

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 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 the subject of a Petition For Review filed on September 28, 2010. This lawsuit entailed solely procedural issues relating to whether a common-law partnership that had been acting as a “criminal gang” could be sued in the “name it had assumed” by virtue of being assigned that name by 26 U.S. Code §§ 1501 and 1504, none of which issues are involved in this Petition for Review of *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).

The Petition for Review in *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 made on the grounds that 10 million present and future California inner-city children (1) had been denied “Due Process of Law” in violation of the Fourteenth Amendment of the U.S. Constitution because they had been denied a hearing which denial demonstrably produced an erroneous result, and (2) had been denied “Equal Protection of the Law” in violation of the Fourteenth Amendment of the U.S. Constitution because they had been accorded a “separate” and “inherently unequal” unpublished and uncitable legal opinion that was in direct conflict with well-settled law. The Petition was denied by the California Supreme Court on November 10, 2010. Accordingly, the deadline for a Petition for Certiorari to the U.S. Supreme Court on the U.S. Constitutional Issues is February 8, 2010.

- *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 combined in the California Court of Appeal (First Appellate

District – Division One) and **are the subject of this Petition For Review**. 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).

- *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 a hearing scheduled for December 8, 2010.**
- 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. 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 are involved in this Petition for Review 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 (1st Dist. 1988).

^{*} 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 *Italiani v. Metro-Goldwyn-Mayer Corporation*, 45 Cal.App.2d 464, 466, 114 P.2d 370 (3rd Dist. 1941) quoting 13 Corpus Juris, p. 948, sec. 5-a.

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.

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.

C. 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 Walter 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 (please see the summary of those actions above).

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 conceded this “choice of law” issue in oral argument in the California Superior Court before Judge Woolard and abandoned this “choice of law” issue in its answering brief in the California Court of Appeal filed April 23, 2010.

Accordingly, this should now be viewed as binding precedent for the 12 international financial institutions headquartered in New York and the defendant that was headquartered in Pennsylvania.

Nevertheless, the two defendants involved in this Petition for Review (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 heretofore 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.

D. 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 American 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.

ARGUMENT

A. Standard For Review

A jury trial of all factual issues was requested in both cases. Both cases were dismissed on the basis of pre-trial motions.

Accordingly, each fact alleged in the complaints must be accepted as true for purposes of the pre-trial motions unless the alleged fact is incontrovertibly contradicted by unimpeachable evidence.

B. Every Case Cited By The Defendants and The Court of Appeal Support The Plaintiff's Position That The Unauthorized Taking Of "A Document In Which Intangible Rights Are Merged" Is Actionable As Conversion

B-1. The Cases Cited By The Defendants and The Court of Appeal

The most recent case cited by The *Wachovia-Wells* Court of Appeal (opinion, p. 4) 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 is true, as The *Wachovia-Wells* Court of Appeal noted (opinion, p. 4) 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 *Wachovia-Wells* 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 *Wachovia-Wells* trial court and *Wachovia-Wells* themselves cited only *Melchoir* and another case that the *Wachovia-Wells* 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.

B-2. The Plaintiff’s Unaltered Position From The Beginning 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 of both of these actions that the property which was converted is a document in which intangible rights are merged.

- The First-Amended Complaints (pp. 7-15 of the Opening Appendix Vol. 1 for *Karls v. Wachovia* and pp. 4-10 of the Opening Appendix Vol. 2 for *Karls v. Wells Fargo*) clearly describe a trade secret (pp. 10-13 of Vol. 1 for *Wachovia* and pp. 5-8 of Vol. 2 for *Wells Fargo*).
- Indeed, the 6/30/2006 Wall Street Journal Article which was attached to, and made part of, each of the Complaints states the Defendants opposed the release to the Wall Street Journal by the U.S. government of documents involving the implementation by

the Defendants of deals using Plaintiff's trade secret on the grounds that the documents contained confidential trade secrets (please see the second full paragraph of the second column of p. 15 of O.A. Vol. 1 for *Wachovia* and p. 10 of O.A. Vol. 2 for *Wells Fargo*). [The statement actually says "several banks" opposed the release on those grounds, but the article was only able to identify three banks – Wachovia, Wells Fargo and Bank of America.]

- The First-Amended Complaints stated that Plaintiff's trade secrets "had to be 'in the form of a written presentation, stating the accounting or tax benefit intended to be achieved, the transactions steps to be implemented, and the accounting or tax technical analysis' accompanied by diagrams." (p. 10 of O.A. Vol. 1 for *Wachovia* and pp. 6 of O.A. Vol. 2 for *Wells Fargo*).

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.”

The Plaintiff has then proceeded to reconcile all cases cited by the Defendants or by the Courts with these principles, as in fact was done in the first portion of this Section of the Argument.

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, et 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.

It should be noted that the old Corpus Juris formulation set forth above might appear to be more rigorous than the Restatement/Am.Jur.2d requirement since it seems to posit a requirement that the intangible property cannot exist “separate and apart from the property in the paper in which it is written, or the physical substance in which it is embodied.” There are two answers to this:

- All of the cases cited by The Defendants and by the *Wachovia-Wells* Trial and Appellate Courts with respect to this issue are consistent with, and often cite with approval, the Restatement/Am.Jur.2d test.
- Plaintiff has always maintained in his filings that the written embodiment of his Trade Secret meets the apparently-more-stringent test of Corpus Juris. In this regard, the *Wachovia-Wells* Superior Court Judge Karnow did not permit any amendments to the Complaint in order, as explained in the Statement of Facts above, to engineer the pre-packaged appeal. However, in *Karls v. The Bank of New York, et. al.*, (Cal. Sup. Ct. No. 489460, Cal. Ct. App. No. 127444), another of the 15 cases involving the conversion of Plaintiff’s Trade Secret, Superior Court Judge Woolard did permit an amendment to the Complaint before

following Judge Karnow's decision and Plaintiff amended the Complaint to specify that his Trade Secret "is so complicated that it cannot be understood without being embodied in a 'written presentation.'"

Three matters should be noted with respect to Trade Secrets:

- Historically, trade secrets were only protected by actions for breach of contract or, if the trade secret met the merged-in-a-document test, the classic tort of English-American common-law conversion; approximately 150 years ago there began to evolve a separate English-American common-law tort for misappropriation of trade secrets; however, actions for breach of contract and the classic tort for conversion of a trade secret are still available except to the extent that the latter is preempted by the statutory law of jurisdictions that have adopted the Uniform Trade Secrets Act. 1 Melvin F. Jager, *Trade Secrets Law, Ch. 2: The Historical Development Of Trade Secret Concepts* (West Publishing Company – Looseleaf © 2010).
- As noted in the Statement of Facts, neither Defendant in *Wachovia-Wells* raised the issue of preemption under the Uniform Trade Secrets Act, apparently because they wanted to

defer the “choice of law” issues involved in ascertaining such matters as where the original theft occurred, where the negotiations between the Defendants and the original thieves took place, which jurisdiction’s laws govern the contract between the Defendants and the original thieves, etc. It was also noted that Superior Court Judge Karnow honored the Defendants’ desire to defer any UTSA preemption issue, even though he raised on his own motion the spurious federal-copyright-preemption issue.

- However, in *Karls v. The Bank of New York, et. al.*, (Cal. Sup. Ct. No. 489460, Cal. Ct. App. No. 127444), another of the 15 cases involving the Plaintiff’s Trade Secret, the Defendant Bank of New York which is headquartered in NYC did raise the issue of preemption under the California Uniform Trade Secrets Act and conceded it in oral argument in the California Superior Court. They have not pursued it in their brief before the California Court of Appeal.

C. The Court of Appeals’ “House of Cards” – All Other Objections By The Court of Appeals Depends On Its Erroneous Premise That The Plaintiff Do Not Have A Cause Of Action For Common-Law Conversion For “A Document In Which Intangible Rights Are Merged”

C-1. The FAC’s Allege Substantial Interference (Opinion § III-C)

Sec. III-C of the Court’s Opinion (pp. 6-7) claims that the FAC’s do not allege substantial interference. The second paragraph of the Opinion states (p. 7):

“The gist of a conversion action is ‘the wrongful interference with the owner’s right of dominion and possession of his property.’ 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.’” (citations omitted, emphasis added)

As discussed in above, the Plaintiff has indeed alleged the unauthorized taking of “a document in which intangible rights are merged.” The Wall Street Journal article that was attached to, and made a part of, the FAC’s 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 (p. 7, para. 2) cites only *Zaslow v. Cronert*, 29 Cal.2d 541 (1946) for the principle that “substantial interference with possession or the right to possession” must be alleged. *Wachovia-Wells* 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.

The last paragraph of this section of the Opinion (p. 7, para. 3) alleges that the Plaintiff argued in oral argument that his claim “is really one of misappropriation of trade secrets.” A transcript of the oral argument will show that this is false. Plaintiff was setting forth the history of trade secrets as posited in the Statement of Facts above (which is virtually

identical to the Statement of Facts in a Petition for Transfer to the Supreme Court for Decision filed before the oral argument in the Court of Appeal) to show that, according to 1 Melvin F. Jager, *Trade Secrets Law, Ch. 2: The Historical Development Of Trade Secret Concepts* (West Publishing Company – Looseleaf © 2010), trade secrets were historically a proper subject for the common-law tort of conversion (from which the additional common-law tort of misappropriation evolved), and that trade secrets are indeed still actionable as conversion if they have been “merged” in a written document under the substantive law of jurisdictions that have not adopted the Uniform Trade Secrets Act.

C-2. Federal Copyright Preemption (Opinion § III-D)

Section III-D of the Court’s Opinion (pp. 7-9) recognizes that its own decision in *Gladstone v. Hillel*, 203 Cal.App.3d 977, 250 Cal.Rptr. 372 (1st Dist. 1988) holds that the wrongful possession in an action for common-law conversion constitutes the “extra element” that precludes preemption under the federal copyright law.

However, the Court’s holding that federal copyright preemption applies rests wholly on the conclusion in the last paragraph of Section III-D (Opinion, p. 9), whose opening topic sentence captures everything in a

nutshell – “We have already concluded plaintiff has not stated a proper claim for conversion.”

C-3. Statute of Limitations (Opinion § IV)

Sec. IV of the Court’s Opinion (pp. 9-10) captures in a nutshell its position in the second and third sentences of the final paragraph of Sec. IV (Opinion, p. 10):

“We have already determined plaintiff’s complaint does not state a claim for conversion because it is based on an intangible idea. Thus, the action is governed by the two-year limitation period provided in Code of Civil Procedure section 339, subdivision (1).”

Plaintiff has always steadfastly maintained that the applicable statute of limitations is the three-year limitation period provided in Cal. Code of Civil Procedure § 338 which provides:

“Within three years:

[subdivisions (a) and (b) omitted]

“(c) An action for taking, detaining, or injuring any goods or chattels, including actions for the specific recovery of personal property. The cause of action in the case of theft, as defined in Section 484 of the Penal Code, of any article of historical, interpretive, scientific, or artistic significances is not deemed to have accrued until the discovery of the whereabouts of the article by the aggrieved party, his or her agent, or the law enforcement agency that originally investigated the theft.”

[subdivisions (d) through (n) omitted]

Since Plaintiff has alleged the conversion of “a document in which intangible rights are merged” he has indeed brought a cause of action for “theft, as defined in Section 484 of the Penal Code.”

Nobody has ever suggested that Plaintiff’s “document” in which was “merged” his Trade Secret that was stolen was not an article of “interpretive” significance.

Accordingly, the Court’s position on the applicable statute of limitations is in error.

C-4. Denial of Leave to Amend (Opinion § V)

The Court’s Opinion states on this issue: “As we have concluded that plaintiff’s conversion claim fails for multiple reasons, we find the trial court did not abuse its discretion in denying leave to amend the FAC’s.”

As demonstrated above, all of the alleged reasons for the failure of the conversion claim are solely the result of the Court’s erroneous conclusion that the FAC’s do not alleged the wrongful taking of “a document in which intangible rights are merged.”

Accordingly, no amendment of the FAC’s is necessary.

However, if the Court decides, contrary to all of the cases they have cited, to adopt the apparently-more-stringent test in the old formulation of

Corpus Juris rather than the current formulation in Am.Jur.2d, a fair reading of the FAC's would compel the conclusion that they are still sufficient.

Nevertheless, if the Court decides to ignore the recent case law and adopt the old formulation of Corpus Juris and if, in addition, the Court should conclude that the FAC's are not sufficient, then "in the interests of justice" the Court should follow the example of California Superior Court Judge Woolard in *Karls v. The Bank of New York*, op. cit., and permit the amendment that was made to the Complaint in that case in order to remove any doubt that the apparently-more-stringent test has in fact been satisfied.

D. Destroying The Rights Of The Estimated 10 Million California Inner-City Children To A Decent Future In Unpublished Opinions That Fail To Follow The Well-Established Common Law Of Conversion Constitutes "Separate And Inherently Unequal" Jurisprudence Which Violates The Fourteenth Amendment To The U.S. Constitution

As can be seen from the first page of the Court of Appeal opinion, it is "not to be published" and cannot be cited. The Superior Court opinion is also not published.

It would appear that the reason why the lower courts have not published their opinions is that they know that they are inconsistent with the well-established law of conversion regarding an "idea" (a.k.a., artist's concept) that can not exist "separate and apart from the paper on which it is

written, or the physical substance in which it is embodied” – 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).

Indeed, the well-established law of conversion regarding an intangible property merged in a tangible property has evolved to the point that –

- An idea (i.e., artistic concept) for fine jewelry is found to be a proper subject for conversion without even any discussion of whether the idea (i.e., artistic concept) meets the test of being embodied in a physical substance (i.e. the molds from which the jewelry can be made). *Gladstone v. Hillel*, 203 Cal.App.3d 977, 250 Cal.Rptr. 372 (1st Dist. 1988).
- Even though Cal. Code Civ. Proc. § 338(c) provides that the three-year statute of limitations for civil lawsuits “in the case of theft” is tolled until discovery in the case of an article of “interpretive, scientific, or artistic significance”, the courts no longer seem to be aware that all three of these categories involve “ideas” that are embodied in a physical substance and exempt the articles of “artistic significance” from any analysis whatsoever –

causing the Court of Appeal in these lawsuits to view the Plaintiff's references to *The Mona Lisa* as “an analogy” rather than directly on point (please see the opinion, p. 5, for the Court's statement: “We find plaintiff's **analogy** to *The Mona Lisa* to be inapt.”).

The Court of Appeal in these lawsuits also ignored the reason for plaintiff's citing “ideas” (a.k.a., artists' concepts) embodied in physical substances such as Leonardo da Vinci's *Mona Lisa* or Mark Gladstone's molds for fine jewelry in *Gladstone v. Hillel*, supra. The reason, as a transcript will show, was to pose the question of what the measure of damages will be if the plaintiff elects, or is forced, to pursue monetary damages – will it be only the negligible value of an old piece of canvas if the *Mona Lisa* happens to be destroyed after it is stolen? An affirmative answer, of course, is contained in Section 242 of the Restatement Second of Torts with respect to documents in which intangible rights are merged.

It will be recalled that Section D of the Statement of Facts updated plaintiff's “Certificate of Interested Entities or Persons” regarding how any proceeds from these two lawsuits and the virtually-identical lawsuits against 12 other international financial institutions were wholly dedicated in legally-binding fashion to the education of American inner-city children long before the stolen Trade Secret was created. The subsequent events

were that the plaintiff had offered to assign all rights to the proceeds from the 15 lawsuits gratis to the National “I Have A Dream”® Foundation to benefit the education of present and future California inner-city children but, 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. Thereupon the plaintiff offered to assign all the rights gratis to the “I Have A Dream”® Foundation of San Francisco and the “I Have A Dream”® Foundation of Los Angeles but, as expected, they also had to decline the gift because they were not in a position to shoulder the cost of counsel. Whereupon plaintiff contacted 51 inner-city clergy from San Francisco, Oakland and Los Angeles for the purpose of forming a foundation capable of handling this project.

Accordingly, the “Equal Protection” issue under the Fourteenth Amendment to the U.S. Constitution is why the courts are refusing to permit American inner-city children to benefit from the same well-settled law of conversion as the heirs of Holocaust victims and future victims of the theft of fine art?

Heirs of Holocaust victims, for example, are entitled to the recovery of fine art stolen by the Nazis from the current holders, even if the current holders are unaware of the theft. It is reasonable to suppose that Barclays

Capital Ltd., which has admitted in unprivileged communications that it stole plaintiff's Trade Secret even though it was well aware that its value had been legally pledged to educate American inner-city children, would also be so morally bankrupt that it would provide back-dated warranties of ownership which some junior clerk could be induced to insert into the defendants' business records so that they could be introduced into evidence without anyone even having to perjure themselves.

Disposing of the rights of the estimated 10 million California inner-city children in decisions that the courts are too ashamed to publish is more than "separate but equal" jurisprudence. In *Brown v. Board of Education of Topeka*, 347 U.S. 347, 74 S.Ct. 686, 98 L.Ed. 873 (1954), a unanimous Supreme Court held in a slightly different context that "separate but equal" is "inherently unequal" and, therefore, violated the "equal protection" clause of the Fourteenth Amendment to the U.S. Constitution.

Reserving the right to recover fine art (or its value) from current holders who are not aware that it had been stolen by the Nazis while throwing to the wolves American inner-city children is a gross violation of the "Equal Protection of the Law" requirement of the Fourteenth Amendment to the U.S. Constitution. After all, heirs of Holocaust victims and future victims of the theft of fine art are only being deprived of wealth.

The estimated 10 million California inner-city children are being deprived of the value of a Trade Secret that would have provided them with future lives.

CONCLUSION

The Petition For Review should be granted and the decision of the Court of Appeal reversed because of the following grounds:

1. Per Cal. Rules of Court § 8.500(b)(1), the decision conflicts with the well-settled common law of conversion in general and, inter alia, *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 (1st Dist. 1988).
2. Per Cal. Rules of Court § 8.500(b)(2), the Court of Appeal decision lacked the concurrence of sufficient qualified justices because two of the three participating justices signed an opinion in a related case which was promulgated on August 20, 2010 and which stated that both of the signatory judges participating in

both cases (one of whom authored the opinions in both cases and the other of whom presided over the hearing in this case) had already reached their decision on or before August 20, 2010, even though the hearing requested by the plaintiff did not occur until October 5, 2010. As a result of their refusal before the hearing to recuse themselves, the Due Process clause of the Fourteenth Amendment to the U.S. Constitution has been violated.

3. Per Cal. Rules of Court § 8.500(b)(1), destroying the rights of the estimated 10 million California inner-city children to a decent future in unpublished opinions that fail to follow the well-established common law of conversion constitutes “separate and inherently unequal” jurisprudence which violates the Fourteenth Amendment to the U.S. Constitution.

DATED: December 6, 2010

Respectfully submitted,

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 See Page 13 of the Statement of Facts)