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UNITED STATES DISTRICT COURT  
SOUTHERN DISTRICT OF CALIFORNIA

CELIA WAKEFIELD, individually and as  
executor of the estate of Charles T.  
Wakefield, deceased, and as Trustee of the  
Wakefield Family Trust Dated April 23,  
1997,

Plaintiff,

v.

GLOBAL FINANCIAL PRIVATE  
CAPITAL, LLC, a Florida limited liability  
company, and G.F. INVESTMENT  
SERVICES, LLC, a Florida limited  
liability company,

Defendants.

Case No.: 15cv0451 JM(JMA)

**ORDER DENYING DEFENDANTS’  
MOTION TO DISMISS FOR  
FAILURE TO STATE A CLAIM  
[Rule 12(b)(6)]**

Defendants Global Financial Private Capital, LLC (“Global Financial”) and G.F.  
Investment Services, LLC (“G.F. Investment”) (collectively, “Defendants”) filed a  
motion to dismiss for failure to state a claim under Rule 12(b)(6) of the Federal Rules of  
Civil Procedure (“Motion”) on March 11, 2015. (Doc. No. 7). On April 6, 2015,  
Plaintiff Celia Wakefield, individually and as executor of the estate of Charles T.  
Wakefield, deceased, and as Trustee of the Wakefield Family Trust Dated April 23, 1997  
 (“Trust”), filed an opposition to Defendants’ motion (“Opposition”). (Doc. No. 12).

1 On April 13, 2015, Plaintiff filed a reply (“Reply”). (Doc. No. 13). On July 18, 2015,  
2 the court denied the motion without prejudice. (Doc. No. 20). On September 22, 2015,  
3 the court received and accepted the parties’ stipulation that California law should apply to  
4 this case and govern the legal issues raised by Defendants’ motion, and took Defendants’  
5 motion under resubmission for a ruling on the merits. (Doc. No. 35).

6 The matters were fully briefed and were found suitable for resolution without oral  
7 argument pursuant to Local Rule 7.1(d)(1). For the reasons set forth below, the court  
8 denies Defendants’ motion to dismiss.

### 9 **BACKGROUND**

10 On February 2, 2015, Defendants removed this action from the Superior Court for  
11 the State of California based upon diversity jurisdiction under 28 U.S.C. §§ 1332,  
12 1441(d), and 1446. The Complaint, filed on December 9, 2014, alleges eight causes of  
13 action for (1) breach of fiduciary duty; (2) violation of the California Consumer Legal  
14 Remedies (“CLRA”); (3) tort of another claim for attorney’s fees; (4) elder abuse  
15 (Welfare and Insts. Code § 15610, et. seq.); (5) unfair business practices (Cal. Bus. and  
16 Prof. Code § 17200); (6) breach of contract; (7) breach of duty to supervise; and  
17 (8) declaratory relief.

18 In mid-summer 2007, Plaintiff and her late husband, Charles T. Wakefield,  
19 (collectively, the “Wakefields”) attended a free financial seminar presented by Mr.  
20 Reid Johnson. On July 18, 2007, the Wakefields entered into an agreement with Reid  
21 Johnson, through his company The Planning Group of Scottsdale, LLC, and a WRAP fee  
22 investment advisory contract with Global Financial.<sup>1</sup> Plaintiff alleges that Johnson was  
23 an agent of Global Financial. At the time, Plaintiff was in her late 80s and Charles T.  
24 Wakefield was in his late 70s.<sup>2</sup>

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27 <sup>1</sup> WRAP fee agreement permits the investment advisor to charge a percentage of the overall client assets  
28 being managed. Investopedia, <http://www.investopedia.com/terms/w/wrap-fee.asp> (last visited October 30, 2015).

<sup>2</sup> Charles T. Wakefield died at age 80, and Mrs. Wakefield is currently 93 years old.

1 In essence, Plaintiff alleges she and her husband were advised to sell their  
2 investments and to reinvest the proceeds in a series of unsuitable investments and  
3 insurance transactions that caused the Wakefields harm. (Compl. ¶¶ 29, 40). Plaintiff  
4 alleges damages of about \$1.6 million. (Compl. ¶49). Plaintiff also alleges that Johnson,  
5 the advisor, failed to disclose material adverse information, including that he owed about  
6 \$11 million in taxes to the IRS. (Compl. ¶25). In broad brush, Plaintiff alleges that  
7 Defendants failed to adequately supervise Johnson and caused her harm.

8 This action is related to an earlier filed action that commenced on April 30, 2013,  
9 in the Superior Court for the State of California, County of San Diego (Wakefield v.  
10 Reid Stuart Johnson, et al., Case No. 37-2013-000-046502-CU-FR-CTL, the “Johnson  
11 Action”). The thrust of the Johnson Action is that Johnson, the financial advisor,  
12 breached fiduciary duties to Plaintiff and violated several state consumer statutes. The  
13 state court complaint does not identify any role played by Global Financial and/or G.F.  
14 Investment in the underlying misconduct. Following mediation, on February 21, 2014,  
15 the Johnson Action settled.

16 After the Johnson Action settled, Plaintiff’s counsel discovered the existence of the  
17 relationship between the Wakefields and Defendants. After Mr. Wakefield passed away  
18 in 2010, Plaintiff had no recollection that she and her husband had entered into a separate  
19 contract with Defendants. Neither Plaintiff nor her counsel were allegedly aware that  
20 there existed an advisory contract with Global Financial. (Compl. ¶ 45, 46).

21 On December 8, 2012, Plaintiff’s counsel sent a letter to Global Financial  
22 requesting copies of relevant documents. Plaintiff’s counsel did not receive a response to  
23 this letter. (Compl. ¶43). On June 14, 2013, counsel for Johnson in the Johnson  
24 Action provided a copy of the Global Financial WRAP contract to Plaintiff. (Compl.  
25 ¶47). Plaintiff alleges that she recently learned of the role of G.F. Investment in the  
26 alleged wrongdoing. (Compl. ¶48).

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1 **Motion to Dismiss**

2 Defendants bring the motion to dismiss based on the ground that the dismissal with  
3 prejudice as to Johnson in the Johnson Action operates as *res judicata* for purposes of  
4 this action and these Defendants. (Motion, p. 3). Defendants claim that Plaintiff is  
5 alleging the same damage claims based on the same alleged conduct of Johnson in this  
6 matter as in the Johnson Action, claiming that Johnson was an authorized agent of  
7 Defendants. (Id.). Defendants argue that “California law is clear that a dismissal with  
8 prejudice of a named party defendant exonerates that party for all such claims and  
9 operates as *res judicata*,” and that “the exoneration of an alleged agent [Johnson]  
10 exonerates the alleged principals [these two Defendants] as a matter of law, and Plaintiff  
11 has no claims against these two Defendants.” (Id.). Defendants also submit that  
12 Plaintiff’s settlement and dismissal of the Johnson Action with prejudice constitutes  
13 *retraxit* – a final judgment on the merits – and thus operates both as *res judicata* and  
14 collateral estoppel.

15 Plaintiff opposes Defendants’ motion on the following grounds: (1) the settlement  
16 and dismissal of the Johnson Action operates neither as *res judicata* nor as collateral  
17 estoppel because there was no final judgment on the merits; (2) the dismissal did not  
18 “exonerate” Johnson; (3) the prior settlement and dismissal is not an estoppel in this case;  
19 (4) there is no privity or substantial identity between Johnson and Defendants, and  
20 Defendants are not third-party beneficiaries; (4) there is no *retraxit* for Defendants in this  
21 case because they are not in privity with Johnson; (5) the cases cited by Defendants are  
22 distinguishable; (6) suing Johnson separately in the prior case did not split a cause of  
23 action presently asserted against Defendants; (7) the claims in this case are different and  
24 none of them were litigated and determined in the prior action so as to give rise to issue  
25 preclusion in this case; and (8) policy considerations and basic fairness require denial of  
26 the motion.

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1 Notice of Entry of Dismissal with Prejudice filed electronically on July 3, 2014 in San  
2 Diego Superior Court in the case entitled Wakefield v. Johnson et al., Case No. 37-2013-  
3 00046502-CU-FR-CTL (Doc. No. 7-2, Exh. A). In her opposition, Plaintiff also asks the  
4 court to take judicial notice of the following items: (1) Complaint for Elder Abuse  
5 Damages and Other Relief, San Diego Superior Court Case No. 37-2013-00046502-CU-  
6 FR-CTL filed on April 30, 2013 [with Exhibits 1-22]; (2) Petition to Compel Arbitration  
7 filed in San Diego Superior Court, Case No. 37-2013-00046502-CU-FR-CTL; (3) Minute  
8 Order Denying Petition to Compel Arbitration in Case No. 37-2013-00046502-CU-FR-  
9 CTL, dated 9/27/2013; (4) Order Staying Case Pending Appeal of Denial of Arbitration  
10 in San Diego Superior Court Case No. 37-2013-00046502-CU-FR-CTL; (5) Register of  
11 Actions for San Diego Superior Court Case No. 37-2013-00046502-CU-FR-CTL; (6)  
12 Settlement Agreement between Johnson (and others) and Plaintiff filed in Support of  
13 Good Faith Determination in San Diego Superior Court Case No. 37-2013-00046502-  
14 CU-FR-CTL; (7) Order Finding Johnson Settlement to be in Good faith in San Diego  
15 Superior Court Case No. 37-2013-00046502-CU-FR-CTL; and (8) Complaint against  
16 Plaintiff filed in Arizona Superior Court for Maricopa County, Case No. CV2013-  
17 053095. (Doc. No. 12-2, Exh. 1, 3-9).

18 Federal Rule of Evidence 201 provides that courts may take judicial notice of facts  
19 that are not subject to reasonable dispute because they are generally known or are capable  
20 of accurate and ready determination. See Fed. R. Evid. 201(b). The court may take  
21 notice of such facts on its own, and “must take judicial notice if a party requests it and the  
22 court is supplied with the necessary information.” Fed. R. Evid. 201(c). Matters of  
23 public record are proper subjects of judicial notice, but a court may take notice only of  
24 the existence and authenticity of an item, not the truth of its contents. See Lee v. City of  
25 Los Angeles, 250 F.3d 668, 689–90 (9th Cir. 2001). Under these rules, courts may take  
26 judicial notice of “the records and reports of administrative bodies.” United States v.  
27 Ritchie, 342 F.3d 903, 909 (9th Cir. 2003) (quotation marks omitted).

28 Plaintiff and Defendants do not oppose each other’s requests for judicial notice,

1 and the court finds that these items are appropriate for judicial notice because they are  
2 matters of public record and the parties do not dispute their authenticity. The court,  
3 therefore, grants the requests for judicial notice filed by Plaintiff and Defendants.

4 **B. The Affirmative Defense of *Res Judicata***

5 “Ordinarily affirmative defenses such as *res judicata* may not be raised by motion  
6 to dismiss, C. Wright & A. Miller, Federal Practice and Procedure, § 1277, at 328-30, but  
7 this is not true when . . . the defense raises no disputed issues of fact.” Scott v. Kuhlmann  
8 746 F.2d 1377, 1378 (9th Cir. 1984). See also Roberts v. United States, 423 F. Supp.  
9 1314, 1316 (C.D. Cal. 1976) (“[T]he motion to dismiss on the basis of *res judicata* is  
10 properly before the court.”). As stipulated by parties, the court applies California  
11 substantive law to this motion. Additionally, Defendants have the burden of proof on  
12 this affirmative defense. The burden of proving that the elements of *res judicata* have  
13 been met is upon the party seeking to assert it as a bar or estoppel. Vella v. Hudgins, 20  
14 Cal.3d 251, (1977).

15 The doctrine of *res judicata* gives certain conclusive effect to a former judgment in  
16 subsequent litigation involving the same controversy. See Boeken v. Philip Morris USA,  
17 Inc., 48 Cal.4th 788, 797 (2010). *Res judicata* has two aspects. Id. In its “primary  
18 aspect,” commonly known as claim preclusion, the prior judgment operates as a bar to the  
19 second suit between the same parties on the same cause of action. Id. In its “secondary  
20 aspect,” commonly known as collateral estoppel, the prior judgment operates as an  
21 estoppel as to such issues in the second action as were actually litigated and determined  
22 in the first action. Id. (internal citations omitted). The prerequisite elements for applying  
23 the doctrine of *res judicata* to either an entire cause of action or one or more issues are  
24 the same: (1) a claim or issue raised in the present action is identical to a claim or issue  
25 litigated in a prior proceeding; (2) the prior proceeding resulted in a final judgment on the  
26 merits; and (3) the party against whom the doctrine is being asserted was a party or in  
27 privity with a party to the prior proceeding. Id.

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1           **1. *Res Judicata*/Claim Preclusion**

2           Defendants first argue that Plaintiff’s suit is barred by the primary aspect of the  
3 doctrine of *res judicata*, claim preclusion. First, Defendants argue that Plaintiff’s  
4 settlement and voluntary dismissal of the Johnson Action with prejudice constitutes a  
5 final judgment on the merits, barring the current action. Second, Defendants argue that  
6 the doctrine of *retraxit*, a concept in California law, also applies to this case. Third,  
7 Defendants claim that Plaintiff alleges the same damage claims here she alleged against  
8 Johnson in the Johnson Action, and that “the only difference in both actions is that  
9 [Plaintiff] now alleges ‘Johnson acted as an authorized agent of Defendants.’” (Motion,  
10 p. 6, citing Compl. ¶¶ 15-18). Finally, Defendants argue that the exoneration of an  
11 alleged agent – here, Johnson, also exonerates the alleged principals – Defendants, and as  
12 such, Plaintiff has no claims against Defendants in this action.

13           Plaintiff counters all of Defendants’ points by making the following arguments.  
14 First, the dismissal of the Johnson Action does not constitute a final judgment on the  
15 merits as the settlement agreement in the Johnson Action “was of limited scope, only  
16 applying to certain parties.” (Opposition, p. 11). Second, the doctrine of *retraxit* does  
17 not apply because Defendants in this case were not in privity with Johnson. Third, the  
18 claims alleged in the current case are not identical to the claims in the Johnson Action,  
19 because this action is based on a different written contract, different Defendants, and a  
20 different theory of liability. For example, “the claim that the Defendants failed to  
21 supervise Johnson is made for the first time in this case.” (*Id.* at 34). Plaintiff claims that  
22 “Defendants in this case are brokerage houses and they had a duty to supervise Johnson  
23 for the protection of Plaintiff,” and that Defendants’ failure to fulfill this duty subjects  
24 them to direct liability, not vicarious liability based on Johnson’s status as Defendants’  
25 alleged agent. (*Id.* at 32).

26           As the California Supreme Court held in Boeken, for the purpose of applying the  
27 doctrine of *res judicata*, “a dismissal with prejudice is the equivalent of a final judgment  
28 on the merits, barring the entire case of action.” 48 Cal.4th at 793. Additionally, a



1 dismissal with prejudice also operates as a final judgment on the merits for the purpose of  
2 the California law doctrine of *retraxit*. “A dismissal with prejudice is simply the modern  
3 name for a common law *retraxit*.” O'Hara v. Teamsters Union Local No. 856, 151 F.3d  
4 1152, 1159 (9th Cir. 1998) (citing Torrey Pines Bank v. Superior Court, 216 Cal. App. 3d  
5 813, 818-21 (1989) (holding that “a *retraxit* is equivalent to a judgment on the merits and  
6 as such bars further litigation on the same subject matter”). Where the issue decided in  
7 the prior adjudication voluntarily dismissed with prejudice is identical to the issue  
8 presented in the second action, *retraxit* applies. Id. However, *retraxit* does not act as a  
9 bar when the cause of action in the subsequent case is different from the subject matter of  
10 the original complaint and the issues resolved in the settlement agreement. Id. (citing  
11 Neil Norman, Ltd. v. William Kasper & Co., 149 Cal. App. 3d 942, 948 (1983).

12 Here, the court agrees with Defendants that Plaintiff’s settlement and the voluntary  
13 dismissal of the Johnson Action with prejudice constitutes a final judgment on the merits.  
14 See Boeken, 48 Cal.4th at 793. Moreover, the court also agrees that the dismissal with  
15 prejudice is the equivalent of a final judgment for the purposes of *retraxit*. However, the  
16 court finds that the doctrine of *res judicata* does not bar Plaintiff’s current action as  
17 Defendants have only successfully established the second element of *res judicata* – the  
18 existence of a final judgment on the merits, but failed to establish the first and third  
19 elements.

20 First, Defendants have not established that the claims or issues raised in the present  
21 action are identical to the claims or issues litigated in the Johnson Action. Defendants’  
22 argument that Plaintiff asserts claims against Defendants “based solely on Johnson being  
23 their alleged agent” (motion, p.6) is simply incorrect. As pointed out by Plaintiff, the  
24 claims alleged against Defendants in the complaint are based both on vicarious and direct  
25 liability. Plaintiff alleges that “[Defendants] are liable in this case as control persons of  
26 Johnson and under the laws of Respondeat Superior and agency. Additionally, Global  
27 Financial is liable because it had a *direct* relationship with the Wakefileds as a fee based  
28 financial adviser.” (Compl. ¶18) (emphasis added). For example, in her seventh cause of

1 action, breach of duty to supervise, Plaintiff alleges that “[Defendants] had a duty to  
2 supervise Johnson” and that Defendants did not have an “adequate system of supervision  
3 over Johnson and did not in fact adequately supervise him.” (Compl. ¶ 168). This claim  
4 is new and was not alleged in the Johnson Action, and more importantly, this claim is  
5 based on a theory of direct liability, not vicarious liability. Additionally, in support of her  
6 third cause of action, tort of another claim for attorney’s fees, Plaintiff alleges that  
7 “[b]ecause of wrongful actions of [Defendants], Plaintiff has incurred substantial  
8 attorney’s fees in the earlier related litigation. Accordingly, Plaintiff is entitled to recover  
9 her attorney’s fees in this case as damages under the tort of another doctrine.” (Comp.  
10 ¶153). This, again, is a new claim not previously included or litigated in the Johnson  
11 Action. Therefore, the court finds that Defendants have failed to establish that Plaintiff’s  
12 claims here are identical to the ones alleged in the Johnson Action.

13 Second, Defendants rely on an out-of-circuit case to support their argument that  
14 Defendants in this action are in privity with Johnson, the party in the prior proceeding.  
15 See Citibank, N.A. v. Data Lease Financial Corp., 904 F.2d 1498, 1502 (11th Cir. 1990)  
16 (“[I]t is settled that a judgment exonerating a servant or agent from liability bars a  
17 subsequent suit on the same cause of action against the master or principal based solely  
18 on respondeat superior.”). However, this case does not help Defendants because as  
19 already discussed, Plaintiff’s suit here is not “on the same cause of action.” The  
20 Complaint also contains allegations of direct liability against Defendants. Therefore,  
21 even if Defendants were able to establish that the dismissal exonerating the alleged agent  
22 – Johnson, would bar a suit on the same cause of action against the principals –  
23 Defendants, they would still fail in establishing the elements of *res judicata* as Plaintiff’s  
24 claim here is not the same as the one alleged in the Johnson Action.

25 Therefore, the court finds that *res judicata* does not bar Plaintiff’s action against  
26 Defendants. For the same reasons, the court also finds that the doctrine of *retraxit*  
27 similarly does not bar Plaintiff’s claim against Defendants. See Neil Norman, Ltd., 149  
28 Cal. App. 3d at 948 (holding that *retraxit* does not act as a bar when the cause of action in

1 the subsequent case is different from the subject matter of the original complaint and the  
2 issues resolved in the settlement agreement).

### 3 **2. Collateral Estoppel/Issue Preclusion**

4 Collateral estoppel also precludes a party from litigating in a second action against  
5 the same party or its privity an issue that was “actually litigated” in a former proceeding.  
6 Lucido v. Superior Court, 51 Cal.3d 335, 341 (1990). “[I]n its collateral estoppel aspect,  
7 the doctrine may also preclude a party to prior litigation from redispensing *issues* therein  
8 decided against him, even when those issues bear on different claims raised in a later  
9 case.” Vandenberg v. Superior Court, 21 Cal.4th 815, 828 (1999). As discussed by  
10 Justice Moreno in his dissenting opinion in Boeken, although there is some controversy  
11 in the matter, the dominant rule in California is that an issue that has been settled by a  
12 voluntary dismissal with prejudice does not constitute an issue that has been “actually  
13 litigated” for collateral estoppel purposes. Boeken, 48 Cal.4th at 823. But see Alpha  
14 Mechanical, Heating & Air Conditioning, Inc. v. Travelers Cas. & Sur. Co. of America,  
15 133 Cal. App. 4th 1319, 1333 (2005) (“[I]f we were to characterize [defendant’s]  
16 affirmative defenses not as claims but as “issues” for purposes of applying collateral  
17 estoppel, we would hold those issues were deemed to have been actually litigated and  
18 determined when the identical issues presented by [defendant’s] cross-complaint were  
19 reduced to a final judgment on the merits.”).

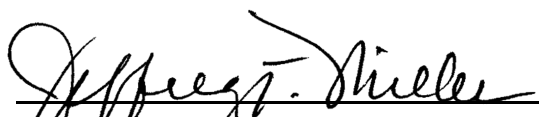
20 The court finds that the doctrine of collateral estoppel does not bar Plaintiff’s  
21 claims in this action, even if the court were to apply the minority Alpha Mechanical rule.  
22 As already discussed, the settlement of the Johnson Action, which Defendants claim  
23 constitutes a final judgment on the merits, did not involve issues “decided against”  
24 Defendants, which could bear on the new and different claims raised by Plaintiff in the  
25 current action. See Vandenberg, 21 Cal.4th at 828. Alpha Mechanical involved the same  
26 two parties, and the party to be estopped had dismissed the other party with prejudice.  
27 133 Cal. App. 4th at 1331-32. Here, the settlement involved a different defendant, and  
28 thus the settled issues, even if considered “actually litigated,” were not decided against

1 Defendants in this action. Therefore, the court finds that collateral estoppel does not bar  
2 Plaintiff's claims.

3 Because the court finds that neither the primary nor the secondary aspect of *res*  
4 *judicata* bars Plaintiff's claims in this action, Defendants' motion to dismiss is DENIED.

5 IT IS SO ORDERED.

6 DATED: November 4, 2015

  
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JEFFREY T. MILLER  
United States District Judge

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