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# Telephone: (415) 955-1155 5 Facsimile: (415) 955-1158 karl@KRInternetLaw.com 6 ginny@KRInternetLaw.com ansel@KRInternetLaw.com 7 Attorneys for Plaintiffs Proper Media, LLC, 8 Christopher Richmond, and Drew Schoentrup 9 10 11 12 CA SUPERIOR COURT OF CALIFORNIA San Francisco, 13 **COUNTY OF SAN DIEGO** 14 Proper Media, LLC, a California limited 520, 15 liability company. Suite Christopher Richmond, an individual, 16 and Drew Schoentrup, an individual, COMPLAINT 17 Plaintiffs, 18 ٧. 19 Vincent Green, an individual, 20 Defendants. 21 22 23 24 25

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#### ELECTRONICALLY FILED

Superior Court of California, County of San Diego

#### 05/05/2017 at 03:44:37 PM

Clerk of the Superior Court By Vanessa Bahena Deputy Clerk

Case No. 37-2017-00016433-CU-BC-CTL

**DEMAND FOR JURY TRIAL** 

Case No.

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COMPLAINT

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**Plaintiffs** Media. LLC ("Proper Media"). Christopher Richmond Proper ("Richmond"), and Drew Schoentrup ("Schoentrup") (collectively, "Plaintiffs"), by and through their undersigned counsel, allege as follows:

#### INTRODUCTION

- 1. This case involves unlawful jockeying for ownership and control of the factchecking website Snopes.com ("Snopes"). Snopes advertises itself as "The definitive Internet reference source for urban legends, folklore, myths, rumors, and misinformation," and recently entered into a high-profile agreement with Facebook to integrate factchecking services into its social media platform. But while Snopes is built entirely around the concepts of transparency and truth, its founder has engaged in a lengthy scheme of concealment and subterfuge to gain control of the company.
- 2. As part of this scheme, Defendant Vincent Green ("Green") intentionally violated his duties to Plaintiffs and surreptitiously, and now overtly, caused profound damage for Plaintiffs.
- 3. Defendant Green is a former employee and minority member of Plaintiff Proper Media, LLC, a San Diego-based Internet media company. Individual Plaintiffs Richmond and Schoentrup are the majority members of Proper Media. Under Proper Media's Operating Agreement, each member owes fiduciary duties both to the company and to its other members. These fiduciary duties include duties of loyalty, care, and good faith, and any actions taken adversely to Proper Media are expressly prohibited.
- 4. Proper Media manages several top-ranked web properties, including significant operations of Snopes. Proper Media's management of Snopes is governed by a written General Services Agreement.
- 5. Snopes is owned by Bardav Inc. Bardav was founded in 2003 by David Mikkelson ("Mikkelson") and his then wife, Barbara Mikkelson ("Barbara"). Mikkelson and Barbara each owned one share, or 50%, of the equity in Bardav.
- 6. After a contentious divorce, Barbara sold her equity in Bardav to Proper Media, which was already managing significant operations of Snopes.

- 7. Because Bardav elected pass-through tax treatment under Subchapter S of the Internal Revenue Code, Bardav's shareholders may not be companies (such as Proper Media, which is a limited liability company). 26 U.S.C. § 1361(b)(1)(B). The deal was therefore structured as a sale by Barbara to Proper Media's individual shareholders—including Green, who held a small minority stake in Proper Media. Proper Media's members would only hold the shares for the benefit of Proper Media. Accordingly, Bardav purported to approve the issuance of fractional shares in the names of Proper Media's five members, including the individual Plaintiffs and Green. However, no fractional shares were ever actually issued by Bardav.
- 8. Proper Media, Richmond, and Schoentrup have made all the payments under the purchase agreement and related financing agreements. Green, however, has made no payments under the purchase agreement and related financing agreements.
- 9. Mikkelson was unhappy that Barbara maintained ownership of half of what he always considered to be *his* company after the divorce. Thus, after Proper Media's purchase of Barbara's share, Mikkelson sought to finally gain control of Bardav by aligning and conspiring with Green. Although Green purportedly holds only a small fraction of Bardav's equity, when combined with Mikkelson's 50% interest, it would purportedly give Mikkelson majority control of the company.
- 10. Beginning at least as early as February 2017, Green began blocking Proper Media's access to the personnel, accounts, tools, and data necessary to manage Snopes. On information and belief, Green—working with Mikkelson—intentionally did so to take over Snopes and to prevent Proper Media from performing under the General Services Agreement.
- 11. Shortly thereafter, Green resigned from Proper Media. Green resigned using a Snopes email account, indicating that Green was now a direct employee of Mikkelson at Bardav.
- 12. Through this misconduct, Green breached the Proper Media Operating Agreement as well as his fiduciary duties to Plaintiffs.

Case No. 2 COMPLAINT

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- 13. Green knowingly and intentionally interfered with the General Services Agreement, and unlawfully conspired with Mikkelson to do so.
- 14. Plaintiffs now seek relief for the harm Green caused. Proper Media also seeks the imposition of a constructive trust over the equity in Bardav held in Green's name for Proper Media's benefit.

#### **PARTIES**

- 15. Plaintiff Proper Media, LLC is a California limited liability company with its principal place of business in San Diego, California.
  - 16. Plaintiff Richmond is an individual residing in San Juan, Puerto Rico.
  - 17. Plaintiff Schoentrup is an individual residing in San Juan, Puerto Rico.
- 18. On information and belief, Defendant Green is an individual residing in San Diego County, California.

#### JURISDICTION AND VENUE

- 19. This Court has original jurisdiction over this matter under the California Constitution, Article VI, section 10.
- 20. This Court has personal jurisdiction over Green because (1) a substantial part of Green's misconduct that gave rise to this action occurred in California, and the primary injury as a result of Green's misconduct was felt in California; (2) Green is a resident of and is domiciled in California; and (3) Green submitted to the jurisdiction of this Court through the Proper Media Operating Agreement, which includes a choice of law and forum selection clause requiring all disputes to be litigated in the courts of California.
- 21. Venue is proper in San Diego County because Green resides in this County.

### **FACTUAL ALLEGATIONS COMMON TO ALL CLAIMS**

22. Plaintiff Proper Media is an Internet-based media company. Proper Media manages several top-ranked web properties. Proper Media owns, develops, and manages advertising technology systems and also offers services related to website COMPLAINT Case No. 3

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design, web server management, and internet content management systems.

- 23. Plaintiffs Richmond and Schoentrup co-founded Proper Media in 2015 and, together, are Proper Media's majority equity holders. Until recently, there were three other minority members of Proper Media, including Green.
- 24. During the relevant timeframe, the ownership of Proper Media was divided among the members as follows: Plaintiff Schoentrup owned 40%; Plaintiff Richmond owned 40%; non-party Ryan Miller owned 6.66%; Defendant Green owned 6.66%; and non-party Tyler Dunn owned 6.68%.

# **The Proper Media Operating Agreement**

- 25. Proper Media is governed by the Limited Liability Company Agreement of Proper Media, LLC (the "Operating Agreement"), which all five of its members signed.
- 26. Section III.H of the Operating Agreement sets forth the following duties of members to other members as well as Proper Media itself:
  - Η. Fiduciary Duties of the Members.
  - Loyalty and Care. Except to the extent otherwise provided herein, each Member shall have a fiduciary duty of loyalty and care similar to that of members of limited liability companies organized under the laws of California.
  - 2. Competition with the Company. The Members shall refrain from dealing with the Company in the conduct of the Company's business as or on behalf of a party having an interest adverse to the Company unless a majority of the Members excluding the interested Member, consents thereto. The Members shall refrain from competing with the Company in the conduct of the Company's business unless a majority of the Members excluding the interested Member, consents thereto. In the event that a Member is the sole Member of the Company, no vote shall be required.
  - 3. Duties Only to the Company. The Member's fiduciary duties of loyalty and care are to the Company and not to the other Members. The Members shall owe fiduciary duties of disclosure, good faith and fair dealing to the Company and to the other Members. A Member who so performs their duties shall not have any liability by reason of being or having been a Member.

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27. Section VI.C of the Operating Agreement sets forth additional fiduciary duties of officers of Proper Media. The duties enumerated in Section VI.C are identical to those set forth in Section III.H, with the sole difference being that Section III.H applies to members while Section VI.C applies to officers.

# The Bardav General Services Agreement

- 28. In or about August 2015, Proper Media entered into a General Services Agreement with Bardav Inc. (the "General Services Agreement"), under which Proper Media would manage a significant amount of the operations of the popular fact-checking website Snopes.
- 29. On information and belief, Bardav was founded in 2003 by Mikkelson and his then wife, Barbara. Mikkelson and Barbara each owned one-half, or fifty percent (50%), of the equity in Bardav. Mikkelson's and Barbara's respective ownership interest were each represented by a single share in the company, for a total of two (2) shares.
- 30. On information and belief, Bardav is and always has been an S Corporation, meaning it has elected pass-through tax treatment under Subchapter S of the Internal Revenue Code.
- Bardav's web property, Snopes, is one of the 1000 most popular websites in the United States, and is highly profitable, with revenue coming primarily from advertising that appears on the site. On information and belief, in the aftermath of the reported Russian intelligence operation to influence the 2016 election with so-called "fake news" spread through Facebook and other social media websites, Facebook entered into an agreement with Snopes and other media organizations to integrate fact-checking services into Facebook. See, e.g., Mike Isaac, THE NEW YORK TIMES, Facebook Mounts Effort to Limit Tide of Fake News, https://www.nytimes.com/2016/12/15/technology/ facebook-fake-news.html?\_r=0 (Dec. 15, 2016); Jen Weedon, et al., Information Operations and Facebook, https://fbnewsroomus.files.wordpress.com/2017/04/facebookand-information-operations-v1.pdf (Apr. 27, 2017).
- 32. Under the General Services Agreement, Proper Media is responsible for Case No. COMPLAINT 5

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managing all content and advertising accounts for Snopes. In order to perform these management services, Bardav gave Proper Media control of Snopes' email hosting, web servers, Snopes' content management system and other key accounts and systems. Proper Media also relied on third-party project management tools, such as Slack and Asana, to manage Snopes-related data.

33. Proper Media performed all obligations required of it under the General Services Agreement at all times from the inception of the General Services Agreement until prevented from doing so by Green, as outlined below.

# Acquisition of Barbara Mikkelson's Equity in Bardav

- 34. On information and belief, in or about 2014, the Mikkelsons began what would prove to be a contentious divorce. As a result, by 2016, Barbara sought to sell her equity interest in Bardav.
- 35. During the summer of 2016, Proper Media negotiated to buy Barbara's 50% equity in Bardav. Because Bardav elected pass-through tax treatment under Subchapter S of the Internal Revenue Code, Bardav's shareholders may not be companies (such as Proper Media, which is a limited liability company). 26 U.S.C. § 1361(b)(1)(B). The deal was therefore structured as a sale by Barbara to Proper Media's individual members, but for the benefit of Proper Media. Accordingly, Proper Media's interest in Bardav was taken in the name of its individual members.
- 36. The sale of Barbara's equity in Bardav to Proper Media's five members closed on July 1, 2016 (the "Closing").
- 37. On August 26, 2016, all of Bardav's shareholders—namely, Mikkelson and the five members of Proper Media—signed a shareholder and board resolution permitting the issuance of fractional shares so that Proper Media's members could each hold a fraction of Barbara's single share of Bardav for Proper Media's benefit. This resolution was executed as an amendment to Bardav's original bylaws; however, Plaintiffs have recently discovered those bylaws do not exist. Moreover, no fractional shares were ever issued by Bardav.

Case No. COMPLAINT 6

38. A significant portion of the purchase price for Barbara's equity was financed by Diamond Creek Capital, LLC ("DCC"). Proper Media is a party to the financing and loan agreements with DCC, and is also a party to a promissory note with Barbara. The individual members of Proper Media are not parties to the promissory note with Barbara. From the Closing through April 2017, Proper Media, Richmond, and Schoentrup exclusively made all payments to DCC and Barbara. To be clear, Green has not personally made any payments related to Proper Media's acquisition of ownership interests in Bardav.

# **Defendant's Misconduct and Withdrawal from Proper Media**

- 39. On information and belief, beginning in or around the start of 2017, Mikkelson conspired with Green to seek to obtain a controlling interest in Bardav and to exclude Proper Media from its operation.
- 40. Green was an employee and member of Proper Media from approximately March 2015 through April 3, 2017. Green was also an officer of Proper Media, with his most recent title being Vice President of Operations. Throughout his employment, Green worked extensively on the Snopes website, and, as a result, came to personally know and befriend Mikkelson.
- 41. On Saturday, February 18, 2017, Richmond and Schoentrup had an inperson conversation with Green at Proper Media's offices. When confronted, Green admitted that he was not acting in the best interest of Proper Media. After this conversation, Green never returned to the Proper Media office, and performed no further work for Proper Media. On Tuesday, February 21, 2017—the second business day after the conversation described above—without Richmond's or Schoentrup's knowledge or consent, Green removed Richmond's and Schoentrup's access to the Snopes content management system. Under the General Services Agreement, Proper Media was, and still is, responsible for operating this content management system. Without access, Proper Media cannot fulfill its obligations under the General Services Agreement. Furthermore, Green instructed three Proper Media employees not to return to the office, Case No.

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and he removed over \$10,000 of equipment used by these employees from the Proper Media office.

- 42. On or about March 8, 2017, Green added himself to the "Snopes.com Staff" page on Snopes, which lists his role as "Business Development". Snopes.com Staff, http://www.snopes.com/snopes-staff/ (last accessed Apr. 27, 2017; archived at https://perma.cc/BRX7-C99L).
- 43. On March 10, 2017, again without Richmond's or Schoentrup's knowledge or consent, Green removed Snopes-related data from Proper Media's communication and project management tools, including Slack and Asana. Without access to this data, Proper Media cannot fulfill its obligations under the General Services Agreement.
- 44. Also on March 10, 2017, Mikkelson purported to terminate the General Services Agreement, to be effective in 60 days, *i.e.*, on or about May 9, 2017.
- 45. On or about April 1, 2017, Mikkelson removed Richmond's and Schoentrup's access to the bank account used for Snopes business by Bardav and Proper Media.
- On April 3, 2017, Green gave written notice—from his Snopes email account—of his resignation from Proper Media.
- 47. During the weeks between February 18 and April 3, 2017, Green admitted that he was doing no work for Proper Media, and was instead working with Mikkelson at Barday. Despite doing no work, until April 3, 2017, Proper Media continued to pay Green, and contributed to Green's health insurance premiums.
- 48. Under Section III.D of the Operating Agreement, Green's resignation from Proper Media removed him as a member of the company, and invoked a Buy-Sell Agreement which is part of the Operating Agreement. Section III.D reads:
  - D. Withdrawal, Termination or Death of a Member. Should a Member die, be terminated from or withdraw from the Company by choice, the remaining Members will have the option to buy out that Member's Membership Interest in the Company in accordance with [the Buy-Sell Agreement].

Case No. COMPLAINT 8

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(emphasis added)

- In his resignation notice, Green expressly invoked the Buy-Sell Agreement. 49. Under the terms of the Buy-Sell Agreement, effective as of his resignation, Green was deemed to have offered to sell his equity in Proper Media to its remaining members, and the remaining members were deemed to have agreed to buy that equity in proportion to their holdings.
- 50. Under the express terms of Sections III.H and VI.C of the Operating Agreement, and under California law, Green owed fiduciary duties both to the other members of Proper Media and to Proper Media as a company.
- 51. Richmond and Schoentrup have jointly offered to mediate with Green. As of the filing of this lawsuit, Green has not agreed to a mediation session.

#### FIRST CLAIM FOR RELIEF

#### **Breach of Contract**

# (By Plaintiffs Richmond and Schoentrup Against Green)

- 52. Plaintiffs reallege and incorporate by reference the allegations in each of the preceding Paragraphs as if fully set forth herein.
  - 53. The Operating Agreement is a valid written contract.
- 54. Plaintiff Richmond, Plaintiff Schoentrup, and Defendant Green are each parties to the Operating Agreement.
  - 55. Plaintiffs performed all of their obligations under the Operating Agreement.
- 56. Green's actions as stated herein, including, among other things, conspiring with Mikkelson against Plaintiffs, intentionally excluding Plaintiffs from the personnel, accounts, tools, and data necessary to fulfill Proper Media's obligations under the General Services Agreement, conspiring with Mikkelson to frustrate and/or terminate the General Services Agreement, and concealing the foregoing from Plaintiffs, constitute a breach of the Operating Agreement in that Green has broken his promise not to act adversely to Proper Media.
- As a direct and proximate result of Green's conduct, Plaintiffs have suffered 57. COMPLAINT Case No. 9

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actual damages, in an amount to be determined according to proof at trial.

### **SECOND CLAIM FOR RELIEF**

# **Breach of Fiduciary Duty**

# (By All Plaintiffs Against Green)

- 58. Plaintiffs reallege and incorporate by reference the allegations in each of the preceding Paragraphs as if fully set forth herein.
- 59. Under California statutory and common law, as well as under section III.H.1 of the Operating Agreement, Green owed fiduciary duties of loyalty and care to Proper Media.
- 60. Under California statutory and common law, as well as under section III.H.2 of the Operating Agreement, Green owed a fiduciary duty of loyalty to Proper Media to refrain from competing with Proper Media or otherwise acting on behalf of a party having an adverse interest to Proper Media.
- 61. Under section III.H.3 of the Operating Agreement, Green had fiduciary duties of disclosure, good faith, and fair dealing to Plaintiffs, and each of them.
- 62. Under section VI.C of the Operating Agreement, as an officer of Proper Media, Green had additional fiduciary duties to Plaintiffs, and each of them.
- 63. Green's actions as stated herein, including, among other things, conspiring with Mikkelson against Plaintiffs, intentionally excluding Plaintiffs from the personnel, accounts, tools, and data necessary to fulfill Proper Media's obligations under the General Services Agreement, conspiring with Mikkelson to frustrate and/or terminate the General Services Agreement, and concealing these and other acts from Plaintiffs, constitute a breach of Green's fiduciary duties to Plaintiffs.
- 64. As a direct and proximate result of Green's conduct, Plaintiffs have suffered substantial economic loss and other general and specific damages, all in an amount to be determined according to proof at trial.
- 65. Green acted maliciously, oppressively, and fraudulently, and Plaintiffs are entitled to punitive and exemplary damages.

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66. Plaintiffs have been damaged and will continue to be damaged unless Green's conduct is enjoined by this Court.

#### THIRD CLAIM FOR RELIEF

#### Intentional Interference with Contract

# (By Plaintiff Proper Media Against Green)

- 67. Plaintiff Proper Media realleges and incorporates by reference the allegations in each of the preceding Paragraphs as if fully set forth herein.
- 68. A written agreement exists between Proper Media and Bardav—namely, the General Services Agreement.
  - 69. Green knew about the General Services Agreement.
- 70. Green intentionally excluded Plaintiffs from the personnel, accounts, tools, and data necessary to fulfill Proper Media's obligations under the General Services Agreement, and conspired with Mikkelson to frustrate and/or terminate the General Services Agreement.
- 71. Green undertook the actions alleged herein with the intent and understanding that Proper Media would be unable to fulfill its obligations under the General Services Agreement and/or that Bardav would terminate the General Services Agreement.
- 72. As a result of Green's actions, Bardav has terminated the General Services Agreement.
- 73. As a direct and proximate result of Green's conduct, Plaintiffs have suffered substantial economic loss and other general and specific damages, all in an amount to be determined according to proof at trial.
- Green acted maliciously, oppressively, and fraudulently, and Plaintiffs are 74. entitled to punitive and exemplary damages.

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Case No.

COMPLAINT

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#### **FOURTH CLAIM FOR RELIEF**

#### Civil Conspiracy

# (By Plaintiff Proper Media Against Green)

- 75. Plaintiff Proper Media realleges and incorporates by reference the allegations in each of the preceding Paragraphs as if fully set forth herein.
- 76. Sometime between January 2017 and the present, Green knowingly and willfully conspired with Mikkelson, and attempted to (1) convert a portion of Proper Media's interest in Bardav into Green's individual interest, (2) join forces such that, together, Mikkelson and Green would purportedly own a controlling share of Barday, (3) frustrate and/or prevent Plaintiffs' access to the personnel, tools, data, and accounts necessary for Proper Media to perform under the General Services Agreement, and (4) terminate the General Services Agreement.
- 77. In furtherance of this conspiracy and agreement, Green engaged in fraudulent representations, omissions, and concealment of facts, acts of cover-up, and statements calculated to obtain Plaintiffs' trust for Green's and Mikkelson's benefit.
- 78. Green's actions were in violation of the rights of Plaintiffs, and committed in furtherance of the above conspiracies and agreements. Moreover, Green lent aid and encouragement and knowingly ratified and adopted the acts of his co-conspirator.
- 79. As a proximate result of the wrongful acts herein alleged, Plaintiffs have suffered substantial economic loss and other general and specific damages, all in an amount to be determined according to proof at trial.
- 80. Green acted maliciously, oppressively, and fraudulently, and Plaintiffs are entitled to punitive and exemplary damages.

#### FIFTH CLAIM FOR RELIEF

# **Constructive Trust**

# (By Plaintiff Proper Media Against Green)

81. Plaintiff Proper Media realleges and incorporates by reference the allegations in each of the preceding Paragraphs as if fully set forth herein.

Case No. COMPLAINT 12

- 82. A constructive trust is an equitable remedial device by which a court adjudges specific restitution of a received benefit. Constructive trusts may be imposed when a defendant has acquired legal title to property or money under such circumstances that he or she may not in good conscience retain the beneficial interest in the property, and in such a situation, equity converts the legal titleholder into a trustee holding the title for the benefit of those entitled to the ownership thereof.
- 83. Proper Media bought Barbara Mikkelson's single share, i.e., 50% of the equity in Bardav.
- 84. Proper Media, Richmond, and Schoentrup have made all payments on the financing and purchase of Barbara Mikkelson's equity in Bardav. Green has paid nothing, but Proper Media, Schoentrup, and Richmond have paid over \$35,000 for the Bardav equity he holds for Proper Media's benefit.
- 85. By agreement of all parties, Proper Media's equity in Bardav was held in the names of the individual members of Proper Media solely because, as an LLC, Proper Media was incapable of owning an interest in Bardav, an S Corporation.
- 86. At all times, Green understood that a portion of the equity in Bardav, although held in his name, belonged to Proper Media.
- 87. Green has now tortiously and unlawfully conspired with Mikkelson regarding the Bardav equity held in Green's name in order to give Mikkelson a controlling interest in Bardav.
- 88. A constructive trust should be imposed for the purpose of preventing unjust enrichment by Green in the value of the equity in Bardav held nominally by Green for the benefit of Proper Media.
- 89. Green will gain an unconscionable advantage if he retains the value of the Bardav equity he holds for Proper Media's benefit. A constructive trust should be imposed to prevent this unjust enrichment. It is against equitable principles to permit Green to keep his equity in Bardav when he obtained it by conspiring against its true owner, Proper Media.

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- 90. Green's wrongful acts, as stated herein, have caused and will continue to cause Green to be unjustly enriched.
- 91. Proper Media will be irreparably harmed if Green is allowed vote against Proper Media's interests using the voting power of the equity in Bardav that he holds nominally but for Proper Media's benefit.

#### PRAYER FOR RELIEF

Plaintiffs respectfully request that the Court enter judgment in favor of Plaintiffs and against Green, and award the following relief to Plaintiffs and against Green:

- 1. A declaration that Green is no longer a member of Proper Media;
- 2. A declaration that Proper Media is the beneficial owner of the Bardav equity that Green holds from the purchase of Barbara's equity;
- 3. Imposition of a constructive trust over Green's shares in Bardav for the benefit of Proper Media;
- 4. Compensatory damages in an amount to be proved at trial;
- 5. Exemplary damages pursuant to California Civil Code § 3294;
- 6. The costs of the suit;
- 7. Interest on the sum of the compensatory and exemplary damages; and
- 8. Such other relief as the Court may deem proper.

Respectfully Submitted,

DATED: May 4, 2017 KRONENBERGER ROSENFELD, LLP

Karl S. Kronenberger

Attorneys for Plaintiffs Proper Media, LLC, Christopher Richmond, and Drew Schoentrup

Case No.

COMPLAINT

# SENFEL KRONENBERGE

# 150 Post Street, Suite 520, San Francisco, CA

### **REQUEST FOR JURY TRIAL**

Plaintiffs hereby demand a trial of this action by jury of all issues that may be tried to the jury.

DATED: May 4, 2017

KRONENBERGER ROSENFELD, LLP

Karl S. Kronenberger

Attorneys for Plaintiffs Proper Media, LLC, Christopher Richmond, and Drew Schoentrup