25 miles for two years.

Daekyo contends that franchisees such as Gunsberger were provided with an Operation Manual and Confidential Information from Daekyo and that the customer/student lists are the trade secrets of Daekyo. They contend that the franchise agreement required a franchisee to contact Daekyo and give it the opportunity to take over the business and also to take over the lease, which it contends Gunsberger failed to do.

By summons and complaint dated May 13, 2015, Daekyo commenced the instant action against Joshua Gunsberger and JEI. The complaint contains the aforementioned allegations and asserts a breach of contract causes of action against Gunsberger; tortious interference with contract as against JEI, and causes of action sounding in misappropriation/theft of trade secrets, unfair competition, civil conspiracy and a permanent injunction against all defendants. By order to show cause dated June 9, 2015, Daekyo moved for the instant preliminary injunction as well as other relief.

Daekyo's Motion for a Preliminary Injunction

"To obtain a preliminary injunction, a movant must establish, by clear and convincing evidence, (1) a likelihood of success on the merits, (2) irreparable injury absent a preliminary injunction, and (3) a balancing of the equities in the movant's favor" (*Matter of Armanida Realty Corp. v Town of Oyster Bay,* 126 AD3d 894, 894 [2015]). "The decision to grant or deny a preliminary injunction lies within the sound discretion of the Supreme Court" (*id.* at 894-895). "Although the purpose of a preliminary injunction is to preserve the status quo pending a trial, the remedy is considered a drastic one, which should be used sparingly" (*id.* at 894; see also *Uniformed Firefighters Assn. of Greater N.Y. v City of New York*, 79 NY2d 236, 241 [1992]).

In support of its motion for a preliminary injunction, Daekyo submits the affidavit of its employee Jin Yang, a graphic designer, who affirms that he visited the Williamsburg Center location on February 28, 2015 which was now a JEI Learning Center. He states that he posed as a parent and met with defendant Gunsberger who informed him that the business was no longer an Eye Level Learning Center but was now JEI. Samuel Chun, the Director of Strategy and Planning for Daekyo, also submitted an affidavit in which he affirms that he called the Williamsburg Center on March 26, 2015 posing as a customer and spoke to a woman named "Cindy" who he claims told him that "we were Eye Level, but now are JEI" and referred to the name of the director of the center as Josh. Mr. Chun states that JEI is a direct competitor of Daekyo and that Eugene Ahn, a former Daekyo manager is now an

executive at JEI. He states that Daekyo considers the customer/student lists to be trade secrets of Daekyo and that the franchise agreement requires that this information be provided by the franchisee to Daekyo and that the franchisee is prohibited from using the information apart from the operation of their franchised location. Chun argues that defendants had access to Daekyo's confidential information and operations manual and customer/student list for the Williamsburg location and are using such information to unfairly compete with Daekyo and its franchisees by recruiting Eye Level students of the Williamsburg Center to become JEI students at the same location.

In support of its motion for a preliminary injunction, Daekyo argues that it has demonstrated a likelihood of success on the merits on its claims for breach of the non-compete covenants because the covenants are reasonably tailored to protect Daekyo's valid business interests. Plaintiff argues that §§ 7 and 15.d of the franchise agreement provide that a franchisee may not compete with Daekyo during the term of the agreement as well as two years following termination of the agreement, which precludes operation of any competing business within 25 miles of the former franchised location. Daekyo contends that in furtherance of the non-compete provisions, franchisees agreed to turn over all of its customer lists to Daekyo and cease using and destroy such lists and agreed to cease using all confidential information and return the Operations Manual to Daekyo; to not use any marks of Daekyo, nor directly or indirectly identify any business as a current or former Eye Level Learning center or franchisee; agreed not to transfer the franchise without Daekyo's

authorization; agreed that the leased premises only be used for the operation of a Daekyo franchise. Daekyo maintains that defendants are using the "Eye Level" trademarks of Daekyo while operating a competing franchise of JEI and enforcement of the non-compete covenants will protect Daekyo's goodwill in the market. Daekyo argues that it has a legitimate business interest in enforcing the non-compete covenant to protect its confidential and proprietary information from being used against itself.

Daekyo argues that it is likely to prevail on the merits for its claims for misappropriation of trade secrets. Daekyo claims that Gunsberger had access to Daekyo's confidential information and operations manual and access to Daekyo's customer/student list and that he and JEI are actually using this information to unfairly compete with Daekyo and its franchisees.

Daekyo maintains that it is likely to prevail on the merits for its claim against JEI for tortious interference with its contractual relations with its franchisee Gunsberger. Daekyo argues that Ahn, as a former Daekyo employee had knowledge of the contractual relationship between Gunsberger and Daekyo and interfered with it in order to convert the franchised Eye Level Learning center in Williamsburg to a JEI learning center.

Daekyo argues that it will suffer irreparable harm as a result of the misappropriations of confidential information to interfere with its customer relations and that there will be irreparable harm to their customers because of a lack of continuity with their education.

Daekyo maintains that the balancing of the equities favors injunctive relief because and harm suffered by defendants would be self inflicted as they do not posses the rights to operate the business at this location. Finally, Daekyo contends that injunctive relief will serve the public interest by preventing customer confusion.

In opposition, Gunsberger argues that Daekyo cannot satisfy all the elements required for a preliminary injunction to be issued. Initially, Gunsberger contends that Daekyo's claims are based upon a crucial misstatement of facts which is the allegation that he was a former franchisee of Daekyo at the Williamsburg Center. He states that since its inception in 2010, the Williamsburg Center operated primarily as a learning center under a franchise agreement with FasTracKids and that most Eye Level Learning Centers operate jointly with FasTracKids franchises. Gunsberger affirms that in 2010, he and Franco Verdino entered into a franchise agreement with FasTracKids, a franchiser, for the operation of a learning center at 60 Broadway, the Williamsburg Center. He further states that at no time did he have an agreement with Daekyo for the operation of the Williamsburg Center. Gunsberger affirms that in 2015 he assigned the FasTracKids Franchise Agreement to Master Mind Enterprises and its principal Mr. David Green. He claims that it is his understanding that on February 21, 2015, Green contracted with JEI for the operation of the Williamsburg Center jointly with FasTracKids. Gunsberger states that he never had a franchise or other contractual relationship with JEI. He claims that Mr. Franco Verdino was the franchisee of plaintiff for the Williamsburg Center

Gunsberger claims that on or about December 30, 2011, Daekyo and Play Smart BK, LLC, a non-party New York limited liability company, entered into a franchise agreement for the operation of an Eye Level at 33 Nassau Avenue known as the Greenpoint Center. Gunsberger states that he was the principal of Play Smart. He states that on or about September 18, 2014, the Greenpoint franchise agreement was cancelled by Daekyo and submits a copy of said cancellation.

JEI also opposes Daekyo's motion for a preliminary injunction. JEI points out that although Gunsberger was at one time a Daekyo franchisee for the Greenpoint Center, it is clear that he was never a franchisee at the Williamsburg Center. JEI notes that although Daekyo attached a copy of the Greenpoint Center franchise agreement to its pleadings it fails to submit a copy of the Williamsburg Center's agreement but instead alleges that JEI or Gunsberger have a copy of it. JEI submits the affidavit of Eugene Ahn, its Vice President of Franchise Operations. He states that JEI does not currently and has never operated a franchise at the Greenpoint Center. With regard to the Williamsburg Center he states that on February 21, 2015 JEI signed a franchise agreement with David Green for the location at the Williamsburg Center. He states that JEI does not have any franchise or contractual relationship with Gunsberger and never did and further that JEI is not aware of any contractual relationship between Green and Daekyo.

Mr. Ahn states that JEI is not in possession of a copy of the franchise agreement between Daekyo and the Williamsburg Eye Level franchisee. He affirms that prior to JEI

signing its agreement with the Williamsburg JEI franchisee it had no knowledge of the terms of an agreement between Daekyo and the Eye Level franchisee for the Williamsburg center but understood it had been terminated. JEI states that it was aware that a FasTracKids had been operating at the same space and was in operation before and during the time that Eye Level was operating there and still continues to operate there. JEI points out that its research reveals that Gunsberger was not the Eye Level franchisees for the Williamsburg center but, rather, Franco Verdino, is listed as being the former Eye Level franchisee for the Williamsburg center. Finally, JEI affirms that at no time prior to or after signing the agreement with the JEI franchisee, has JEI secured or used any confidential information or trade secrets derived from the Williamsburg Eye Level Center which belong to Daekyo, including but not limited to: customer and student lists with contact information, the operations manuals; training materials an manuals; operating results and financial performance of Eye Level Learning Centers; teaching methods and techniques; and sales and marketing techniques. Nor did it knowingly, wantonly, willfully or maliciously misappropriate or infringe on Daekyo's trademarks and/or the good will associated with the trademark in relation to the Williamsburg Eye Level Center.

Finally, Mr. Ahn states that at no time prior to or after signing its contract with the Williamsburg JEI franchisee did it knowingly, intentionally or maliciously interfere with the contract between the Williamsburg Eye Level franchisee and Daekyo; nor did it conspire with it to engage in unfair competition, misappropriate trade secrets, breach the contract at

issue or otherwise induce or cause the Eye Level franchisee to breach their contract with Daekyo. He states that at no time prior to signing the agreement with the Williamsburg JEI franchisee did JEI knowingly contact parents or students of the Williamsburg Eye Level Center. Further he states that JEI does not possess any confidential and/or proprietary information of Daekyo, including the operations manual and/or customer/student lists with contact information.

In reply, Daekyo argues that it is seeking the injunction at the Williamsburg location based upon the non-compete provisions of the Greenpoint franchise agreement it had with Gunsberger as principal of Play Smart BK. This agreement contained a non-compete provision which precluded the operation of a competing business within a 25 mile radius which would cover the Williamsburg location which is located less than 5 miles away. This prohibition was effective for two years following the termination of the agreement. Daekyo points to section 15.D of the franchise agreement which states that the franchisee, in this case Gunsberger, may not "have any direct or indirect interest (e.g., through a spouse) as an owner (whether of record, beneficially, or otherwise), investor, partner, director, officer, employee, consultant, representative, or agent in any Competitive Business." Daekyo maintains that Gunsberger does not refute the fact that he is a "director" of the JEI Center at Williamsburg.

However, the court notes that Gunsberger states in his affidavit that, since the September 18, 2014 termination of the Greenpoint franchise agreement, he has not "operated nor have I had any involvement in the operation of a competing franchise, such as JEI

Learning Center." He goes on to state "I have never had any franchise or other contractual relationship with JEI." He further affirms that he never improperly transferred any confidential information or trade secrets of Daekyo nor did he conspire with any party to engage in unfair competition with Daekyo or misappropriate trade secrets of Daekyo.

At the outset the court notes that all of the causes of action against defendant Gunsberger are based upon the undisputed fact that he was an Eye Level franchisee for the Greenpoint location, a relationship that was terminated on September 18, 2014. Thus, defendants are incorrect in their assertions that Daekyo's claims are based on a misstatement of facts regarding Gunsberger's involvement as a franchisee at the Williamsburg location. The Greenpoint franchise agreement included a non-compete clause which precludes Gunsberger from operating or being involved with a competing business within 25 miles of the Greenpoint location for two years after the termination of the franchise agreement, which in this case would be September 18, 2016. Daekyo contends that Gunsberger violated this by being involved in the operation of a JEI Learning Center at the Williamsburg location, which is less than 25 miles from the site where he had been operating the Greenpoint Eye Level franchise, beginning in February 2015. In support of its contention, Daekyo submits the affidavit of Samuel Chun who affirms that he and Da Young Jung called the telephone number that had been previously utilized by the Williamsburg Eye Level Center and a woman named Cindy answered the call with the greeting, "Hi. JEI" and when they asked her the name of the director, Chun claims that she responded "Josh" and that she was referring to Josh Gunsberger. Daekyo also submits the affidavit of Jin Yang who affirms that he

visited the Williamsburg JEI on February 28, 2015 posing as a parent and met with Gunsberger. Conversely, Gunsberger submits an affidavit wherein he affirms that since the termination of the Greenpoint Franchise agreement he has not operated nor has he had any involvement with a competing franchise, such as JEI Learning Center.

It is well settled that while "issues of fact alone will not justify denial of a motion for a preliminary injunction, the motion should not be granted where there are issues that subvert the plaintiff's likelihood of success on the merits . . . to such a degree that it cannot be said that the plaintiff established a clear right to relief" (*Matter of Advanced Digital Sec. Solutions, Inc. v Samsung Techwin Co., Ltd.*, 53 AD3d 612, 613 [2008]). Here, in order for Daekyo to possibly succeed on its claims against defendants it must demonstrate that Gunsberger is operating or involved in the operation of the Williamsburg JEI Learning Center. However, at this point, the court cannot determine conclusively which party will succeed on the merits inasmuch as the facts regarding Gunsberger's involvement with the Williamsburg JEI Learning Center are in such sharp dispute that it cannot be said that Daekyo has demonstrated its likelihood of success on the merits and thus has failed to established a clear right to preliminary injunctive relief (see *Cooper v Board of White Sands Condominium*, 89 AD3d 669, 669-670 [2011]; *Matter of Advanced Digital Sec. Solutions, Inc.*, 53 AD3d at 613; *Matter of Related Props. Inc. v Town Bd. of Town/Vil. of Harrison*, 22 AD3d 587, 590 [2005]; *Sinensky v Rokowsky*, 22 AD3d 563, 565 [2005]; *Blueberries Gourmet v Aris Realty Corp.*, 255 AD2d 348, 350 [1998]). In light of the foregoing, Daekyo's application for a preliminary injunction is denied.

The court notes that Daekyo requested additional relief including an order directing defendants to immediately comply with the post-termination covenants of each Franchise Agreement, including removing and returning to Daekyo all signs and things using any trademarks of Daekyo ("Eye Level", etc.,); requiring defendants to immediately return to Daekyo all confidential and proprietary information of Daekyo, including the Operations Manual and customer/student lists; and requiring defendants to immediately contact all telephone companies and to forward all telephone calls to telephone numbers advertised or listed in association with the Daekyo name and/or "Eye Level" marks to be call forwarded to Daekyo or its designee. To the extent that defendant Gunsberger has failed to comply with any post termination covenants related to the Greenpoint Eye Level Franchise terminated on September 18, 2014 including returning any signs containing the trademark Eye Level and any and all confidential and proprietary information including the Operations Manual and customer list, Gunsberger is directed to turn such items over to Daekyo or submit an affidavit attesting why he is unable to do so, within 20 days of notice of entry of this order. With regard to the telephone number there has been evidence submitted indicating that the number in question is also utilized by non party FasTracKids so at this point in time this request is denied.

This constitutes the decision and order of the court.

E N T E R,

J. S. C.

HON. MARK I PARTNOW
SUPREME COURT JUSTICE