

Park v Song

2019 NY Slip Op 32644(U)

September 5, 2019

Supreme Court, New York County

Docket Number: 650186/2017

Judge: Jennifer G. Schechter

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SUPREME COURT OF THE STATE OF NEW YORK
COUNTY OF NEW YORK: PART 54

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STEPHEN PARK, THOMAS YANG, PAUL LEE and
ANDREW CHANG, individually and on behalf of
KORILLA BBQ, LLC

Index No.: 650186/2017

DECISION & ORDER

Plaintiffs,

-against-

EDWARD SONG, DAVID IM, KORILLA EAST
VILLAGE TRUCK, INC., WHITE TIGER NAMED
KORILLA, LLC, LET GROUP, LLC, AEGIS 233 LLC,
and HARDY CHUNG,

Defendants,

-and-

KORILLA BBQ, LLC,

Nominal Defendant.

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JENNIFER G. SCHECTER, J.:

Plaintiffs move for leave to file a proposed first amended complaint (Dkt. 233 [the PFAC]). Defendants oppose the motion. The motion is granted in part.

Background

This case concerns the parties' alleged competing interests in Korilla BBQ, LLC (the Company) and its intellectual property. The relevant background is extensively set forth in the court's October 10, 2018 decision on defendants' motion to dismiss the original complaint (Dkt. 138 [the MTD Decision]). Familiarity with that decision is assumed.¹ In short, the parties dispute, among other things, who among them are

¹ "The claims which survived are the **First**, for an accounting as to the Company against Song; the **Sixth**, for breach of the Company's operating agreement against Song; the **Eighth**, for breach of fiduciary duties against Song; the **Ninth**, for breach of the duty of care against Song; and the

members of the Company; whether the Operating Agreement governs and, if so, which version is genuine; and, most importantly, whether LET's ownership of the Company's trademark is proper.²

Contrary to defendants' arguments, LET's ownership of the trademark does not defeat plaintiffs' ability to recover. First, Park alleges that in 2009, when he and Edward jointly started the Company, the Company lacked any written agreement (*see* PFAC ¶ 31). Park claims that they jointly developed the Korilla name and the tiger logo in 2009 and that they built the first Korilla food truck together in 2010 (*see id.* ¶¶ 28-29).³ Thus,

Tenth, for trademark infringement in breach of (GBL) § 360-k and The Lanham Act against (Song), Im, Chung, (Korilla East, White Tiger, and Aegis 233), and for use of a deceptively similar name in violation of (BCL) § 301(a)(2) against (Korilla East, White Tiger, and Aegis 233)" (Dkt. 232 at 8 [emphasis in original]). Capitalized terms not defined herein have the same meaning as in the MTD Decision. That said, going forward, the court refers to Edward Song as Edward to distinguish him from his brother, William. The court also refers to Aegis as "Aegis 233" to distinguish it from Aegis 42, LLC. It should be noted that revelation that the Company was (but is no longer) a 10% minority member of Aegis 233 does not make what Edward did with Aegis 233 innocuous. Regardless of whether entire fairness scrutiny applies (it would if Aegis 233 paid LET a fee to license the trademark), the allegation that the Company's 10% distributions were diverted to Edward's father, Byung Keun Song, makes what happened with Aegis 233 relevant even if Edward lacked any interest in Aegis 233.

² There currently is no declaratory judgment claim before the court, nor is the court permitting plaintiffs to assert such a claim. Defendants' previous efforts to seek a declaration as to their ownership of the trademark were rejected as procedurally improper because the court cannot grant summary judgment on an unpleaded claim raised in a discovery cross-motion. If defendants seek a formal declaration as to the current ownership of the trademark, they may assert such a counterclaim when they answer the amended complaint. That said, such a declaration would be academic if plaintiffs prevail on their claim that the trademark should be transferred back to the Company.

³ While Edward denies this, the truth will turn on the witnesses' credibility and cannot be determined without a trial (*see also* Dkt. 277 [start-up projections indicating that original equity split was that Edward and Park respectively owned 81.99% and 21.76%]). While the equity split later changed once the Company was formed and the other members joined, the start-up projections, among other documents, indicates that Park was more than a mere employee.

Park plausibly alleges that the Company's trademark was property of their joint venture, and then became property of the Company once it was formed. Indeed, the trademark was originally registered as owned by the Company (*see* Dkt. 258 at 3). So when Edward later formed an LLC—LET—in which he did not make Park (or the Company) a member, and made the unilateral, undisclosed decision to transfer the trademark to LET (*see id.* at 6), that was allegedly a breach of Edward's fiduciary duty to the Company. Basically, Edward allegedly stole the trademark. That is why he, alone, has been able to derive the benefits of the other Korilla-branded restaurants.

Moreover, after the Company was formed,⁴ the parties executed the Operating Agreement, which required the trademark to be held in the Company's name (*see* MTD Decision at 5-6). While defendants contend the MOA supposedly permits LET to own the trademark, it says no such thing (*see id.* at 6-7).⁵

For these reasons, defendants' primary defense to this action — that Edward's actions in cutting plaintiffs and the Company out of other Korilla-branded restaurants was permissible because the Company has no rights in the trademark — turns on whether the finder of fact believes that Edward started the Company on his own with Park being a

Regardless, at this stage, Park's allegations are assumed true and have not been refuted with any conclusive documentary evidence.

⁴ The Company is a New York LLC. Apparently, Edward formed an identically named LLC in Delaware in 2009, but that entity was never used and is not at issue in this case (*see* PFAC ¶ 33).

⁵ Because the Operating Agreement and the MOA appear to have been drafted by Edward, even if they were considered ambiguous about the ownership of the trademark, such ambiguity could be construed against Edward (*see 327 Realty, LLC v Nextel of N.Y., Inc.*, 150 AD3d 581, 582 [1st Dept 2017]).

mere employee or if the two of them jointly formed the Company.⁶ And even if Edward proves the former, the terms of the Operating Agreement may still defeat his claim.

Other primary issues in this case include the determination of which of the plaintiffs are members of the Company⁷ and the truth about Edward's involvement with other Korilla-branded restaurants. The PFAC seeks to expound on the latter issue.

⁶ Defendants also have suggested that it was within Edward's authority as manager under the Operating Agreement to transfer any of the Company's property to whoever he wished in his sole discretion. But obviously, if the trademark was the Company's property, Edward lacked the right to transfer it to LET for no consideration. That would be corporate waste. Defendants cannot seriously be suggesting that a standard provision in an operating agreement giving an LLC's manager control over the LLC's assets is a license to permit theft. To be sure, if all Edward did was license the trademark to unaffiliated restaurants seeking to run Korilla-branded businesses, that would be a decision subject to business judgment deference (but not if the license fee was paid to LET instead of the Company). Indeed, even if Edward had an interest in those restaurants, he could still avoid liability if he could prove those arrangements were entirely fair to the Company and its members. However, there is no standard of review under which a manager can license a business's intellectual property and keep all the licensing fees for himself, instead of remitting them to the company. That is exactly what is alleged here. Of course, if Edward can convince a jury that he really was the original, sole rightful owner of the trademark, and that it was not property of the original joint venture or later became property of the Company under the Operating Agreement, much of what Edward is alleged to have done will not give rise to liability (though he may not be absolved of his alleged theft and for other alleged instances where he harmed the Company). However, if Park convinces the jury that his account is more believable, Edward could be held personally liable for all profits associated with the trademark that were not remitted to the Company. In that regard, defendants have contended that Edward has not made any (or at least not significant) money on the trademark because the other Korilla-branded restaurants have not been profitable. However, plaintiffs have not yet received all of those restaurants' financial records, so this assertion has yet to be tested.

⁷ Plaintiffs previously submitted documentary evidence in which Edward appears to admit the percentage interest owned by plaintiffs obtained due to their monetary investment in the Company (*see* MTD Decision at 3 n 6). While the failure by some of them to sign the Operating Agreement is not entirely irrelevant (though if their investment predated the Operating Agreement and Edward subsequently admitted they are members, his unilateral insistence that they sign an agreement may render it unenforceable), defendants themselves note that there are questions as to whether the Operating Agreement is valid. If that is the case, Edward's defense based on what he believes are favorable provisions of the Operating Agreement would be unavailing. Regardless, since the Operating Agreement does not appear to materially deviate from the default fiduciary duties applicable to the parties' conduct, it is not clear that questions concerning its authenticity and enforceability will prove to be material.

The PFAC

The PFAC seeks to add: (1) Eric Yu, a member of the Company, as a plaintiff;⁸ (2) Byung Keun Song (Byung Keun), William Song (William), “William Edward Song,”⁹ Aegis 42, LLC (Aegis 42), Grand Koast LLC (Grand Koast), Koast LLC (Koast), Kommissary LLC (Kommissary), and 3E LLC (3E) as new defendants; (3) repleaded claims against Young Sun Song (Young Sun) and Esther Choi;¹⁰ (4) John Doe defendants, representing other unknown Korilla-branded restaurants and their owners;¹¹ and (5) new factual allegations and causes of action based on discovery.

Discovery has revealed that since 2014, Edward allegedly operated at least 10 additional Korilla businesses, including: (1) a restaurant at 23 3rd Avenue in Manhattan, owned by Aegis 233 (which is now closed); (2) a restaurant at 55 Spring Street in Manhattan, purportedly owned by Aegis 233 (also now closed); (3) a restaurant at 2 Metrotech Center in Brooklyn, owned by Aegis 42 and/or Kommissary; (4) a restaurant at 230 Park Avenue in Manhattan, owned by Kommissary and/or Grand Koast; (5) a

⁸ There is no dispute as to the propriety of Yu being added as a plaintiff because the court already granted leave to do so, albeit by May 1, 2019 (*see* Dkt. 174). Since Yu’s addition to this case does not materially affect its scope, and likely only necessitates his deposition, there is no prejudice in adding him at this time. The court agrees with plaintiffs that making one omnibus motion for leave to amend was more efficient than moving in piecemeal fashion.

⁹ Plaintiffs claim that “William Edward Song” is an alias used by Edward to disguise his involvement in the other restaurants, supposedly by impersonating his brother. Regardless of whether he used an alias, he is a party to this action. Naming the alias is unnecessary.

¹⁰ The claims against them were dismissed without prejudice (*see* MTD Decision at 1, 23).

¹¹ For instance, plaintiffs recently discovered that Jin Woo Park, who defendants represented was merely a bookkeeper of Korilla East, was actually a “partner” (*see* Dkt. 272 at 3), and thus plaintiffs have indicated they will be seeking to substitute him for John Doe No. 1 (*see* Dkt. 265 at 7).

restaurant at 672 Lexington Avenue in Manhattan, owned by Koast (6) a food truck owned by Korilla East (or allegedly some other unknown company); (7) a pop-up restaurant at the U.S. Open, owned by 3E; (8) a pop-up restaurant at the Javits Center; (9) a pop-up restaurant at the New York Public Library and/or Bryant Park; and (10) a pop-up restaurant at Madison Square Park (*see* Dkt. 232 at 9-10).

Plaintiffs allege that these new restaurants are really owned and controlled by Edward, who allegedly has been using his family members, such as his brother William, as straw owners to conceal from plaintiffs that he really runs these companies.¹² Edward denies this, claiming that he merely, through LET, licensed the ability to operate these restaurants to his family members. And in any event, according to Edward, if LET legitimately has the right to own the trademark, none of what these other Korilla-branded restaurants are doing is improper, regardless of who owns and operates them.

The PFAC seeks to assert causes of action for: (1) an equitable accounting of all the Korilla-branded businesses from all defendants other than Choi; (2) breach of the

¹² On April 10, 2018, Edward was ordered to produce all financial records within his possession, custody or control of any Korilla restaurant (Dkt. 68 at 4). Edward refused to produce records for the other Korilla restaurants on the ground that he does not really own or operate them and, thus, does not have the practical ability to produce their records. By order dated July 30, 2019, the court indicated that the validity of that position has been seriously called into question (*see* Dkt. 235 at 4-5). For instance, in applying to open a bank account for 3E, Edward swore, under penalty of perjury, that he was a member of that company (*see* Dkt. 271). This suggests his representations to the court about only being a consultant of the other business and that he lacked the ability to produce their documents were false. Nonetheless, based on the leave to amend granted here, plaintiffs should be able to obtain in party discovery much (if not all) of what Edward has refused to produce (i.e., since the entities that own the restaurants are now defendants, they obviously can produce their records). This will require an extension of fact discovery. The court will withhold ultimate judgment on whether Edward's position as to the scope of what was within his possession, custody or control was accurate until the record can be more fully developed. If it is definitively proven that Edward misrepresented his involvement in those restaurants, plaintiffs may renew their sanctions motion (*see* Dkt. 235 at 5).

Operating Agreement, asserted directly against Edward; (3) breach of the Operating Agreement, asserted directly against Im; (4) breach of fiduciary duty, asserted derivatively against Edward; (5) breach of fiduciary duty, asserted directly against Edward; (6) breach of fiduciary duty, asserted derivatively against Im; (7) breach of fiduciary duty, asserted directly against Im; (8) aiding and abetting breach of fiduciary duty, asserted derivatively against William, “William Edward Song,” Byung Keun, Young Sun, Choi, Chung, Korilla East, White Tiger, LET, Aegis 233, Aegis 42, Grand Koast, Koast, Kommissary, 3E, and the John Doe defendants; (9) “misappropriation of intellectual property, including trademarks and trade secrets,” asserted derivatively against all defendants;¹³ (10) constructive trust, asserted derivatively against all defendants; (11) common law trademark infringement, asserted derivatively against all defendants; (12) unfair and deceptive trade practices under GBL § 349, asserted derivatively against all defendants; (13) unfair competition under GBL § 133, asserted derivatively against all defendants; (14) common law unfair competition, asserted derivatively against all defendants; (15) trademark infringement under the Lanham Act, asserted derivatively against all defendants; and (16) a declaratory judgment that the Company owns the Korilla trademark.

Discussion

Leave to amend should be granted freely unless the proposed amendment is clearly devoid of merit or would cause undue prejudice (*McGhee v Odell*, 96 AD3d 449,

¹³ This cause of action, based on “theft of the Company’s intellectual property” including its trademark, conflates many different claims (*see* PFAC ¶ 269). Misappropriation of trade secrets is different than conversion and is different from trademark infringement (under the common law or the Lanham Act). Regardless, this claim is clearly devoid of merit.

450 [1st Dept 2012]). There is no prejudice here.¹⁴ Many of the claims the PSAC seeks to add to this action, however, are clearly devoid of merit.¹⁵

The proposal to extend the equitable accounting claim beyond the Company was already rejected (*see* MTD Decision at 13).¹⁶ Unlike with the Company, for which it is alleged that the parties' failure to record cash revenues necessitates an accounting, no such allegation is made regarding the other Korilla-branded restaurants. In any event, even if the trademark should have belonged to the Company, an award of monetary damages in the form of lost profits is sufficient to compensate plaintiffs (*see Unitel Telecard Distribution Corp. v Nunez*, 90 AD3d 568, 569 [1st Dept 2011]). The same is true of plaintiffs' proposed claim for a constructive trust (*see AQ Asset Mgmt. LLC v Levine*, 154 AD3d 430, 431 [1st Dept 2017]).

The proposed fifth cause of action, a direct claim, alleges that Edward breached "his fiduciary duties to Plaintiffs by deliberately putting the Company out of business and causing them to lose their shares" (PFAC ¶ 246). This is not a viable claim. Even overlooking that there are no "shares" (there are membership interests in the LLC),

¹⁴ Defendants do not explain how permitting leave to amend at this time would hinder preparation of their defense or that the timing of the amendment would prevent them "from taking some measure in support of (their) position" (*see Kimso Apartments, LLC v Gandhi*, 24 NY3d 403, 411 [2014]).

¹⁵ To the extent that plaintiffs merely seek to add additional factual allegations to claims that survived the prior motion to dismiss, defendants do not dispute that plaintiffs are permitted to conform their pleadings to the proof.

¹⁶ After the MTD Decision was issued, the court determined that it would be premature to immediately order an accounting. Instead, the court anticipates ordering an accounting after the close of fact discovery so the parties have the benefit of full financial disclosure to lodge objections, which will be resolved at trial.

plaintiffs did not “lose” them. Rather, plaintiffs are complaining that their membership interests were devalued (and possibly made worthless) due to Edward’s actions. This is a quintessential derivative claim (*see Serino v Lipper*, 123 AD3d 34, 41 [1st Dept 2014]). It is subsumed in the derivative claims for breach of the Operating Agreement and breach of fiduciary duty that were already sustained.¹⁷

Nor is the proposed direct claim against Im for breach of the Operating Agreement viable. To be sure, though Im does not have fiduciary duties as a non-managing minority member of the Company – and thus the proposed claims to that effect also are not permitted (*see* MTD Decision at 13) – he is still bound by the Operating Agreement, which, in section 3.4, prohibits members from engaging in another business that sells similar Korean food (*see id.* at 4 n 7). Im’s alleged involvement with the store on 3rd Avenue states a claim for breach of this provision. However, the claim is only pleaded directly (*see* PFAC at 31). The enumerated alleged breaches (*see id.* at 32) all harm the Company and not any of its members uniquely. Thus, it is not a direct claim.

The new claims for aiding and abetting breach of fiduciary duty are permitted only against the entities that allegedly own the other Korilla-branded restaurants, William, Chung, Byung Keun, and Choi. These entities plausibly provided substantial assistance to Edward’s alleged scheme of diverting new Korilla opportunities away from the Company (*see Goldin v TAG Virgin Islands, Inc.*, 149 AD3d 467, 468 [1st Dept 2017]). William, allegedly, is either actually running some of the companies or is serving as a

¹⁷ This action may still be maintained despite the fact that the Company, a New York LLC, is no longer active (*see* LLC Law § 703[b]). Indeed, plaintiffs’ prior motion to revive the Company was denied without prejudice (*see* Dkt. 176) and may later be renewed (assuming, of course, such an application actually addresses the Operating Agreement’s governing provisions).

straw owner for Edward, either of which may be sufficient to establish substantial assistance. Chung, likewise, may be held liable due to his involvement with Aegis 233. Plaintiffs further plead that Byung Keun and Choi had substantial involvement with other Korilla-branded restaurants (*see, e.g.*, PFAC ¶¶ 12, 16). While Edward disputes their level of involvement, plaintiffs have alleged enough to warrant discovery about the true nature of their role with the restaurants. The claims, therefore, are not clearly devoid of merit.

By contrast, the proposed claims against Young Sun are still insufficient. That she merely tried to provide Edward with financial assistance is not enough. Aiding and abetting liability does not extend to a mere lender of a company engaging in unfair competition. Moreover, to the extent plaintiffs complain that Edward wrongfully distributed the Company's money to his family members, that is a claim properly asserted (as is already the case) against Edward for breach of his fiduciary duties. Whether Edward bought himself a car with that money or his mother a house is of no moment since money is fungible.

Regarding the claims based on trademark infringement and the related wrongful competition claims, such claims are clearly devoid of merit because LET is the current owner and registrant of the trademark. To be sure, that fact itself is the basis of plaintiffs' well pleaded claims for breach of contract and breach of fiduciary duty. However, a trademark infringement claim may only be asserted by the registrant of the mark (15 USC § 1114[1]; *see Prince of Peace Enterprises, Inc. v Top Quality Food Mkt., LLC*, 760

FSupp2d 384, 391 [SDNY 2011].¹⁸ Plaintiffs, therefore, may not assert these claims against the new defendants.¹⁹

Accordingly, it is

¹⁸ The PFAC does not cite the actual section of the Lanham Act upon which the claim is based, an omission the court previously overlooked while plaintiffs were *pro se* (see MTD Decision at 22). The best the court can divine is that this claim is for wrongful use of the trademark, causing consumer confusion (see PFAC ¶¶ 304-05). The PFAC does not purport to assert a claim under 15 USC § 1120 for fraudulent registration (see *Sik Gaek, Inc. v Yogi's II, Inc.*, 682 F Appx 52, 54 [2d Cir 2017]). That said, for the first time in reply, plaintiffs note that the first to use the trademark owns it and that a trademark must be assigned with the entire business (Dkt. 265 at 15; see *Berni v Intl. Gourmet Rests. of Am., Inc.*, 838 F2d 642, 646 [2d Cir 1988] [“the transfer of a trademark or trade name without the attendant goodwill of the business which it represents is, in general, an invalid, ‘in gross’ transfer of rights”], citing 15 USC § 1060; see also 3 McCarthy on Trademarks and Unfair Competition § 18:2 [5th ed.]). It is not clear that either of these principles defeats LET’s claim to the trademark. Either the alleged joint venture or Edward’s sole proprietorship was the first to use the mark, followed by the Company, which was the first to register it. It was registered by LET after Edward transferred it and the associated goodwill from the Company (see Dkt. 258 at 6). Once the Company was no longer a going concern, the entirety of LET’s business was to license the trademark to restaurants wanting to operate under the Korilla brand. Plaintiffs do not cite any authority for the proposition that a trademark cannot be held by a company whose sole purpose is to license or franchise a restaurant chain. Indeed, as with the PSAC, this portion of the reply brief does not cite any federal authority (see Dkt. 265 at 15). Nonetheless, as discussed, this issue is academic if Edward’s transfer of the mark from the Company to LET was wrongful. In that case, the remedy would be an injunction requiring him to transfer it back. To the extent plaintiffs wish to pursue this issue further, they may seek leave to amend with a proposed pleading that cites the relevant statutes and a brief that cites relevant caselaw.

¹⁹ These claims were permitted to be asserted against the original defendants based on the more limited arguments made on the original motion to dismiss. Defendants do not contend the court overlooked any of its arguments, nor will the court *sua sponte* grant renewal based on this motion. Defendants may seek to trim these claims on summary judgment. Dismissal of the original trademark claims, however, would not materially affect the scope of this case (e.g., since attorneys’ fees are otherwise recoverable on the derivative claims). Likewise, the fact that the Company is not an active business likely renders academic the question of whether the other Korilla-branded restaurants use the name Korilla. As defendants correctly contend, they cannot be wrongfully or deceptively competing with a food truck that does not exist, nor is their current existence the reason the old food truck went out of business (though, to be sure, that allegedly was due to Edward’s conduct). While the Company has valid claims that it is entitled to the profits from these other businesses, it cannot plausibly claim that they are actually competing with it. Of course, their current existence may prove quite beneficial to plaintiffs if they prevail on their fiduciary duty claims. Simply put, this case is about theft of intellectual property and diversion of corporate opportunities, not wrongful competition.

ORDERED that plaintiffs' motion for leave to amend is granted only to the extent that, within one week, they may file a first amended complaint adding Yu as a plaintiff and containing only: (1) the claims permitted by the MTD Decision; (2) all of the factual allegations in the PFAC; and (3) a new derivative cause of action for aiding and abetting breach of fiduciary duty against William, Byung Keun, Choi, Chung, Korilla East, White Tiger, LET, Aegis 233, Aegis 42, Grand Koast, Koast, Kommissary, 3E, and the John Doe defendants; and plaintiffs' motion is otherwise denied; and it is further

ORDERED that this action shall now bear the following caption:

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STEPHEN PARK, THOMAS YANG, PAUL LEE,
ANDREW CHANG, and ERIC YU, individually and
on behalf of KORILLA BBQ, LLC

Plaintiffs,

-against-

EDWARD SONG, DAVID IM, KORILLA EAST
VILLAGE TRUCK, INC., WHITE TIGER NAMED
KORILLA, LLC, LET GROUP LLC, AEGIS 233 LLC,
HARDY CHUNG, BYUNG KEUN SONG, WILLIAM
SONG, ESTHER CHOI, AEGIS 42, LLC, GRAND
KOAOST LLC, KOAOST LLC, KOMMISSARY LLC,
3E LLC, and JOHN DOES 1 THROUGH 10,

Defendants,

-and-

KORILLA BBQ, LLC,

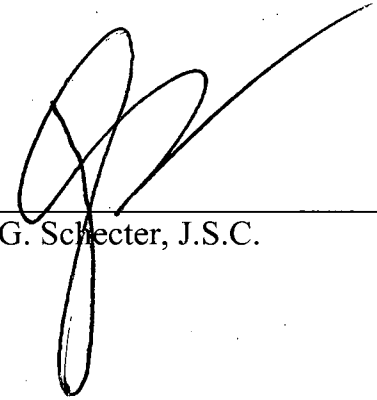
Nominal Defendant.

-----X; and it is further

ORDERED that plaintiffs shall serve a copy of this order with notice of entry on the County Clerk and the Clerk of the General Clerk's Office (which may be done electronically), who are directed to mark the court's records to reflect the parties being added.

Dated: September 5, 2019

ENTER:



Jennifer G. Schecter, J.S.C.