

## **I. STATEMENT OF FACTS**

### **A. Actions For The Classic Tort Of Conversion Of A Trade Secret, From Which Evolved The Additional Common-Law Tort Of Misappropriation Of A Trade Secret**

The defendants in these two combined actions are among 15 large international financial institutions which have been sued in virtually-identical actions for the classic tort of English-American common-law conversion of a trade secret, from which evolved the additional English-American common-law tort of misappropriation of trade secrets. 1 Melvin F. Jager, *Trade Secrets Law, Ch. 2: The Historical Development Of Trade Secret Concepts* (West Publishing Company – Looseleaf © 2010) chronicles that evolution.

The classic tort of English-American common-law conversion of a trade secret rests on the principle that governs the application of English-American common-law conversion to any intangible property:

- “An action for conversion ordinarily lies only for personal property that is tangible, or to intangible property that is merged in, or identified with, some document.” 18 Am.Jur.2d Conversion § 7: “*Tangible and Intangible Property, Generally*” (West Publishing Company – Looseleaf © 2010).

- “Section 242 of the Restatement Second of Torts, published in 1965, states: ‘Where there is conversion of a document in which intangible rights are merged, the damages include the value of such rights.’” *Freemont Indemnity Company v. Fremont General Corporation, et. al.*, 55 Cal.3d 621, 638, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007).
- The *Freemont* Court, after considering the normal rule of “merged in, or identified with, some document,” explicitly expanded the rule by holding that the misappropriation of a net operating loss for U.S. tax purposes “supports a cause of action for conversion” even though it was not “merged or reflected in a document.” *Ibid*, p. 643.
- In addition, *Thrifty-Tel, Inc. v. Bezenek*, 54 Cal.3d 468, 472, 46 Cal.App.4th 1559 (Cal.App. Fourth Dist. 1996) also considered explicitly expanding the normal rule in the case of a computer access code “which was never reduced to paper or reflected on a computer disk” before holding that it was not necessary to do so because the jury verdict of conversion could be justified as trespass which had not been pleaded.

With specific reference to the theft of trade secrets, this test for conversion is still used in jurisdictions that have not adopted the Uniform Trade Secrets Act --

- 2 Melvin F. Jager, *Trade Secrets Law, Chapter 50: The Trade Secrets Law of New York* (West Publishing Company – Looseleaf © 2010) – 12 of the 15 sets of defendants listed below are headquartered in New York which has never adopted the Uniform Trade Secrets Act in any form.
- 2 Melvin F. Jager, *Trade Secrets Law, Chapter 56: The Trade Secrets Law of Pennsylvania* (West Publishing Company – Looseleaf © 2010) – 1 of the 15 sets of defendants listed below was headquartered in Pennsylvania which adopted the UTSA on a prospective basis after the date of the conversion.

Barclays Capital Ltd. has admitted in unprivileged communications that it stole Petitioner's trade secret and that the 15 international financial institutions acquired the trade secret from Barclays Capital Ltd. under conditions of confidentiality.

Since the tort of English-American common-law conversion permits the owner to proceed against either the thief or the current holder (the classic example would be the heirs of Holocaust victims whose fine art was

stolen by the Nazis), the Petitioner sued the 15 international financial institutions in California Superior Court (San Francisco).

Goldman Sachs Group, Inc., et. al., Citicorp of North America, Inc., et. al., and ING Financial Holdings Corporation, et. al., fled to U.S. District Court (ND Cal.) on diversity grounds since all of the defendants in all three actions were headquartered in New York City.

Of the other 13 cases involving 12 large international financial institutions that remained in state court:

- *Karls v. The* 26 U.S.C. § 1504(a)(1) “Affiliated Group” of *The Wachovia Corporation* 26 U.S.C. § 1504(b) “Includible Corporations” (Cal. Sup. Ct. No 483297, Cal. Ct. App. No. 126702) was heard by California Superior Court Judge Paul Alvarado. It entailed solely procedural issues relating to whether a group of corporations that was alleged to be a common-law partnership that had been acting as a “criminal gang” could be sued in the “name it had assumed” by virtue of consenting to being assigned that name by 26 U.S. Code §§ 1501 and 1504.
- *Karls v. Wachovia Trust Company of California, et. al.* (Cal. Sup. Ct. No. 487535, Cal. Ct. App. No. 126669) and *Karls v. Wells Fargo & Company* (Cal. Sup. Ct. No. 486175, Cal. Ct. App. No. 126671),

were (1) combined for consideration in the California Superior Court by Judge Curtis E.A. Karnow, and (2) combined for consideration in the California Court of Appeal (First Appellate District – Division One). These two cases involve none of the procedural issues that were the sole focus of *Karls v. The 26 U.S.C. § 1504(a)(1) “Affiliated Group” of The Wachovia Corporation 26 U.S.C. § 1504 (b) “Includible Corporations”* (Cal. Sup. Ct. No 483297, Cal. Ct. App. No. 126702). Instead, both *Wachovia* and *Wells Fargo* focused solely on issues concerning the common-law tort of conversion.

- *Karls v. The Bank of New York, et. al.*, (Cal. Sup. Ct. No. 489460, Cal. Ct. App. No. 127444) and *Karls v. Mellon Capital Management Corporation, et. al.* (Cal. Sup. Ct. No. 489458, Cal. Ct. App. No. 127001) were combined in the California Court of Appeal (First Appellate District – Division Three) and are the subject of this Petition for Rehearing.

➤ The *Karls v. The Bank of New York, et. al.*, (Cal. Sup. Ct. No. 489460, Cal. Ct. App. No. 127444) court order (Appendix pp. 1-2) is based on a Demurrer and focuses solely on the issues concerning the common-law tort of

conversion that were raised in *Wachovia* and *Wells Fargo*. Indeed, the Reporter's Transcript of the **11/12/2009 hearing** before Superior Court Judge Charlotte Woolard (Plaintiff's Opening *Bank of New York* Appendix, Vol. 2 of 2, pp. 174-189) contains a considerable number of references to Judge Karnow's opinion in *Wachovia* and *Wells Fargo* and, indeed, demonstrates that Judge Woolard followed Judge Karnow's decision.

- The *Karls v. Mellon Capital Management Corporation, et. al.* (Cal. Sup. Ct. No. 489458, Cal. Ct. App. No. 127001) court order (Appendix pp. 3-4) is based on a Demurrer and focuses solely on the type of procedural issues pertaining to a common-law partnership operating as a "criminal gang" involved in *Karls v. The 26 U.S.C. §1504(a)(1) "Affiliated Group."* Indeed, the Reporter's Transcript of the **9/14/2009 hearing** before Superior Court Judge Charlotte Woolard (Plaintiff's Opening *Mellon* Appendix, pp. 46-54) contains a considerable number of references to Judge Alvarado's opinion in *Karls v. The 26 U.S.C. §1504(a)(1) "Affiliated Group."* Indeed, Judge

Woolard’s **9/14/2009 order** (Plaintiff’s Opening *Mellon* Appendix, pp. 55-56) cites Judge Alvarado’s decision in *Karls v. The 26 U.S.C. §1504(a)(1) “Affiliated Group”* as authority for her decision.

- 7 financial institutions, *ABN AMRO*, *AIG/AIU*, *Bank of America*, *Bear Stearns*, *HSBC Bank*, *JP Morgan Chase*, and *Merrill Lynch*, agreed last fall with the Petitioner to a stay of proceedings in California Superior Court (San Francisco) pending a final disposition of the appeals in *Wachovia* and *Wells Fargo*.
- 1 financial institution, *BNP Paribas*, settled with the Petitioner on December 21, 2009.

**B. Regarding *Karls v. The Bank of New York* –**

**B-1. Superior Court Judge Curtis E.A. Karnow’s “Pre-Packaged Appeal” of *Karls v. Wachovia Trust Co. of Cal.*, *supra*, and *Karls v. Wells Fargo & Co.*, *supra***

Two of the 13 virtually-identical actions remaining in state court were referenced constantly in the Superior Court in *Karls v. The Bank of New York*, as described above, and were combined for consideration by the California Superior Court expert on intellectual property, Judge Curtis E.A. Karnow – *Karls v. Wachovia Trust Company of California, et. al.* (Cal.

Sup. Ct. No. 487535, Cal. Ct. App. No. 126669) and *Karls v. Wells Fargo & Company* (Cal. Sup. Ct. No. 486175, Cal. Ct. App. No. 126671). He granted pre-trial motions to dismiss on the grounds: (1) actions for common-law conversion are preempted by federal copyright law, and (2) an idea cannot be the subject of common-law conversion despite meeting the classic common-law-conversion test of being unable to exist “separate and apart from the property in the paper on which it is written, or the physical substance in which it is embodied”\* – even though he was well aware that appeal would lie with the California Court of Appeal (First District) and that both positions were diametrically opposed to that court’s decision in *Gladstone v. Hillel*, 203 Cal.App.3d 977, 250 Cal.Rptr. 372 (1<sup>st</sup> Dist. 1988). Moreover, Judge Karnow’s orders granted the pre-trial motions to dismiss without leave to amend on the grounds that amendment would be futile – even though he was well aware that the separate tort of “misappropriation of trade secrets” does not require that the secret have any corporeal existence and is also not preempted by federal copyright law.

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\* An idea (a.k.a., artist’s concept) that is unable to exist “separate and apart from the property on which it is written, or the physical substance in which it is embodied” is an older version of the modern day rule and is set forth in 13 Corpus Juris, p. 948, sec. 5-a, as quoted in *Italiani v. Metro-Goldwyn-Mayer Corporation*, 45 Cal.App.2d 464, 466, 114 P.2d 370 (3<sup>rd</sup> Dist. 1941).

The only explanation for such seemingly-bizarre behavior is that Judge Karnow wanted to compel a “pre-packaged appeal” to the California Court of Appeal (First District) of these issues to ascertain whether it would re-affirm its decision in *Gladstone, supra*, before the California Superior Court invested its time in trying the 13 cases that then remained in state court.

**B-2. Pre-Emption By The California Uniform Trade Secrets Act Raised And Abandoned Under California Choice-Of-Law Principles By The Defendants In *Karls v. The Bank of New York, et. al.*, (Cal. Sup. Ct. No. 489460, Cal. Ct. App. No. 127444)**

Another bizarre aspect of Judge Karnow’s ruling is that although he raised on his own motion the spurious issue of preemption by federal copyright law, he did not raise on his own motion the issue of preemption by the California Uniform Trade Secrets Act.

However, this issue was raised before Superior Court Judge Charlotte Woolard by the defendants in *Karls v. The Bank of New York, et. al.*, (Cal. Sup. Ct. No. 489460, Cal. Ct. App. No. 127444) citing Cal. Civil Code § 3426.7 – another of the 13 virtually-identical actions remaining in state court **and one of the two cases involved in this Petition for Rehearing.**

The Petitioner pointed out that his trade secret was stolen in the U.K. by a U.K. citizen and a U.K. corporation, that when the U.K. corporation transmitted the trade secret to The Bank of New York the transmittal occurred in either the U.K. or New York, and that neither the U.K. nor New York has adopted the American Uniform Trade Secrets Act.

On November 12, 2009, The Bank of New York effectively conceded this “choice of law” issue in oral argument in the California Superior Court before Judge Woolard (Plaintiff’s Opening *Bank of New York* Appendix, Vol. 2 of 2, pp. 174-189) and **The Bank of New York abandoned this “choice of law” issue in its answering brief in the California Court of Appeal filed April 23, 2010.**

It should be noted that Wachovia and Wells Fargo are the only two of the 15 international financial institutions that were headquartered in jurisdictions (North Carolina and California, respectively) that had adopted the Uniform Trade Secrets Act.

It would appear that Wachovia and Wells Fargo chose not to raise the issue of preemption under the Uniform Trade Secrets Act because they did not want to get into such choice-of-law factual issues as where their negotiations with Barclays Capital, Ltd. took place, whose law governs their contracts with Barclays Capital, Ltd., etc. – to be considered together

with the facts that the trade secret was stolen in the U.K. by a U.K. citizen and a U.K corporation, Barclays Capital, Ltd., and that the U.K. citizen and Barclays Capital, Ltd., were well aware at the time of the theft that any proceeds to the Plaintiff from the exploitation of the trade secret were legally pledged to benefit the education of American inner-city children.

It would appear that Judge Karnow honored the apparent desire of Wachovia and Wells Fargo to defer this issue by not raising on his own motion the issue of UTSA preemption, even though he had raised on his own motion the spurious issue of preemption under federal copyright law. However, this is further evidence of bizarre behavior that can only be explained by an intent on the part of Judge Karnow to engineer a “pre-packaged appeal” to ascertain whether the Court of Appeal (First Appellate District) would honor its decision in *Gladstone v. Hillel*, supra, in actions for the classic common-law tort of conversion of a trade secret before the Superior Court invested its time and resources in trying the 12 cases then remaining in the Superior Court.

**C. Updating The “Certificate Of Interested Entities Or Persons”  
With Regard To Additional On-Going Efforts To Contribute  
Gratis All Rights Against The 15 Groups Of Defendants To  
Benefit The Education Of 10 Million California Inner-City  
Children In Accordance With A Long-Term Preexisting Legally-  
Binding Obligation**

Plaintiff-Appellant Karls’ “Certificate Of Interested Entities Or Persons” filed with his Opening Brief in the Court of Appeals (First District) explained that 10 million present and future California inner-city children are the real parties at interest as follows:

**Interested Entity or Person No. 1 = The “I Have A Dream”®  
Foundation, etc.**

During the 1990’s, I was the sponsor and chief benefactor of the “I Have A Dream”® Program of Stamford CT

- IHAD-Stamford was patterned on self-made multi-billionaire Eugene Lang’s promise in 1981 to the graduating sixth graders of Harlem PS 121 that he would guarantee their college tuition if they stayed in school – he then provided tutoring and mentoring until they graduated from H.S.
- IHAD-Stamford was one of 178 such programs in 51 American cities in the 1980’s and 1990’s – providing tutoring and mentoring for inner-city children as they progressed from third-grade through HS graduation and guaranteeing their college tuition – typically transforming single-digit HS graduating rates to 65% - 70%.
- IHAD-Stamford served 200 inner-city children in three public-housing projects.

During the 1990’s, I also served as the Volunteer Treasurer of Eugene Lang’s National “I Have A Dream”® Foundation

As detailed on the attached resume and at the beginning of my Opposition Brief in the Superior Court in a section entitled “Future Party At Interest and Cal. Code Civ. Proc. § 367” and at the end of this attachment –

1. When I retired from Ernst & Young in 1997 at age 55 to become an investment banker, the reason communicated to my EY partners **and to the sponsors of the other 177 “I Have A Dream”® Programs (most of whom were CEO’s of major U.S. corporations)** was to earn substantial amounts of money that could be used to fund new “I Have A Dream”® Programs.
2. The record will show that after funding a modest life style and the education of my children, all of my remaining resources have been contributed to the causes of educating inner-city children and the environment.
3. In line with these two points, it continues to be my intention to contribute any proceeds from this law suit (and from the related law suits described below) to California-based “I Have A Dream”® or similar programs **and that the only reasons this has not already been done are (1) that I am not admitted to practice law in California and a foundation, as a juridical entity, cannot proceed pro se, and (2) in line with having already given away all of my resources to the causes of educating inner-city children and the environment, I cannot afford to hire counsel for a juridical entity.**

Accordingly, California-based “I Have A Dream”® and similar programs are interested persons.

There are three subsequent developments. First, subsequently to the filing of this Certificate, all of the Plaintiff-Appellant’s right, title and interest in all 15 law suits were offered gratis as a contribution to the National “I Have A Dream”® Foundation to benefit the education of present

and future California inner-city children. However, as expected, the National “I Have A Dream”® Foundation had to decline the gift because it was not in a position to shoulder the cost of counsel.

Second, subsequently to the offer to the National “I Have A Dream”® Foundation, all of the Plaintiff-Appellant’s right, title and interest in all 15 law suits were offered gratis as a contribution to the “I Have A Dream”® Foundation of San Francisco and the “I Have A Dream”® Foundation of Los Angeles. However, as expected, they had to decline the gift because they were not in a position to shoulder the cost of counsel.

Third, subsequently to these offers, I have contacted 51 inner-city clergy from San Francisco, Oakland and Los Angeles to form a foundation that would be capable of handling this project. Developments are slow to materialize, but this is the way that my IHAD-Stamford CT foundation was formed two decades ago – on the framework of an Advisory Board comprising a majority of ministers and rabbis, and utilizing as tutors and mentors many of their congregants.

## **II. ARGUMENT – THE BANK OF NEW YORK ISSUE - CONVERSION:**

### **A. Standard For Review**

A jury trial of all factual issues was requested in *Karls v. The Bank of New York, et. al.* (Plaintiff's Opening *Bank of New York* Appendix, Vol. 1, p. 30). The case was dismissed as the result of sustaining a Demurrer (Appendix to this Petition, p. 2).

Accordingly, each fact alleged in the Complaint must be accepted as true for purposes of the Demurrer unless the alleged fact is incontrovertibly contradicted by unimpeachable evidence.

### **B. The Supreme Court Should Not Ignore The Admissions That Court of Appeal Justice Martin Jenkins Elicited From Defendants' Counsel During Oral Argument That –**

- **Both *Freemont Indemnity Company v. Freemont General Corporation, et. al.*, 55 Cal.3d 621, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007) and *Thrifty-Tel, Inc. v. Bezenek*, 54 Cal.3d 468, 46 Cal.App.4th 1559 (Cal.App. Fourth Dist. 1996) Recognized That The Unauthorized Taking of “A Document In Which Intangible Rights Are Merged” is Actionable As Conversion, and**
- **The Plaintiff's Complaint For Conversion Is Well Within This Rule.**

A transcript of the hearing before the Court of Appeal on December 8, 2010 will show that the Plaintiff attempted to summarize, as set forth in

Section C below, all of the cases that have been cited by the Defendants or by the various California state courts that have been involved in this case or by Division One of the Court of Appeal (First District) in the virtually-identical cases of *Karls v. Wachovia, Ibid.* - *Karls v. Wells Fargo, Ibid.* However, due to time constraints, the Plaintiff was only able to explain:

1. That both *Freemont Indemnity Company v. Fremont General Corporation, et. al.*, 55 Cal.3d 621, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007) and *Thrifty-Tel, Inc. v. Bezenek*, 54 Cal.3d 468, 46 Cal.App.4th 1559 (Cal.App. Fourth Dist. 1996) recognized the general rule that (p. 638 of the *Freemont* opinion and p. 472 of the *Thrifty-Tel* opinion):

“Courts have traditionally refused to recognize as conversion the unauthorized taking of intangible interests that are not merged with, or reflected in, something tangible.” (citations omitted)

2. That the *Freemont* Court, after considering the normal rule of “merged in, or identified with, some document,” explicitly expanded the rule by holding that the misappropriation of a net operating loss for U.S. tax purposes “supports a cause of action for conversion” even though it was not “merged or reflected in some document.” *Ibid*, p. 643.

3. That the *Thrifty-Tel* Court also considered explicitly expanding the normal rule in the case of a computer access code “which was never reduced to paper or reflected on a computer disk” (p. 472 of the *Thrifty-Tel* opinion) before holding that it was not necessary to do so because the jury verdict for conversion could be justified as trespass which had not been pleaded (also p. 472 of the *Thrifty-Tel* opinion).
4. That both the *Freemont* and *Thrifty-Tel* decisions recognized the general rule summarized in 18 Am.Jur.2d *Conversion: Tangible and Intangible Property, Generally* (West Publishing Company – Looseleaf © 2010 and 2009) that the Plaintiff has always cited (please see Section D below) from the outset in this and the 14 virtually-identical cases:

“An action for conversion ordinarily lies only for personal property that is tangible, or to intangible property that is merged in, or identified with, some document.”  
(footnotes omitted, emphasis added)

5. That every case cited by the Defendants or by the various California state courts that have been involved in this case or by Division One of the Court of Appeal (First District) in the virtually-identical combined cases of *Karls v. Wachovia, Ibid.* - *Wells Fargo, Ibid.* are consistent with the general rule as stated in

the *Freemont* and *Thrifty-Tel* decisions and in 18 Am.Jur.2d (as demonstrated in Section C below).

6. That Plaintiff's *Bank of New York* FAC is well within the general rule since it pleads (Plaintiff's Opening *Bank of New York* Appendix, Volume 2, pp. 89-94 at page 94):

“‘The Property’ which, as described below as ‘an idea’ that must be in the form of a ‘written presentation,’ is so complicated that it cannot be understood without being embodied in a ‘written presentation.’”

A transcript of the hearing before the Court of Appeal on December 8, 2010 will show that immediately after the Plaintiff had made these six points, Justice Martin Jenkins asked Defendants' Counsel how he would respond to these points. A transcript will then show that Defendants' Counsel had no response to these points. Accordingly, Defendants' Counsel has conceded these points.

Since Defendants' Counsel has conceded that the wrongful taking of “intangible property that is merged in, or identified with, some document” is actionable as conversion and conceded that Plaintiff's Complaint for Conversion is well within this rule, the Supreme Court should reverse the Superior Court's sustaining the Defendants' Demurrer.

**C. Every Case Cited By The Defendants And The Court of Appeal In Both This Case And The Related Combined Cases of *Karls v.***

**Wachovia/Wells Fargo, Ibid., Support The Plaintiff's Position That The Unauthorized Taking Of "A Document In Which Intangible Rights Are Merged" Is Actionable As Conversion**

The most recent case cited by The Court of Appeal (Opinion, p. 11) is *Freemont Indemnity Company v. Fremont General Corporation, et. al.*, 55 Cal.3d 621, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007) which cites with approval (p. 638, footnote 6) Section 242 of the Restatement Second of Torts:

“Section 242 of the Restatement Second of Torts, published in 1965, states: ‘(1) Where there is conversion of a document in which intangible rights are merged, the damages include the value of such rights.’”

The *Freemont* Court (op. cit., pp. 638-642) then analyzed the California Supreme Court opinion in *Payne v. Elliott*, 54 Cal. 339 (S.Ct. 1880) which relaxed the normal conversion requirement that an intangible right be merged with tangible property to include ownership of shares in a corporation (share certificates were considered to be intangible property). The *Freemont* Court (Op. Cit., p. 643) then held that a U.S. tax loss comes within the California Supreme Court's enlargement of the normal merged-in-tangible-property requirement for conversion:

“A net operating loss is a definite amount (see 26 U.S.C. § 172(c)) that can be recorded in tax and accounting records. The significance of this, in our view, is not that the intangible right is somehow merged or reflected in a document, but that both the property and the owner's rights of possession and exclusive use are

sufficiently definite and certain. [footnote omitted] The misappropriation of a net operating loss without compensation in the manner alleged in the complaint, causing damage to Indemnity as alleged, is comparable to the misappropriation of tangible personal property or shares of stock for purposes relevant here. We see no sound basis in reason to allow recovery in tort for one but not the other.”

The *Freemont* Court finally concluded (op. cit., p. 643):

“For purposes of ruling on the demurrer, it is sufficient to conclude as we do that the misappropriation of intangible net operating losses alleged here supports a cause of action for conversion.”

It should be noted that the *Freemont* Court (Op. Cit., p. 638) was citing *Thrifty-Tel, Inc. v. Bezenek*, 54 Cal.3d 468, 46 Cal.App.4th 1559 (Cal.App. Fourth Dist. 1996) for the statement that supports the merged-in-tangible-property test for conversion (p. 638 of the *Freemont* opinion and p. 472 of the *Thrifty-Tel* opinion):

“Courts have traditionally refused to recognize as conversion the unauthorized taking of intangible interests that are not merged with, or reflected in, something tangible.” (citations omitted)

In *Thrifty-Tel*, the Court was considering a complaint for conversion of a computer-access code for making telephone calls on the Plaintiff’s telephone system. The Court noted (ibid, p. 472) that the computer access code “was never reduced to paper or reflected on a computer disk” in the course of considering (like the *Freemont* Court later did) whether intangible property that was not merged in tangible property could qualify for a

further-expanded scope of conversion beyond any tangibility requirement as was done by the Supreme Court in *Payne v. Elliot*:

“Whether the computer access code, which was never reduced to paper or reflected on a computer disk, and the tie-up of Thrifty-Tel’s system could be the subjects of conversion presents an issue of first impression in California – and apparently most everywhere else as well. However, it is not necessary to resolve the question because the evidence supports the verdict on a trespass.”

Accordingly, *Thrifty-Tel* is also consistent with the position of the Plaintiff in this Petition for Review that conversion of a document in which intangible rights are merged is actionable – since the *Thrifty-Tel* Court was only considering whether to eliminate the tangibility requirement for conversion altogether and then rendered its discussion of the issue a dictum by adopting a trespass theory to sustain the jury verdict.

All of the remaining cases cited by The Court of Appeal are easily reconciled with Plaintiff’s position that conversion of a document in which intangible rights are merged is actionable –

- *Melchior v. New Line Productions, Inc.*, 131 Cal.2d 347, 106 Cal.App.4th 779 (Cal.App. Second Dist. 2003) involved only a script which the Plaintiff did not write and a book authored by the Plaintiff which was not wrongfully taken.
- *Dielsi v. Falk*, 916 F.Supp. 985 (C.D.Cal. 1996) involved solely a script which was not wrongfully taken.

- *Oakes v. Sue Lynn Corp.*, 100 Cal. 838, 24 Cal.App.3d 345 (Cal.App. First Dist. 1972) involved solely architectural plans which were not wrongfully taken.

Both the Defendants and the Superior Court cited only two cases – *Melchoir, supra*, and another case that The Court of Appeal did not cite –

- *Minniear v. Tors*, 72 Cal. 287, 266 Cal.App.2d 495 (Cal. App. Second Dist. 1968) involved solely a pilot script for a television series which the Defendants did not use, and an outline for additional episodes which contained only one bullet-point idea (“undersea jet pilot rescue”) that bore any relationship to an actual episode and, in any event, there was no evidence in the opinion that the outline was wrongfully taken.

**D. The Plaintiff’s Unaltered Position From The Beginning Has Been That The Unauthorized Taking Of “A Document In Which Intangible Rights Are Merged” Is Actionable As Conversion**

The Plaintiff has steadfastly maintained from the outset in both *Karls v. The Bank of New York, et. al.*, and the 14 virtually-identical cases that the property which was converted is a document in which intangible rights are merged. The original complaint not only alleged that The Property which was converted was a Trade Secret that had to be in the form

of a “written presentation” but Plaintiff’s FAC alleges (Plaintiff’s Opening *Bank of New York* Appendix, Volume 2, pp. 89-94 at page 94):

“‘The Property’ which, as described below as ‘an idea’ that must be in the form of a ‘written presentation,’ is so complicated that it cannot be understood without being embodied in a ‘written presentation.’”

In defending the right to bring an action for conversion for the unauthorized taking of “a document in which intangible rights have been merged” under American common law, the Plaintiff has from the outset continually cited:

- 18 Am.Jur.2d *Conversion: Tangible and Intangible Property, Generally* (West Publishing Company – Looseleaf © 2010 and 2009) which states: “An action for conversion ordinarily lies only for personal property that is tangible, or to intangible property that is merged in, or identified with, some document.” (footnotes omitted, emphasis added)
- 13 Corpus Juris, p. 948, sec. 5-a, as quoted in *Italiani v. Metro-Goldwyn-Mayer Corporation*, 45 Cal.App.2d 464, 466, 114 P.2d 370 (Cal.App. Third Dist. 1941) as posing the test of whether an intangible property “exists separate and apart from the property in the paper in which it is written, or the physical substance in which it is embodied.”

- *Gladstone v. Hillel*, 203 Cal.App.3d 977, 250 Cal.Rptr. 372 (First Dist. 1988) which holds that an “idea” (aka, artist’s concept) for fine jewelry which is embodied in molds is the proper subject of an action for conversion and that even new molds made from the stolen molds had to be destroyed or given to the plaintiff under the Court’s decision. The Court of Appeal’s opinion (pp. 11-12), however, dismisses all arguments based on “ideas” which are artist’s concepts, such as Mark Gladstone’s jewelry design or Leonardo da Vinci’s Mona Lisa, as a mere analogy which is “inapt.” However, **this is not a mere analogy but is directly on point, as demonstrated by the older *Corpus Juris* formulation of the rule and, indeed, as reflected by the California Legislature when it enacted in Cal. Code Civ. Proc. 338(c)** which tolls the 3-year statute of limitations for conversion in three cases involving ideas – articles of “interpretive, scientific or artistic significance.” Nobody has ever suggested that Plaintiff Karls’ Trade Secret Report was not an article of “interpretive” significance, just like unpatented scientific inventions are also Trade Secrets of “scientific” significance. It is easy to forget, as

has the Court of Appeal, that articles of “artistic” significance are also in this same class of “ideas.”

The Plaintiff has then proceeded to reconcile all cases cited by the Defendants or by the Courts with these principles.

All such cases are in accord with these principles. Indeed, as set forth above, the most recent case, *Freemont Indemnity Company v. Fremont General Corporation, al.*, 55 Cal.3d 621, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007) even quotes with approval Sec. 242 of the Restatement Second of Torts for precisely the same “merged in” test described in the current looseleaf edition of Am.Jur.2d. before deciding to expand beyond the normal “merged in” requirement.

**E. The Court of Appeal’s “House of Cards” – All Other Objections By The Court of Appeals Regarding Conversion Depend On Its Erroneous Premise That The Plaintiff Does Not Have A Cause Of Action For Common-Law Conversion For “A Document In Which Intangible Rights Are Merged”**

**E-1. The FAC Alleges Substantial Interference (Opinion § IV-B)**

Sec. IV-B of the Court’s Opinion (pp. 12-13) claims that the *Bank of New York* FAC does not allege substantial interference. The second paragraph of the Opinion states (p. 12):

“To state a claim for conversion, a plaintiff must allege an intention on a defendant’s part to ‘convert the owner’s property, or

to exercise some act of ownership over it, or to prevent the owner's taking possession of his property [Citation.]' (*Simonian v. Patterson* (1994) 27 Cal.App.4th 773, 782.)" [emphasis added]

As discussed above, the Plaintiff has indeed alleged the unauthorized taking of "a document in which intangible rights are merged" with respect to which the Defendants exercised an action of ownership.

The Wall Street Journal article that was attached to, and made a part of, the Complaint alleges that the Defendants exercised an act of ownership over it by claiming that it was their confidential trade secret, and alleges that they used the trade secret to the mutual advantage of Barclays Capital Ltd. (the admitted thief) and themselves in deals they implemented with Barclays Capital. The unauthorized use of the trade secret which was "merged" in the stolen document, of course, was a wrongful interference with the Plaintiff's right of dominion over the trade secret and his right to prohibit its unauthorized use.

The next paragraph of the Opinion and the last paragraph on federal copyright preemption (bottom of page 12 – top of page 13) cites only *Zaslow v. Cronert*, 29 Cal.2d 541 (1946) for the principle that the "[F]ailure to allege substantial interference with possession or the right to possession permits rejection of the conversion claim."

The Defendants had, in addition, cited *Jordan v. Talbot*, 55 Cal.2d 597 (1961). *Jordan* involved an apartment occupied by a plaintiff. The owner of the apartment building removed the plaintiff's furniture and other property and stored it in a warehouse in the plaintiff's name.

*Zaslow* also involved a dispute of occupancy rights following which the plaintiff's personal property was removed and stored – again in the name of the plaintiff. Both courts held that there was mere “inter-meddling” because neither plaintiff had been deprived of full and immediate possession or enjoyment of their property – only interference with where that possession and enjoyment could occur.

Such “intermeddling” cases that do not deprive the owner of full and immediate possession or enjoyment of his property are no authority for the Court's position which, as discussed above, is diametrically opposed to (1) *Freemont Indemnity Company v. Fremont General Corporation, . al.*, 55 Cal.3d 621, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007), (2) *Thrifty-Tel, Inc. v. Bezenek*, 54 Cal.3d 468, 46 Cal.App.4th 1559 (Cal.App. Fourth Dist. 1996), (3) 18 Am.Jur.2d *Conversion: Tangible and Intangible Property, Generally* (West Publishing Company – Looseleaf © 2010 and 2009), (4) Section 242 of the Restatement Second of Torts, and (5) 13 Corpus Juris, p. 948, sec. 5-a, as quoted in *Italiani v. Metro-Goldwyn-*

*Mayer Corporation*, 45 Cal.App.2d 464, 466, 114 P.2d 370 (Cal.App. Third Dist. 1941). Especially not when –

- Justice Martin Jenkins was able to elicit admissions from Defendants’ Counsel at the Hearing (1) that the unauthorized taking of “a document in which intangible rights are merged” is actionable as conversion, and (2) that Plaintiff’s claim for conversion is well within this rule.
- Plaintiff’s Complaint alleges that the Defendants exercised an act of ownership over Plaintiff’s property by claiming that it was their confidential trade secret, and alleges that they used the trade secret to the mutual advantage of Barclays Capital Ltd. (the admitted thief) and themselves in deals they implemented with Barclays Capital.

#### **E-2. Federal Copyright Preemption (Opinion § IV-C)**

Section IV-C of the Court’s Opinion (pp. 13-14) recognizes that among the many authorities comprising the well-settled law on this issue is its own decision in *Gladstone v. Hillel*, 203 Cal.App.3d 977, 250 Cal.Rptr. 372 (First Dist. 1988) which holds that the wrongful possession in an action for common-law conversion constitutes the “extra element” that precludes preemption under the federal copyright law. *Gladstone* states (203 Cal.App.3d at p. 987):

“In a much quoted passage, Nimmer postulates an ‘extra element’ test to distinguish valid state causes of action from those ‘equivalent’ to copyright claims:

“[A] right which is ‘equivalent to copyright’ is one which is infringed by the mere act of reproduction, performance, distribution or display....If under state law the act of reproduction, performance, distribution or display,...will *in itself* infringe the state created right, then such right is preempted. But if other elements are required, in addition to or instead of, the acts of reproduction, performance, distribution or display, in order to constitute a state created cause of action, then the right does not lie ‘within the general scope of copyright’ and there is no preemption.” (1 Nimmer, *The Law of Copyright*, *op. cit. supra*, § 1.01[B] at pp. 1-11, 12.)

“While generally accepting this test, the courts have demanded that the extra element ‘must be one which changes the nature of the action so that it is *qualitatively* different from a copyright infringement claim. (citations omitted)

**“Under the extra element test, it is clear that federal copyright law does not preempt state causes of action alleging fraud or conversion** – the two theories pleaded in the complaint. Fraud involves ‘the extra element of misrepresentation.’ (citation omitted) **Conversion entails the ‘wrongful possession of the tangible embodiment of the work.’** (2 Nimmer, *The Law of Copyright*, *op. cit. supra*, § 8.23, fn. 1 at p. 8-272.9, *Harper & Row Publishers, Inc. v. Nation Enterprises* (2d Cir. 1983) 723 F.2d 195, 201, rev’d on other grounds in *Harper & Row Publishers, Inc. v. Nation Enterprises* (1985), 471 U.S. 539 [85 L.Ed.2d 588, 105 S.Ct. 2218; *Oddo v. Ries* (9th Cir. 1984) 743 F.2d 630, 635.)”

A typical state-law claim that would be preempted would be for breach of contract not to make copies of copyrighted material of which the Defendant is in lawful possession.

However, as set forth in *Gladstone, supra*, *Nimmer, supra*, *Harper & Row, supra* and *Oddo, supra*, making copies of copyrighted material of which Defendant is in “wrongful possession” is not preempted.

It is worthwhile considering the facts of *Gladstone, supra*. It involved the theft of molds for making fine jewelry, which the *Gladstone* Court recognized was copyrightable (203 Cal.App.3d at p. 985). Defendant Hillel not only made jewelry from the molds, but also made new molds from the stolen molds which new molds were also used to make jewelry. The Court of Appeal First Appellate District ordered the original molds be returned to the plaintiff and the destruction of the new molds and all jewelry made from either sets of molds. **The Court did not fail to take action because copies of the stolen molds had been made.**

Even if *Nimmer, op. cit.*, and *Gladstone, op. cit.*, are wrong that making copies of material of which Defendant is in wrongful possession is not preempted – so that the issue of making copies was a “case of first impression” – the underlying policy would be inadequate to deal with “The Rembrandt Etchings” issue posed by Plaintiff in his arguments from the beginning of these lawsuits.

Rembrandt was most famous for his etchings, from which a limited number of prints would be made (each typically bearing the notation of the

number of the print and the total number of prints). The value of each print derived not only from Rembrandt's "artistic idea" but also from the limited number of prints made from the etching. Now suppose a Rembrandt etching is stolen from the Getty Museum and the thief begins to make more prints. Under the novel making-copies policy, the theft of the Rembrandt etching would not be actionable as soon as the first print is made!!!

Such a result is not only contrary to *Nimmer, op. cit., and Gladstone, op. cit.*, but would comprise bad public policy.

**III. ARGUMENT – MELLON CAPITAL MANAGEMENT ISSUE -  
WHETHER AN UNINCORPORATED ASSOCIATION  
FORMED PURSUANT TO AN ELECTION BY ITS MEMBERS  
UNDER FEDERAL LAW AND ACTING AS A CRIMINAL  
GANG CAN BE SUED UNDER THE NAME BY WHICH IT IS  
KNOWN**

**A. Standard For Review**

A jury trial of all factual issues was requested in *Karls v. Mellon Capital Management Corporation, et. al.* (Plaintiff's Opening *Mellon Capital Management* Appendix, p. 21). The case was dismissed as the result of granting a Motion to Dismiss (Appendix to this Petition, p. 4).

Accordingly, each fact alleged in the Complaint must be accepted as true for purposes of the Demurrer unless the alleged fact is incontrovertibly contradicted by unimpeachable evidence.

**B. The Clearly-Erroneous Factual Finding Of The Superior Court**

The order of Superior Court Judge Woolard (Appendix, pp. 3-4 at page 4) makes a factual finding that “The Mellon Financial Corporation U.S.-Tax ‘Consolidated Group’ of Corporations” does not exist.

She cites as the authority for her factual finding “*Karls v. The 26 U.S.C. § 1504(a)(1) ‘Affiliated Group’ of The Wachovia Corporation 26 U.S.C. § 1504(b) ‘Includible Corporations’*, CGC-08-483297.” The factual finding in that case was based on an affidavit of a member of the legal department of The Wachovia Corporation.

There was no affidavit of a member of the legal department of Mellon Financial Corporation or any other scintilla of evidence to support Judge Woolard’s factual finding. Indeed Judge Woolard’s factual finding, supporting a pre-trial motion to dismiss, was made in the face of expert testimony that there has been only one American corporation in the last 44 years that failed to form a U.S.-Tax Consolidated/Affiliated Group and that it is impossible to obtain Directors’ and Officers’ Liability Insurance without doing so.

**C. The Attempt Of The Court Of Appeal To Justify The Decision Of The Superior Court On Other Grounds That Were Also Clearly Erroneous**

**C-1. The Requirements Of Cal. Code Civ. Proc. § 369.5(a) And Cal. Corporations Code. § 18035(a) Were Satisfied Because (A) Plaintiff's Complaint Designates The Defendant *Mellon* Unincorporated Association By The Name By Which It Is Known and (B) Plaintiff's Complaint Describes The Defendant *Mellon* Unincorporated Association As Acting As A Criminal Gang -- And Defendants Did Not Introduce One Scintilla Of Evidence To Dispute Either Fact**

Cal. Code Civ. Proc. § 369.5(a) provides in its entirety:

“A partnership or other unincorporated association, whether organized for profit or not, may sue or be sued in the name it has assumed or by which it is known.”

Cal. Corporations Code § 18035(a) provides in its entirety:

“‘Unincorporated association’ means an unincorporated group of two or more persons joined by mutual consent for a common lawful purpose, whether organized for profit or not.”

Cal. Corporations Code § 10835(a), as written, has been satisfied because the Plaintiff's Complaint alleged:

- “The following Defendant Corporations have been members of The Mellon Financial Corporation U.S.-Tax ‘Consolidated Group’ of Corporations”, thereupon naming four Defendant corporations (Plaintiff's Opening *Mellon Capital Management* Appendix, pp. 4-5). Their number exceeds the two required by Cal. Corporations Code § 18035(a).
- “The Mellon Financial Corporation U.S.-Tax ‘Consolidated Group’ of Corporations was formed by its members for the

purpose of reducing their combined U.S. income tax liability.”

(Plaintiff’s Opening *Mellon Capital Management* Appendix, p.

4). There has never been a suggestion from the Defendants or Courts that this reason why the Internal Revenue Code permits such groups to file consolidated income tax returns is unlawful.

Nevertheless, the Court of Appeal’s opinion states (pp. 7-8):

“Labor unions, political parties, social clubs, religious organizations, environmental societies, condominium owners, lodges, gangs, stock exchanges, and veterans are common types of unincorporated associations. (*Barr, supra*, 90 Cal.App.3d at p. 266; *Totten, supra*, at pp. 38-39).”

This point was addressed by the Plaintiff in the oral argument on December 8, 2010 with three points:

1. Cal. Corporations Code § 18035(a) is satisfied by its terms and the courts should not add additional requirements that were not included by the California Legislature.
2. The list set forth above, which purports to be exclusive, did not cause the Court in *Barr v. United Methodist Church*, 90 Cal.App.2d 540 (Fourth Dist. 1979) to require the Plaintiff to show that the United Methodist Church was a criminal gang or some other type of unincorporated organization that was already on the list prior to *Barr*, which was the first time a religious organization was added to the list.
3. The *Mellon* Defendants were in fact acting as a “criminal gang” which is on the list.

With regard to the third point, the Plaintiff's Complaint (Plaintiff's Opening *Mellon Capital Management* Appendix, pp. 4-11) contains the following:

- The Wall Street Journal article (O.A., pp. 10-11) that was attached to, and made part of, the Complaint states that Barclays Capital Ltd. had used the Property in deals with at least nine other banks (there were, in fact, 15 banks, all of which were sued as set forth in the Statement of Facts),
- An allegation (O.A., p. 5) that “The Property belongs to the Plaintiff.”
- Allegations (O.A., p. 5) that the Defendants had converted Plaintiff's Property.
- An allegation (O.A., p. 6), that “The Defendant Corporations’ agent, Mellon Financial Corporation, was reckless in its failure to obtain the permission of the Plaintiff to use The Property.”

Taken together, these allegations present a clear picture that Barclays Capital Ltd. stole the Plaintiff's Property, the Defendants’ agent Mellon Financial Corporation had received the stolen Property, and the Defendants’ agent Mellon Financial Corporation was reckless in its failure to obtain the permission of the Plaintiff to use The Property.

The Court of Appeal might have leapt to the erroneous conclusion that the Defendants were not acting as a criminal gang because, presumably, they did not ordinarily do so. However, in *People ex. rel Totten v. Colonia Chiques*, 156 Cal.App.4th 31 (Second Dist. 2007), the defendant criminal street gang argued that it could not be sued as an “unincorporated association” because Cal. Corporations Code § 18035 requires a “common lawful purpose.” The Court held that an association can have more than one purpose, and so long as one of them is lawful, the definition is satisfied. By the same token, the Defendant Mellon Unincorporated Association can have more than one purpose and so long as one of them is unlawful, it is acting as a “criminal gang” with respect to that purpose.

**C-2. The Court Of Appeal Abused Its Discretion In Requiring, Without The Citation Of Any Authority, Additional Allegations In The Complaint That (A) The Name By Which The Defendant Unincorporated Association Designated Was The Name By Which It Was Known and (B) The Legal Conclusion That The Elements Of The Crime Of Receiving Stolen Property Described In The Complaint Did Indeed Constitute That Crime – Since The Original Complaint Has Never Been Amended And Routine Practice For Regular American Citizens (vs. California’s Inner-City Children) Would Have Been To Permit Amendments If The Court Had Thought Them Necessary**

Because there was not a single scintilla of evidence to dispute the fact that the name by which the Defendant Unincorporated Association was designated in the complaint was the name by which it was known (since Superior Court Judge Woolard was focused solely on making a factual determination regarding the existence of the Defendant Unincorporated Association that paralleled the *Wachovia* factual determination), the Court of Appeal's decision claims without citing any authority that the Complaint should have contained an allegation that the name by which the Defendant Unincorporated Association was designated was the name by which it was known.

In addition, the Court of Appeal's decision claims without citing any authority that the Complaint should have contained an allegation stating a legal conclusion that the elements of the crime of receiving stolen property which were described in the Complaint, do in fact comprise that crime.

A transcript of the hearing on December 8, 2010 will show that the Plaintiff argued that if the Court of Appeal should decide that the Complaint was deficient in any respect then, since the Complaint had never been amended and the Defendants had never been misled about the issues involved, leave should be granted to amend in the interests of justice.

Such leave is standard practice for regular American citizens. There is no reason why it should be denied to the 10 million California inner-city children who are the real parties at interest in this case.

**D. The Complete Dismissal of The *Mellon* Action Is Diametrically Opposed To Code Civ. Proc. § 430.10 And *The People ex rel. John Garamendi vs. American Autoplan, Inc., et. al.* (Second Appellate District 1993)**

Both the Superior Court and the Court of Appeal cite as their authority for the complete dismissal of the *Mellon* action Code Civ. Proc. § 430.10 and the existence of *The Bank of New York* action.

Code Civ. Proc. § 430.10(c) requires “**the same parties**” in both actions. Even if the Defendant Unincorporated Associations in both actions are disregarded, there are still five corporate defendants in *The Bank of New York* action that are not defendants in the *Mellon* action. *The People ex rel. John Garamendi vs. American Autoplan, Inc., et. al.*, 20 Cal.App.4th 760 (Second Dist. 1993) emphasized at considerable length the requirement of Cal. Code Civ. Proc. § 430.10(c) that “**the same parties**” in both lawsuits must be precisely identical.

This is no mere technicality. The Court of Appeal has twice refused to address the issue of how *The Bank of New York* group (NYSE Symbol – BK) can be held responsible under *The Bank of New York* Complaint for

the actions taken by the *Mellon Financial Corporation* group (NYSE Symbol – MEL) that are the subject of the *Mellon* Complaint.

#### **IV. CONCLUSION**

The *Bank of New York* portion of the Court of Appeal opinion conflicts with the well-settled common law of conversion in general and conflicts, inter alia, with *Freemont Indemnity Company v. Fremont General Corporation, et. al.*, 55 Cal.3d 621, 638, 148 Cal.App.4th 97 (Cal.App. Second Dist. 2007), *Thrifty-Tel, Inc. v. Bezenek*, 54 Cal.3d 468, 472, 46 Cal.App.4th 1559 (Cal.App. Fourth Dist. 1996), and *Gladstone v. Hillel*, 203 Cal.App.3d 977, 250 Cal.Rptr. 372 (Cal.App. First Dist. 1988).

The *Mellon Capital Management* portion of the Court of Appeal opinion (A) conflicts with well-settled California law that an unincorporated association acting as a criminal gang can be sued in the name by which it is known, and (B) is diametrically opposed to the holding in *The People ex rel. John Garamendi vs. American Autoplan, Inc., et. al.*, 20 Cal.App.4th 760 (Second Dist. 1993) that the Cal. Code Civ. Proc. § 430.10(c) requirement of the “same parties” for dismissal of a possibly-duplicative action means precisely that and not merely “some parties.”

Destroying the rights of the estimated 10 million California inner-city children (who are described in Section D of the Statement of Facts) to a

decent future in unpublished and uncitable opinions that fail to follow well-established law constitutes jurisprudence that is not merely “separate and inherently unequal” but “separate and demonstrably unequal” in violation of the Fourteenth Amendment to the U.S. Constitution.

DATED: January 24, 2011

Respectfully submitted,

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John S. Karls, Plaintiff-Appellant, Pro Se

cc: (A) Mr. Michael Moore  
(B) 51 Inner-City Clergy From San Francisco, Oakland and Los Angeles (Please Statement of Facts, p. 14)