

RELIGIOUS TECHNOLOGY CENTER; CHURCH OF SCIENTOLOGY OF CALIFORNIA; CHURCH OF SCIENTOLOGY INTERNATIONAL, Plaintiffs-counter-defendants-Appellees v. ROBIN SCOTT, Defendant, and CHURCH OF THE NEW CIVILIZATION; DAVID MAYO, Defendants-counter claimants-Appellants, CHURCH OF SPIRITUAL TECHNOLOGY, Counter-defendant-Appellee. RELIGIOUS TECHNOLOGY CENTER; CHURCH OF SCIENTOLOGY OF CALIFORNIA; CHURCH OF SCIENTOLOGY INTERNATIONAL, Plaintiffs-counter-defendants-Appellants, v. ROBIN SCOTT, Defendant, CHURCH OF SPIRITUAL TECHNOLOGY, Counter-defendant, and CHURCH OF THE NEW CIVILIZATION; DAVID MAYO, Defendants-counter-claimants-Appellees

No.94-55781, No.94-55920

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

1996 U.S. App LEXIS 8954

November 14, 1995, Argued and Submitted April 11, 1996, Filed

NOTICE: [*1] RULES OF THE FEDERAL CIRCUIT COURT OF APPEALS MAY LIMIT CITATION TO UNPUBLISHED OPINIONS. PLEASE REFER TO THE RULES OF THE UNITED STATES COURT OF APPEALS FOR THIS CIRCUIT.

SUBSEQUENT HISTORY: As Amended July 5, 1996. Rehearing Denied and Suggestion for Rehearing En Banc Rejected July 5, 1996, Reported at: 1996 U.S. App. LEXIS 16398.

Reported in Table Case Format at: 82 F.3d 423, 1996 U.S. App LEXIS 31855

PRIOR HISTORY: Appeal from the United States District Court for the Central District of California. DC No. CV-85-00711-AWT(Bx). A. Wallace Tashima, District Judge, Presiding.

DISPOSITION: AFFIRMED in part, REVERSED in part, and REMANDED.

COUNSEL: For RELIGIOUS TECHNOLOGY CENTER, Plaintiff-counter-defendant - Appellee: Helena K. Kobrin, Esq., BOWLES & MOXON, Hollywood, CA. William T. Drescher, Esq., Calabasas, CA. Eric M. Lieberman, Rabionowitz, Boudin, Standard, Krinsky & Lieberman, New York, NY. Earle C. Cooley, Esq., COOLEY, MANION, MOORE & JONES P C, Boston, MA. For CHURCH OF SCIENTOLOGY OF CALIFORNIA, CHURCH OF SCIENTOLOGY INTERNATIONAL, Plaintiffs-counter-defendants -Appellees: Helena K. Kobrin, Esq., (See above). William T. Drescher, Esq., (See above). Earle C. Cooley, Esq., (See above).

For CHURCH OF THE NEW CIVILIZATION, Defendant-counter-claimant - Appellant: Eric M. Lieberman, Rabionowitz, Boudin, Standard, Krinsky & Lieberman, New York, NY. Jerold Fagelbaum, Esq., Los Angeles, CA. Gary M. Bright, Esq., BRIGHT & POWELL, Carpinteria, CA. For DAVID MAYO, Defendant-counter-claimant -Appellant: Jerold Fagelbaum, Esq., (See above). Gary M. Bright, Esq., (See above).

For CHURCH OF SPIRITUAL TECHNOLOGY, Counter-defendant -Appellee: Lawrence E. Heller, Esq., HELLER & EDWARDS, Beverly Hills, CA.

JUDGES: Before: HALL and NOONAN, Circuit Judges. SHUBB *, District Judge.

* The Honorable William B. Shubb, United States District Judge for the Eastern District of California, sitting by designation.

OPINION: AMENDED MEMORANDUM

-Footnotes-

* This disposition is not appropriate for publication and may not be cited to or by the courts of this circuit except as provided by 9th Cir. R. 36-3.

-End Footnotes-

Religious Technology Center (RTC), a California corporation, appeals from judgment and imposition of attorneys fees entered against it in two cases it brought against David Mayo (Mayo) and other related defendants. Mayo [*2] cross-appeals judgment entered against him on his counterclaims. We affirm the judgment and award of attorneys fees against RTC. We affirm the dismissal of Mayo's emotional distress and false designation of origin counterclaims, but reverse and remand the judgment against Mayo on his remaining counterclaims.

PROCEEDINGS

In January 1985 RTC sued Mayo and other persons connected with the Church of the New Civilization, a splinter group of the official Church of Scientology, contending that they were making unauthorized use of stolen documents relating to the religion of Scientology. RTC stated that it was "the protector" of the religion of Scientology, its philosophy and its technology "including the Advanced Technology" consisting of "confidential and proprietary information regarding counseling and training," and was the owner of various trademarks registered with the U.S. Patent and Trademark Office protecting the Advanced Technology. The coplaintiffs with RTC were the Church of Scientology International, Inc. and the Church of Scientology of California, Inc., both nonprofit California corporations which RTC stated were authorized by it to use the Advanced Technology in accordance [*3] with certain terms and conditions in conjunction with the marks it owns. Thirty-one marks were identified in RTC's complaint, in addition to which there were a number of other marks for which registration was pending or marks owned by RTC but as yet unregistered. RTC sought an injunction against the use of this material by the defendants. In November 1985 RTC filed a second suit, ultimately consolidated with the first.

Mayo counter-sued for false designation of origin of the documents and for unfair competition in violation of the Lanham Act, for libel, and for intentional infliction of emotional distress. After 1,825 docket entries and nine years of pretrial litigation involving three discovery magistrates, a special master, the recusal of two district court judges, the denial of five petitions for writ of mandamus, three appeals (*Religious Technology Center v. Wollersheim*, 796 F.2d 1076 (9th Cir. 1986) cert. denied, 479 U.S. 1103, 107 S. Ct. 1336, 94 L. Ed. 2d 187 (1987); *Religious Technology Center et al. v. Scott*, 869 F.2d 1306 (9th Cir. 1989); *Religious Technology Center v. Wollersheim*, 971 F.2d 364 (9th Cir. 1992), and three denials

of certiorari by the Supreme [*4] Court, the third district judge, A. Wallace Tashima, entered Final Judgment.

We set out and respond to the issues now raised on these appeals.

I. Recusal of Judge Ideman

RTC first appeals District Judge Letts' denial of its October 1991 motion to recuse Judge Ideman, the district judge assigned to this case after Judge Pfaelzer had recused herself. In denying RTC's petition for writ of mandamus this court in an unpublished order expressly determined that Judge Letts' denial was "not clearly erroneous." This order is the law of the case, to which subsequent panels should defer unless new evidence or law has been presented or unless the first panel's ruling was clearly erroneous. See *Merritt v. Mackey*, 932 F.2d 1317, 1320 (9th Cir. 1991) . We find that none of Merritt's exceptions apply in this case.
n1

-Footnotes-

n1 Even if Judge Letts mistakenly applied a subjective standard under @ 544, so that the law of the case doctrine only applies to the first panel's conclusion that Judge Ideman was not subjectively biased, we independently conclude that Judge Ideman's recusal was also not mandated under @ 544(a) 's objective test.

-End Footnotes-

[*5]

II. Rule 37 Dismissal

RTC mounts two attacks on Judge Ideman's dismissal of its claims as a discovery sanction under Rule 37; it argues: (1) that Judge Ideman simply rubber stamped the special master's recommendation to dismiss without conducting an independent review; and (2) that the dismissal order itself was improper under Rule 37. We will discuss these arguments in turn.

A. Rubber Stamping

When the case was referred to District Judge Ideman, it was still in a pretrial stage after four years of litigation. Taking note of the complexity of the litigation (which involved the Copyright Act, the Federal Trademark and Patent Infringement Act), the number of parties to the litigation, the large number of motions and motions for reconsideration already characteristic of the litigation, and the need to reduce to manageable proportions what was estimated to be three months' trial time, Judge Ideman referred the consolidated cases to a retired state judge to act as special master to supervise discovery and law and motions practice.

On this appeal, RTC objects to the way the district court treated the special master's recommendations. n2 In other contexts, we have recognized [*6] that while a special master should not be given authority to conduct a full trial, he may be given broad authority to supervise and conduct pretrial matters, including discovery activity, the production and the

range of exhibits and stipulations of fact, the power to hear motions for summary judgment or dismissal and to make recommendations thereto.

Burlington Northern R.R. Co. v. Department of Revenue, 934 F.2d 1064, 1073 (9th Cir. 1991) (quoting *In re Armco, Inc.*, 770 F.2d 103, 105 (8th Cir. 1985)). At the same time we have observed that a district court's rubber-stamping of a special master's order is unacceptable - even on pretrial matters: "The district court's rubber stamp of the master's order is an inexcusable abdication of judicial responsibility and a violation of article III of the Constitution." *Burlington*, 934 F.2d at 1072.

-Footnotes-

n2 RTC does not in this appeal challenge Judge Ideman's initial reference of this litigation's pretrial matters to the special master. RTC's two previous attempts to do so failed and we are given no reason to abandon our prior decisions.

-End Footnotes-

[*7]

RTC contends that the district court rubber-stamped the dismissal of RTC's claims as a discovery sanction for noncompliance with court orders. To the contrary, the district court took the position that the special master had no power to order dismissal of the case. In the course of responding to RTC's second petition for mandamus Judge Ideman, on June 21, 1993, filed a declaration with the court ruling in relevant part as follows:

3. The past 8 years have consisted mainly of a prolonged, and ultimately unsuccessful, attempt to persuade or compel the plaintiff to comply with lawful discovery. These efforts have been fiercely resisted by plaintiffs. They have utilized every device that we on the District Court have ever heard of to avoid such compliance, and some that are new to us.

4. This noncompliance has consisted of evasions, misrepresentations, broken promises and lies, but ultimately with refusal. As part of this scheme to not comply, the plaintiffs have undertaken a massive campaign of filing every conceivable motion (and some inconceivable) to disguise the true issue in these pretrial proceedings. Apparently viewing litigation as war, plaintiffs by this tactic have had [*8] the effect of massively increasing the costs to the other parties, and, for a while, to the Court. The appointment of the Special Master 4 years ago has considerably relieved the burden to this Court. The scope of plaintiff's efforts have to be seen to be believed. (See Exhibit "A", photo of clerk with filings, and Exhibit "B", copy of clerk's docket with 81 pages and 1,737 filings.)

5. Yet it is all puffery - motions without merit or substance. Notwithstanding this, I have carefully monitored the Special Master's handling of these motions. I saw no need to try to improve on the Special Master's writings if I agreed with the reasons and the results. However, with respect to the major ruling that I have made during these proceedings, the dismissal of the plaintiff's claims, the following occurred:

6. The Special Master, after years of efforts to compel compliance with discovery, purported to order a dismissal of plaintiff's claims. Although the action was probably long overdue, the

Special Master did not have the authority to make such a dispositive order. In reviewing his order, as I did with all of his actions, I saw what he had done and did not approve it. [*9]

I treated the Special Master's "order" as a recommendation and gave notice to the parties that they could have a hearing and invited briefs. Only after considering fully the briefs of the parties did I give approval to the dismissal. It is true that I adopted the language chosen by the Special Master, but that was because I fully agreed with his reasoning and saw no need to write further.

Judge Ideman's pointed and pungent review of the record is the reverse of a rubber stamp. It is the judge's own heartfelt appraisal of the plaintiffs' actions as meriting dismissal. RTC's claim of violation of the Constitution by unconstitutional delegation fails.

B. Propriety of Dismissal

Dismissals under Fed.R.Civ.P. 37 are reviewed for abuse of discretion. *Anheuser-Busch, Inc. v. Natural Beverage Distributors*, 69 F.3d 337, 348 (9th Cir. 1995). An appellate court should reverse "only if [it has] a definite and firm conviction that [the sanction] was clearly outside the acceptable range of sanctions." *Malone v. United States Postal Service*, 833 F.2d 128, 130 (9th Cir. 1987), cert. denied sub nom. *Malone v. Frank*, 488 U.S. 819, 102 L. Ed. 2d 37, 109 S. Ct. 59 (1988).

Rule [*10] 37 (b) (2) (C) gives the district court discretion to dismiss a party's claims as a sanction for noncooperation in discovery matters. Fed. R. Civ. P. 37 (b) (2) (C). Dismissal is warranted only if the party facing sanctions acted in bad faith. *Anheuser-Busch*, 69 F.3d at 348. The district court must also weigh several other factors before imposing the "harsh sanction of dismissal":

(1) the public's interest in expeditious resolution of litigation; (2) the court's need to manage its dockets; (3) the risk of prejudice to the party seeking sanctions; (4) the public policy favoring disposition of cases on their merits; and (5) the availability of less drastic sanctions.

Id. (citation omitted). If the district court makes explicit findings as to these factors, as it did in this case, we need not review the record independently to determine if there was an abuse of discretion. Cf. *Adriana Int'l Corp. v. Thoeren*, 913 F.2d 1406, 1412 (9th Cir. 1990). Notwithstanding our ability to rely on the district court's findings, RTC argues that the dismissal was improper because (1) the district court wrongly denied RTC an evidentiary hearing; and (2) the district court's dismissal [*11] was unwarranted because RTC acted in good faith.

As to the evidentiary hearing claim, RTC asserts that it did not have certain documents required by discovery so that its compliance was impossible; it contends that it needed an evidentiary hearing to show the nonexistence of the documents. This Circuit has, in dicta, noted that an evidentiary hearing on the matter for which a party is sanctioned might be required before dismissal if the party had sought "to show that it was impossible for them to comply with the discovery orders" *United States v. Westinghouse Elec. Corp.*, 648 F.2d 642, 652 (9th Cir. 1981); see also *Wyle v. R.J. Reynolds Industries, Inc.*, 709 F.2d 585, 592 (9th Cir. 1983) ("When necessary, the district court may hold an evidentiary hearing on a motion for sanctions. Indeed, that method best determines the appropriate sanctions while

protecting a party's due process rights."). No court, however, has said that evidentiary hearings are absolutely required prior to a Rule 37 dismissal; thus, the decision whether to hold an evidentiary hearing is well within the court's discretion.

The district court in this case did not abuse its discretion because RTC was [*12] given full opportunity to demonstrate the nonexistence of the documents. When RTC was notified of the special master's declared intent to impose a Rule 37 dismissal sanction, it moved for an evidentiary hearing. In its supporting papers, RTC argued that a hearing was necessary because Mayo/CNC's witnesses lacked credibility and because the documents subject to production did not exist. We do not find the credibility of Mayo/CNC's witnesses relevant to the sanctions issue, except insofar as it bears on whether the documents RTC refused to produce actually existed. Special Master Kolts, however, had already found that RTC did "not proffer any declarations or other evidence which truly supports [its] suggestion that none of the requested documents exist or existed at the inception of this litigation this would seem to foreclose RTC's contention that an evidentiary dispute warranting a hearing existed. Even if we decided not to give the special master's finding the full weight it deserves, Wyle does not make an evidentiary hearing an absolute prerequisite to a dismissal sanction, even when issues are in dispute. See Wyle, 709 F.2d at 592 ("When necessary, the district court [*13] may hold an evidentiary hearing on a motion for sanctions.") (emphasis added). Thus, we do not find that the special master or Judge Ideman abused their discretion in denying a hearing on either the credibility or document-existence issues.

Nor did the district court err in rejecting RTC's alternative claim that it acted in good faith and was therefore not deserving of sanctions. RTC claims that it believed that the discovery order it disobeyed was stayed pending a ruling on a related summary judgment motion that would have mooted the discovery order. This claim is not supported by the facts of this case. On July 25, 1990, the district court issued an order requiring discovery of certain documents related to RTC's antitrust claim. On August 8, 1990, RTC filed a motion for review of the district court's July 25 order. RTC then moved for summary judgment on its antitrust claim. On October 31, 1990, the district court continued its consideration of the August 8 review order pending the master's resolution of RTC's summary judgment motion; the continuance lasted until January 7, 1991. On April 26, 1991, the master reordered discovery (and did not mention the district court's October [*14] 31 order). On August 12, 1991, the district court ordered RTC to comply with the discovery order. On April 17, 1992, the master dismissed RTC's claims for violation of the August 12, 1991 and other discovery orders.

RTC claims that it believed it did not have to comply with the July 25, 1990 discovery order because of the district court's October 31, 1990 continuance. Even if that were true, the continuance ended on January 7, 1991 - and RTC was reminded of its obligation to follow the order on April 26. Thus, RTC's confusion should have been dispelled.

RTC further argues that the master's April 17, 1992 dismissal order was tainted because it rested on the August 12, 1991 order; the August 12 order, RTC contends, was wrong because it ignored the earlier October 31 order. As we find the August 12, 1991 order proper, the April 17, 1992 dismissal is affirmed.

III. Attorneys Fees

RTC also challenges the district court's order awarding Mayo almost \$ 2.9 million in

attorneys fee on two grounds: (1) that the order was a mere rubber stamp of the special master's ruling; and (2) that the district court abused its discretion in awarding fees at all.

A. Rubber Stamping [*15]

The facts are as follows: On January 20, 1993, the special master awarded attorneys fees, first under the Lanham Act finding the case exceptional because the plaintiffs "have abused the federal court system by using it, inter alia, to destroy their opponents, rather than to resolve an actual dispute over trademark law or any other legal matter." The master also awarded fees pursuant to the Copyright Act, 17 U.S.C. @ 505, finding that the plaintiffs' complaints had been brought " in bad faith "to harass the individual defendants and destroy the church through massive over-litigation and other highly questionable litigation tactics." The master also awarded fees pursuant to the court's inherent authority to award fees when the losing party has acted in bad faith. *Alyeska Pipeline Service Co. v. Wilderness Society*, 421 U.S. 240, 258, 44 L. Ed. 2d 141, 95 S. Ct. 1612 (1975). Finally, the master declined to base the attorneys fees award on California contract law because "California contract law might collide with the first amendment in this particular context."

The master made a succinct statement as to the fees requested, noting that "many attorneys worked many, many hours on (*16) this case"; that the hours were reasonable "given the plethora of constitutional issues, discovery stand-offs, appeals, and, most importantly, plaintiffs' practice of endlessly litigating issues"; and that the hourly rates were reasonable for federal civil practice within the Central District of California. The master recommended an award of \$ 2.9 million.

The plaintiffs appealed to the district court, which denied their appeal on February 24, 1993. The district court stated that it had reviewed the extensive record and found among other things evidence of the plaintiffs' destruction and concealment of documents, refusal to comply with many court orders, needless delay and multiplication of the proceedings by the plaintiffs, and their filing of frivolous motions and of offensive and unreasonable motions. As a result of these findings the court concluded that the plaintiffs should be assessed fees under the Lanham Act and the Copyright Act. The court ignored the master's recommendation as to California contract law and awarded the defendants fees "as the prevailing parties pursuant to contract." The court also concluded that RTC should be assessed attorneys fees for their bad faith [*17] litigation conduct. Comparing the district court's rulings of law with the recommendations of the special master, we note that the district court disagreed with the special master on one issue and agreed with the special master on three issues.

The district court also stated that it had reviewed the declarations and exhibits supporting the amount and reasonableness of the attorneys fees; that it considered "the novelty and complexity of the issues" involving the RICO, Lanham and copyright issues and pendent state questions, including breach of contract and trade secrets, the multiple requests for injunctive relief, the several appeals to the circuit court and the volume of the issues producing a court file "well in excess of 100 volumes." The court found that defense counsel had acted reasonably in response to a case in which they were confronted by claims for \$ 2 million plus punitive damages and a request for permanent injunctive relief against their clients; counsel had secured for their clients a dismissal of all the plaintiffs' claims in their entirety. Only after this review did the district court substantially adopt the recommendation of the special master as the amount of [*18] fees to be awarded. The district court's action

cannot fairly be characterized as rubber-stamping. n3

-Footnotes-

n3 We also reject RTC's argument that Judge Ideman adopted in toto the Findings of Fact and Conclusions of Law proposed by defense counsel (with the exception of striking the word "Proposed" that preceded "Findings"). While we have observed that such a practice is "regrettable" and might therefore warrant reversal, see *Sealy, Inc. v. Easy Living, Inc.*, 743 F.2d 1378, 1385 n.3 (9th Cir. 1984), this is not such a case. Although the order which Judge Ideman ultimately signed was submitted by the victorious defense attorneys, the Findings of Fact incorporated therein as to the reasonableness of the hours spent and the \$ 2.9 million fee award were made by the Special Master - and not Mayo's attorneys. Thus, Sealy's rule of reversal does not apply.

We find RTC's other claims of rubber-stamping equally meritless.

-End Footnotes-

B. Propriety of Fee Award

To uphold a fee award, we must find a concise but clear [*19] explanation of the fee award, which will allow us to determine whether or not the court below abused its discretion in awarding fees. *Cunningham v. City of Los Angeles*, 879 F.2d 481, 485 (9th Cir. 1988); *D'Emanuele v. Montgomery Ward & Co., Inc.*, 904 F.2d 1379, 1386 (9th Cir. 1990). This explanation must: (1) set out the reasonable hourly rate and reasonable number of hours spent on the matter, and explain those numbers (this is the "lodestar" amount, and is presumed reasonable; see *D'Emanuele*, 904 F.2d at 1383); (2) discuss any relevant Kerr factors used to adjust the "lodestar" amount, although all the factors need not be addressed (these factors come from *Kerr v. Screen Actors Extras Guild, Inc.*, 526 F.2d 67, 70 (9th Cir. 1975)); and (3) if detailed records submitted by the winning attorney are rejected, explain the reasons for the rejection. *D'Emanuele*, 904 F.2d at 1386. n4

-Footnotes-

n4 Because the district court in this case was not rejecting detailed and accurate time sheet records submitted by winning counsel, we need not address this last factor.

-[*20] End Footnotes-

The record shows that the explanation of the fee award satisfies all of these requirements. At the special master's level, the lodestar amount was properly calculated and specifically explained in light of the Kerr factors. In making the lodestar calculation, the special master explicitly reached the following conclusions: that the number of hours submitted by the defendants (totalling at least 22,155.71 attorneys' hours) was reasonable taking into consideration the number of attorneys working on the case, the number of issues involved, the appeals, the discovery standoffs, and RTC's practice of repeatedly litigating issues, including up to ten petitions to stay the attorneys fee ruling; and that the hourly rate was reasonable as well, given the rates normally charged by attorneys practicing in the Central District of California (\$ 90 to \$ 185 per hour for associates, \$ 150 to \$ 300 per hour for

partners, \$ 50 per hour for paralegals and law clerks) .

The materials submitted to support Mayo/CNC's fee request included detailed declarations of counsel. These declarations referenced hundreds of pages of contemporaneously prepared and filed time records reflecting work actually and [*21] necessarily performed and billed, as well as affidavits and other evidence. The records submitted by RTC contested the validity of Mayo/CNC's submissions and referenced numerous attached exhibits purporting to document discrepancies in Mayo/CNC's billing records. N5 The district judge readdressed these concerns and also took into account other Kerr factors, such as the fact that the litigation involved a large amount of money, including potential punitive and injunctive relief, and the fact that Mayo/CNC's attorneys were successful in all the matters for which they were seeking fee reimbursement. We therefore conclude that the district court did not abuse its discretion in awarding fees. n6

-Footnotes-

n5 Because both parties submitted numerous affidavits and briefs, the district court had a sufficient factual basis upon which to rest its fee award. An evidentiary hearing was therefore unnecessary. See *Sablan v. Department of Finance of N. Mariana Islands*, 856 F.2d 1317, 1322 (9th Cir. 1988) (noting that an evidentiary hearing is not necessary where the "record and supporting affidavits are sufficiently detailed to provide an adequate basis for calculating an award."); *D'Emanuele v. Montgomery Ward & Co., Inc.*, 904 F.2d 1379, 1389 (9th Cir. 1990) (same) . [*22]

n6 We also reject RTC's argument that the district court erred in awarding fees under the American rule without making a finding that RTC's claims were objectively frivolous. In this Circuit, a court awarding fees under the American rule need only find that a litigant acted in "bad faith." See *Dollar Sys., Inc. v. Avcar Leasing Sys., Inc.*, 890 F.2d 165, 175 (9th Cir. 1989) ("[A] court may assess attorneys fees when the losing party has acted in bad faith, vexatiously, wantonly, or for oppressive reasons.") (citations and internal quotations omitted); *Association of Flight Attendants v. Horizon Air Indus. Inc.*, 976 F.2d 541, 548 (9th Cir. 1992) (setting down American rule for attorneys fees without mentioning a frivolity requirement); *Todd Shipyards Corp. v. Cunard Line, Ltd.*, 943 F.2d 1056, 1064-65 (9th Cir. 1991) (same); cf. *Martel v. County of Los Angeles*, 34 F.3d 731, 739 (9th Cir. 1994), withdrawn in part on reh'g by, 56 F.3d 993 (9th Cir.), cert. denied, 116 S. Ct. 381, 133 L. Ed. 2d 304 (1995) (requiring a finding of objective frivolousness for fees on appeal under Federal Rule of Appellate Procedure 38 and 42 U.S.C. @ 1988).

That Mayo himself did not pay his attorneys fees is irrelevant where, as here, the fees are not awarded under the Equal Access to Justice Act. See *Grason Elec. Co. v. NLRB*, 951 F.2d 1100, 1106 (9th Cir. 1991) (not permitting fees to be awarded under EAJA when a third party footed the bill) cf. *Pickering v. Holman*, 459 F.2d 403, 407-08 (9th Cir. 1972) (awarding fees to a party in patent litigation even though his litigation was paid for by another party) .

-End Footnotes-

[*23]

IV. Mayo's Counterclaims.

a) Libel

Mayo's libel counterclaim is based on statements in a publication titled "Squirrels" allegedly circulated by RTC in Scientology and CNC circles. The publication identifies Mayo and other CNC officials as having offered "false testimony to the IRS" and having attempted to "shift attention from ... their crimes." Mayo contends that the statement is false and that the publication was intended to reach Scientologists and nonScientologists. RTC does admit this statement is "an accusation of criminal acts" but that it was intended only for Scientologists. Based on these contradictory assertions alone, material facts are in dispute and summary judgment was improper.

Summary judgment was also improper because Mayo can establish a prima facie case of libel. Mayo has made a showing of damages from the alleged libel, having testified that at least two people terminated economic relationships with Mayo and CNC based on the statements in "Squirrels," although he did not identify a specific amount of damages related to those terminations. Moreover, even if Mayo had shown no damages, RTC's publication of a written statement attributing [*24] criminal activity to Mayo is libel per se for which no special damages need be proved. *Barnes-Hind, Inc. v. Superior Court*, 181 Cal. App. 3d 377, 382, 226 Cal. Rptr. 354, 356 (Cal. Ct. App. 1986) .

b) Emotional Distress

The district court dismissed Mayo's August 1985 emotional distress claim as untimely under California's one-year statute of limitations. Mayo maintains his cause of action was timely because (1) it was a compulsory counterclaim under Fed. R. Civ. P. 13(a) that related back to RTC's January 1985 complaint; and (2) it was the product of a civil conspiracy whose last act occurred within the year before Mayo filed his emotional distress claim.

While it is true that a compulsory counterclaim relates back to the filing of the original complaint, *Employers Ins. v. Wausau v. United States*, 764 F.2d 1572, 1576 (Fed. Cir. 1985), we do not find Mayo's emotional distress claim compulsory. FRCP 13(a) defines a compulsory counterclaim as one "arising out of the same transaction or occurrence that is the subject matter of the opposing party's claim." Fed. R. Civ. P. 13(a). Courts making this determination ask whether the "essential facts" of the claims are "logically [*25] connected"; this often involves asking whether the resolution of the first claim would moot the counterclaim. *Pochiro v. Prudential Ins. Co. of America*, 827 F.2d 1246, 1249-51 (9th Cir. 1987). In our case, RTC originally asserted claims for trade secret appropriation, unfair competition, false designation, as well as for RICO and trademark violations. Mayo and CNC asserted counterclaims for unfair competition false designation, libel, and emotional distress. On the one hand, all of the litigation stems from the same factual scenario - the theft and subsequent use of RTC's scriptures. Even so, Mayo's emotional distress claim involves other facts as well (e.g. harassment). Moreover, while RTC's victory on its unfair competition and false designation claims might moot Mayo's mirror claims, resolving RTC's claims would not resolve Mayo's emotional distress claim - which does not deal with who owned the scriptures. Despite the broad definition of "same transaction," *Pochiro*, 827 F.2d at 1252, we cannot conclude that Mayo's emotional distress claim was compulsory.

Mayo alternatively argues that his emotional distress injuries were inflicted as part of a civil

conspiracy by [*26] RTC so that the limitations period was tolled until the last overt act was completed. "When a civil conspiracy is properly alleged and proved, the statute of limitations does not begin to run on any part of the plaintiff's claims until the 'last overt act' pursuant to the conspiracy has been completed." *Wyatt v. Union Mortg. Co.*, 24 Cal. 3d 773, 786, 157 Cal. Rptr. 392, 400, 598 P.2d 45 (Cal. 1979). Although Judge Pfaelzer concluded that Mayo had properly alleged a conspiracy, she also concluded that he had not properly proved one; Mayo has offered no further proof of the conspiracy. We must therefore affirm the district court's dismissal of Mayo's emotional distress counterclaim.

c) Unfair Competition and False Designation of Origin

RTC argued that Mayo's unfair competition and false designation of origin claims were not justiciable under the First Amendment because they would require the court to entangle itself in underlying questions of religious doctrine. n7 See *Jones v. Wolf*, 443 U.S. 595, 61 L. Ed. 2d 775, 99 S. Ct. 3020 (1979); *Serbian Eastern Orthodox Diocese v. Milivojevich*, 426 U.S. 696, 725, 49 L. Ed. 2d 151, 96 S. Ct. 2372 (1976); *Presbyterian Church [*27] v. Mary Elizabeth Blue Hull Memorial Presbyterian Church*, 393 U.S. 440, 449, 21 L. Ed. 2d 658, 89 S. Ct. 601 (1969). The district court agreed, finding that it was Scientology doctrine that L. Ron Hubbard was the "source" of all "Advanced Technology" and that adjudication of the Technology's authorship would undermine this religious doctrine. We do not reach the issue of justiciability, however, because we find RTC estopped from raising the non-justiciability defense.

-Footnotes-

n7 RTC also argues that Mayo's unfair competition counterclaim rests solely on Cal. Bus. & Prof. Code @@ 17200 et seq. which precludes an action for damages. Because RTC raises this issue for the first time on appeal, we decline to consider it. *E.W. French & Sons, Inc. v. General Portland, Inc.*, 885 F.2d 1392, 1402 (9th Cir. 1989).

-End Footnotes-

The doctrine of judicial estoppel is invoked to "prevent a party from changing its position over the course of judicial proceedings when such positional changes have an adverse impact on the judicial process." [*28] *United States v. Nix*, 21 F.3d 347 (9th Cir. 1994) (quoting *Russell v. Rolfs*, 893 F.2d 1033 (9th Cir. 1990), cert. denied, 501 S. Ct. 1260 (1991)). The Ninth Circuit has not yet decided on the conditions under which estoppel applies:

Under the majority view, judicial estoppel does not apply unless the assertion inconsistent with the claim made in the subsequent litigation "was adopted in some manner by the court in the prior litigation." Under the minority view, judicial estoppel can apply even when a party was unsuccessful in asserting its position in the prior judicial proceeding, "if the court determines that the alleged offending party engaged in 'fast and loose' behavior which undermined the integrity of the court."

United States v. Garcia, 37 F.3d 1359, 1367 (9th Cir. 1994), cert. denied, 514 U.S. 1067, 131 L. Ed. 2d 562, 115 S. Ct. 1699 (1995) (quoting *Britton v. Co-op Banking Group*, 4 F.3d 742, 744 (9th Cir. 1993) (quoting *In re Corey*, 892 F.3d 829, 836 (9th Cir. 1989), cert. denied sub nom. *Kulalani Ltd. v. Corey*, 498 U.S. 815, 112 L. Ed. 2d 31, 111 S. Ct. 56 (1990))).

We need not resolve this issue because RTC is estopped under either standard. [*29] The pertinent preceding proceedings to examine under the majority rule are stated in *RTC v. Scott*, supra:

The district court granted the Church a TRO and later extended it to a preliminary injunction, prohibiting the New Church from "using, distributing, exhibiting or in any way publicly revealing" the scriptures. *RTC v. Wollersheim*, 796 F.2d at 1079. The preliminary injunction was based on the district court's finding that the scriptures were trade secrets and entitled to protection under both RICO and California law.

On appeal, we vacated the preliminary injunction. We held that the scriptures did not qualify as trade secrets under California law because of the failure of the Church to claim that the scriptures had any commercial value. We rejected the Church's argument that the scriptures qualified as trade secrets because of their spiritual value. *Id.* at 1090-91.

The Church returned to the district court and filed a second Ex Parte Application for Temporary Restraining Order and Order to Show Cause, again asking the court to restrain the New Church from using the scriptural materials. This time, the Church argued that the scriptures qualified as trade secrets [*30] because they had economic value. Specifically, the Church contended that if the New Church was not enjoined from using the scriptures, "plaintiffs will be forever at a loss to protect the confidential nature and resultant economic value of these materials. Defendant will obtain an economic advantage that they would not otherwise possess which will be used to divert parishioners, the value and goodwill of which cannot be monetarily measured for plaintiffs." Excerpt of Record ("E.R."), Vol. 1:347 at 29. (Emphasis added.) After a hearing, the district court denied the application "solely based upon the Ninth Circuit's ... decision (in *Wollersheim*).

869 F.2d at 1308. On appeal to this court we held that the district court had interpreted the first opinion too narrowly and remanded the case to the district court to consider whether the Church had an economic interest in its scriptures. *Id.* at 1310. Consequently, RTC obtained a judicial ruling in its favor by asserting that the status of the scriptures was an economic matter justiciable in the courts. Because the ruling on remand adopted RTC's prior position that it had a justiciable, economic interest in the Advanced [*31] Technology, RTC is estopped under the majority view.

Moreover, there is little doubt that RTC is playing "fast and loose" with the judicial system as required in the minority view of estoppel. To first assert that its unfair competition and false designation of origin claims are justiciable and at the same time assert that Mayo's identical claims are not is at best questionable; in light of RTC's documented history of vexatious behavior, RTC's actions are indefensible.

While we will not affirm the dismissal of either counterclaim on First Amendment grounds, we will affirm the dismissal of Mayo's false designation of origin counterclaim. It is well established that a party who created a document under a work-for-hire basis cannot entertain an action for false designation of origin. See *Cleary v. News Corp.*, 30 F.3d 1255, 1259-60 (9th Cir. 1994) .In his order dismissing Mayo's counterclaims, Judge Tashima found that "the prior work-for-hire doctrine ruling effectively foreclosed any rights on Mayo's part to make any claims of authorship or ownership regarding the NOT materials."

This finding forecloses Mayo's false designation of origin counterclaim.

Accordingly, the judgment [*32] of dismissal of RTC's case and the award of attorneys fees are AFFIRMED, the judgment against Mayo on his emotional distress and false designation of origin counterclaims is AFFIRMED, and the judgment against Mayo on the remaining counterclaims is REVERSED and the case REMANDED.

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1989

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

RELIGIOUS TECHNOLOGY CENTER,
CHURCH OF SCIENTOLOGY
International, Inc. et al,
Plaintiffs-Appellants.

No. 87-5766
D.C. No.
CV 85-0711-MRP

ROBIN SCOTT, et al.,
Defendants-Appellees.

OPINION

Appeal from the United States District Court
for the Central District of California
Mariana R. Pfaelzer, District Judge, Presiding

Argued and Submitted
September 16, 1988—Pasadena, California

Filed March 10, 1989

Before: William A. Norris, Cynthia Holcomb Hall and
Alex Kozinski, Circuit Judges.

Opinion by Judge Norris; Dissent by Judge Hall

COUNSEL

Earle C. Cooley, Cooley, Manion, Moore & Jones, Boston,
Massachusetts, for the plaintiffs-appellants.

Jerold Fagelbaum, Shea & Gould, Los Angeles, California
and Gary M. Bright, Bright & Powell, Carpinteria, California,
for the defendants-appellees.

OPINION

NORRIS, Circuit Judge:

This appeal arises out of litigation initiated by the Church of Scientology ("Church") against the Church of the New Civilization* ("New Church"). The focus of the litigation is certain scriptural material allegedly stolen from the Church by the New Church. Early in the litigation, the district court granted the Church a preliminary injunction restraining the New church from using the disrupted scriptures. That injunction was vacated on appeal. *Religious Technology Center v. Wollersheim*, 796 F.2d 1076, 1084, 1089-91 (9th Cir. 1986), ("Wollersheim"), cert. denied, 479 U.S. 1103 (1987). The Church then filed a second application for interlocutor relief, which was denied by the district court on the ground that it was foreclosed by *Wollersheim*. The Church now appeals that denial. We reverse and remand to the district court for further proceedings in light of this opinion.

I

BACKGROUND

In its complaint, the Church stated claims against the New Church for racketeering under the Racketeering Influence and Corrupt Organizations Act (18 U.S.C. § 1962(c)) (-RICO), trademark infringement under federal and common law, unfair competition, receipt of stolen property, and various other state law claims. The Church sought damages as well as injunctive relief to prevent the New Church from disseminating the contents of scriptural materials which the Church claimed had been stolen from its Denmark offices by

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adherents at the New Church.

In an Ex Parte Application for Temporary Restraining Order ("TRO") and Order to Show cause ("OSC"), the Church sought interlocutory relief on the ground that its scriptures were trade secrets and that it would suffer irreparable harm if its *trade secrets were* disseminated by another organization such as the New Church. The Church did not characterize the alleged harm as commercial or economic, but rather characterized it as "spiritual" harm. Essentially, the Church argued that its adherents would suffer irreparable spiritual injury if the New Church were free to disseminate the disputed materials. See *Wollersheim*, 796 F.2d at 1079.

The district court granted the Church a TRO and later extended it to a preliminary injunction, prohibiting the New Church from "using; distributing, exhibiting or in any way publicly revealing" the scriptures. *Id.* The preliminary injunction was based on the district court's finding that the scriptures were trade secrets and entitled to protection under both RICO and California law.

On appeal, we vacated the preliminary injunction. We held that the scriptures did not qualify as secrets under California law because of the failure of the Church to claim that the scriptures had any commercial value. We rejected the Church's argument that the scriptures qualified as trade secrets because of their spiritual value, *id.* at 1090-9??

The Church returned to the district court and filed a second Ex Parte Application for Temporary Restraining Order and Order to Show Cause, again asking the court to restrain the New Church from using the scriptural materials. This time, the Church argued that the scriptures qualified as trade secrets because they had economic value. Specifically, the Church contended that if the New Church was not enjoined from using the scriptures, "(plaintiffs will be forever at a loss to protect the confidential nature and resultant economic value of these materials. Defendant will obtain an economic advantage that they would not otherwise possess which will be used to divert parishioners, the value and goodwill of which cannot be monetarily measured for plaintiffs." Excerpt of Record ("E.R."), Vol 1:347 at 29. (Emphasis added.) After a hearing, the district court denied the application "solely based upon the Ninth Circuit's ... decision [in *Wollersheim*] *Id.* Vol 1:421 at 2.

II

JURISDICTION

This court may hear appeals from interlocutory orders of the district court which grant, continue, modify, refuse or dissolve injunctions. 28 U.S.C. § 1292(a)(1) Ordinarily, an appeal does not lie from the denial of an application for a temporary restraining order, such appeals are considered premature and are disallowed "[1] the interests of avoiding uneconomical piecemeal appellate review." *Kimball v. Commandant Twelfth Naval District*, 423 F.2d 88, 89 (9th Cir. 1970).

We have recognized, however, that a denial of a TRO may be appealed if the circumstances render the denial "tantamount to the denial of a preliminary injunction." *Environmental Defense Fund, Inc., v. Andrus*, 625 F.2d 861, 862 (9th Cir. 1980). *Set also Kimball*, 423 F.2d at 39. In *Andrus* we held the denial of the TRO was tantamount to the denial of a preliminary injunction because of the presence of two factors: the denial of the TRO followed a "full adversary hearing" and "in the absence of review, the appellants would be effectively foreclosed from pursuing further interlocutory?? relief." *Id.*

The rationale of ??????? supplies ?? with equal force to this appeal. Here the district court denied the Church's renewed application for a TRO and an OSC following a hearing at which all parties were represented. The transcript of the hearing and the cert's written order denying the application make it unmistakably clear that the order was tantamount to a denial of a preliminary injunction. During the hearing, the district judge was emphatic in her view that our decision in *Wollersheim* foreclosed any interlocutory relief on the grounds advanced in the Church's new application; "I don't believe that the appellate court feels that in this case an injunction is appropriate ... I would say that we don't have anything much to talk about." Supp. E.R. at 6-7. In her written order she denied the application "solely based upon the Ninth Circuit's August 1956 decision—" ER. Vol. 3:421 at 2. The futility of any further hearing was thus patent; there was nothing left to talk about in these circumstances, we hold, as we did in *Andrus*, that the denial of the TRO and the CSC was "tantamount to the denial of a preliminary injunction." 625 F.2d at 862. Accordingly, the district court's order is appealable under 28 U.S.C. § 1291(a)(1)

III

LAW OF THE CASE

The denial of a preliminary injunction is subject to a limited standard of review. *Colorado River Indian Tribes v. Town of Parker*, 776 F.2d 846, 849 (9th Cir. 1985). We reverse the denial only when the district court abused its discretion, or based its decision on an erroneous legal standard or on clearly erroneous findings of fact. *Id.* In the instant case, the district judge explained that she was basing her decision to deny the application for TRO and OSC — which we treat as the denial of a preliminary injunction — solely on our decision in *Wollersheim*. She interpreted *Wollersheim* as foreclosing interlocutory relief on any of the grounds raised by the Church in its second application, even though the Church advanced new state law theories and for the first time offered evidence that the scriptures in fact had economic value. Of particular importance to the instant appeal, the district court apparently interpreted *Wollersheim* as holding that the religious scriptures could not qualify as trade secrets under California law, regardless of whether they had commercial value.

With all respect, we believe that the district court read more into *Wollersheim* than we intended. Putting aside that part of the opinion which addressed the Church's claim to injunctive relief under RICO, the remainder of the opinion was fairly narrowly drawn. The only question before the court was whether a religious scripture could qualify as a trade secret under California law if it conferred a spiritual, as opposed to an economic, advantage on its owner. We determined that California law did not recognize information as a trade secret unless it conferred on its owner an actual economic advantage over competitors. 796 F.2d at 1091. Because the Church made no claim that the scriptures gave it a commercial advantage over its competitors, we held that the scriptures did not qualify as trade secrets under California law. *Wollersheim* turned, therefore, on the absence of any claim of economic advantage at the preliminary injunction stage. While we expressed doubts about whether the Church could allege the competitive market advantage required without "rais[ing] grave doubts about its claim as a religion and a not-for-profit corporation," *id.*, we did not decide one way or another whether the scriptures could qualify as trade secrets should the Church allege and prove economic advantage. Nor did we express any opinion as to whether the Church could be entitled a preliminary injunction under any of the other state law theories advanced in its first application for interlocutory?? relief." *Id.*

utory relief. Thus *Wollersheim* did not establish the law of the case on either of these questions.

Accordingly, we REVERSE the district court's order denying the TRO and OSC and REMAND to the district court for further proceedings in light of this opinion. In so doing, we express no view as to whether the district court should exercise its discretion and decline to consider this second application for interlocutory relief on grounds that the Church is needlessly burdening the courts with repetitive applications for the same relief.

1. Formally, the plaintiffs and appellants are Religious Technology Center, Church of Scientology International, Inc. and Church of Scientology California, which are related entities constituting the Church of Scientology founded by L Ron Hubbard. For convenience, we refer to the plaintiffs/

appellants collectively as the Church.

2. Defendants and appellees are the Church of New Civilization and various individuals involved with the Church of New Civilization. For convenience, we refer to the defendants /appellees collectively as the New Church.

3. See generally, *Religious Technology Center v. Wollersheim*, 796 F. 1076, 1077-79 (9th Cir. 1986), cert denied, 479 U.S. 1103(1987) for discussion of the underlying facts in this litigation.

4. In *Wollersheim* we also held that the church's RICO's claim could not provide that basis for injunctive relief. ID. at 1077.

28 U.S.C. §1292(a)(1) provides:

[T]he courts of appeal shall have jurisdiction of appeal from [1] Interlocutory orders of the district courts of the United States, the United States District Court for the District of Columbia, the District Court of the Virgin Islands, or of the judges thereof, granting, continuing, modifying, reforming, or dissolving injunctions, or reforming or modifying injunctions, except where a direct review may be had in the Supreme Court...

6. Arguably one could read *Andrus* as saying down a black-letter rule that "a full adversary hearing" is a necessary, if not a sufficient, condition to the appealability of a denial of a TRO. We reject this wooden reading of *Andrus*. The teaching of *Andrus* is that a denial of a TRO is appealable if the circumstances make it unmistakably clear that the denial is "tantamount to a denial of a preliminary injunction." There the circumstances included "a full adversary hearing," which presumably means an evidentiary hearing and circumstances included a non-evidentiary adversary hearing at which all parties were represented. The record below makes it clear that an evidentiary hearing would have been pointless, in light of the district judge's ruling that *Wollersheim* barred all interlocutory relief it would have been a waste of party and judicial resources to have conducted an evidentiary hearing.

The New Church argues that *Granny Gross Foods, Inc. v. Brotherhood of Teamsters*, 415 U.S. 423, 433 n.7 (1974) forecloses our treating this as an appeal from an order denying a preliminary injunction. We disagree. *Granny Goose* it simply inapposite. That case has nothing to do with the appealability of a denial of a TRO or any other question of appellate jurisdiction. It stands for the unremarkable proposition that a TRO issued by a state court remains in effect after removal to federal court only as long as it would under state law, notwithstanding the literal requirement of 28 U.S.C §1450 that all orders issued prior to removal remain in effect "until dissolved or modified by the district court" We fail to see how the holding of *Granny Goose* has any bearing on the issue of the appealability of the denial of the TRO in this case. However, we do agree with the New Church's apparent concern that we could not enjoin the use of the scriptures without giving the New Church a meaningful opportunity to file opposing papers and present evidence in a full adversary hearing. Whether this court may grant certain relief, however, is quite a different question from whether we have jurisdiction in the first place to review a TRO that it tantamount to a denial of a preliminary injunction.

CYNTHIA HOLCOMB HALL, Circuit Judge, dissenting:

I agree that we have jurisdiction to hear this appeal that the district court erred in construing our decision in *Wollersheim I* so broadly. I cannot join the majority opinion however, because a remand to the district court for further evaluation of the appropriateness of preliminary relief constituted an enormous waste of judicial resources.

In *Wollersheim I*, the Church of Scientology (the "Church*") sought to obtain a preliminary injunction, based in part on its claim that the Church of the New Civilization (the "New Church") stole its protected trade secrets. The Church alleged that New Church adherents took certain scriptural materials from the Church when they left to form the New Church. The Church, however, did not characterize the alleged harm as commercial or economic. Instead, the Church alleged only that its followers would suffer spiritual injury if the New Church was permitted to retain and use the scriptures. On appeal, we held that the Church's failure to allege or offer proof that the scriptures had economic value meant that the scriptures did not qualify as trade secrets under California law.

Following our decision, the Church returned to the district court to again seek an injunction against the New Church's use and distribution of the disputed scriptures. This time, however, the Church alleged that the scriptures had economic value: "Plaintiffs will be forever as a loss to protect the confidential nature and resultant economic value of these materials. Defendant will obtain an economic advantage that they would not otherwise possess which will be used to divert parishioners, the value and Goodwill of which cannot be monetarily measured by plaintiffs." The district court denied this second request for preliminary injunctive relief, construing our decision in *Wollersheim I* as precluding an injunction before a final hearing on the merits.

The Church made a tactical choice not to allege in its original application that the scriptures had an economic value. The Church cannot now avoid the consequences of that choice by burdening the district court with a second application for preliminary relief, and this court with a second interlocutory appeal. Where the Church easily could have alleged in its initial application that the scriptures had an economic value, we should hold that it is estopped from appealing the denial of its subsequent application for preliminary relief under California trade secrets law.

The doctrine of judicial estoppel, sometimes referred to as the doctrine of preclusion of inconsistent positions, is invoked to prevent a party from changing its position over the course of judicial proceedings when such positional changes have as adverse impact on the judicial process. See *US Moore Federal Practice Practice* 1.405[?] at 238-42 (2d Ed. 1988). "The policies underlying preclusion of inconsistent positions are general consideration[s] of the orderly administration of justice and regard for the dignity of judicial proceeding." *Arizona v. Shamrock Foods Co.*, 725 F.2d 1208-1215 (9th Cir. 1984), cert. denied, 469 U.S. 1197(1985) (citations omitted). Judicial estoppel is "intended to protect against a litigant playing, 'fast and loose with the courts.'" *Rockwell International Corp. v. Hanford Atomic Metal Trades Council*, 851 F.2d 1208, 1210 (9th Cir. 1988)(citations omitted). Because it is intended to protect the integrity of the judicial process, it is an equitable doctrine invoked by a court at its discretion.

I recognize that this is not the prototypical case for invoking judicial estoppel. Judicial estoppel is most commonly applied to bar a party from making a factual assertion in a

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legal proceeding which directly contradicts an earlier assertion made in the name proceeding or a prior one. See generally Note, *Judicial Estoppel: The Refurbishing of a Judicial Shield*, 55 Geo. Wash. L. Rev. 409, 410-412 (1987); Comment, *Precluding inconsistent Statements: The Doctrine of Judicial Estoppel*, 80 Nw.U.L.Rev. 1244 (1986). Nevertheless, I find the policies underlying the doctrine of judicial estoppel to make this an equally appropriate case for its application.

Considerable judicial resources were expended in resolving the novel question of state law presented by the Church's original argument that information could be a trade secret if it conferred a spiritual advantage on its creator. But instead of laying the question of interlocutory relief to rest, our decision in *Wollersheim I* that California law protects trade secrets only if they have commercial value, simply prompted the Church to start the process all over again by arguing is a new application for a TRO that the scriptures did have commercial value after all. As a result of the Church's actions in pursuing two successive applications for injunctive relief, instead of a single application based upon alternative theories of spiritual and commercial value, there's no question but that the courts as well as the defendants have been needlessly burdened.

The integrity of the judicial process would be seriously undermined if every litigant could compel the courts to hear and decide repetitive requests for the identical relief. The Church should not be permitted to use the courts as a laboratory in which to experiment. The doctrine of judicial estoppel was fashioned to prevent just this sort of litigation strategy which plays fast and loose with the judicial process.

The Church alleged several other state law theories of recovery in this and its prior application for preliminary injunctive relief. We did not specifically analyze these other claims in *Wollersheim I*. During oral argument in the present case, however, counsel for the Church, with commendable candor, acknowledged that the only argument made before this court to support the first injunction was that the scriptures conferred a spiritual advantage on the Church and its followers. The courts need not be at the Church's beck and call to now analyze the relevance, if any, of the Church's new allegations of commercial advantage to these other state law theories.

Finley v. Kestling, 105 Ill. App. 3d 1,433 N.E.2d 1112 (1982) is cited by the latter article as a paradigmatic case for the invocation of judicial estoppel. In *Finley*, a declaratory action filed by the former owner of the Oakland Athletics baseball team to resolve ownership interests in the family corporation, the plaintiff asserted that he was the beneficial owner of 71% of the stock. The court estopped him from taking that position because, in a divorce action eight years before, he had testified under oath that he owned only 31% of the stock and that his wife and children owned the rest. *Finley*, 105 Ill. App. 3d at 10,433 N.E.2d at 1119.

CRIMINAL LAW AND PROCEDURE

*Death Caused by Pit Bull Supports
Murder Charge Against Dog Owner*

Cite as 89 Daily Journal D.A.R. 3087

Religious Technology Center, et al., Plaintiffs, v. Robin Scott, et al., Defendants; Religious Technology Center, et al., Plaintiffs, v. Larry Wollersheim, et al., Defendants

Nos. CV 85-711 MRP, CV 85-7197 MRP

UNITED STATES DISTRICT COURT FOR THE CENTRAL DISTRICT OF CALIFORNIA

660 F Supp. 515; 1987 U.S. Dist. LEXIS 3418; 3 U.S.P.Q. 2D (BNA) 1115; Copy. L. Rep. (CCH) P26,139

March 9, 1987, Decided

March 11, 1987, Filed

COUNSEL: [**1] Joseph A. Yanny, Esq., Herzig & Yanny, John G. Peterson, Esq., Peterson & Brynan, Earle C. Cooley, Cooley, Manion, Moore & Jones, Attorneys for Plaintiffs.

Michael J. Treman, Esquire, Bright & Powell, by: Gary M. Bright, Esquire, Attorneys for Defendants Jon Zegel, Dede Reisdorf, David Mayo, Harvey Haber, Church of the New Civilization.

JUDGES:

Mariana R. Pfaelzer, United States District Judge.

OPINION BY: PFAELZER

OPINION: [*516] MEMORANDUM OF DECISION

MARIANA R. PFAELZER, UNITED STATES DISTRICT JUDGE

I. INTRODUCTION

Plaintiffs' application for a preliminary injunction under 17 U.S.C. @ 502 (a) was argued on January 26, 1987 before the Honorable Mariana R. Pfaelzer. Having considered the oral and written arguments made and the evidence filed in this case, the Court has concluded that plaintiffs have not made a sufficient showing of likelihood of success on the merits, and have not shown that the balance of hardships justifies the preliminary injunction they seek.

II. BACKGROUND

This case originated in the theft in, 1983 by Robin Scott of certain documents belonging to the plaintiff Church of Scientology International, Inc. ("the Church"). Plaintiffs and some defendants (David Mayo, The Church of the New Civilization, defendants Haber, Nelson, Zegel, Hartog and Reisdorf - collectively [**2] "the new Church") regard these documents as religious scriptures, embodying part of the advanced technology practiced by Scientologists. In particular, the documents stolen included a series of bulletins describing a procedure known as "New Era Dianetics for Operating Thetans," "NED for OTs" or "NOTs" ("NOTs"). These stolen materials were eventually returned to the Church, but not, plaintiffs charge, before they had been passed to and copied by various defendants.

[*517] Plaintiffs brought this suit in 1985, alleging, inter alia, theft of trade secrets and RICO violations. At that time, plaintiffs sought and were granted a preliminary injunction prohibiting use by the new Church of materials derived from the stolen documents. Defendants appealed the granting of the preliminary injunction and, in August 1986, the Ninth Circuit ruled that the injunction must be dissolved because injunctions are not available to private plaintiffs under civil RICO and because the documents at issue, as religious scriptures, did not have the independent economic value required to be protected by California's law of trade secrets. *Religious Technology Center v. Wollersheim*, 796 F.2d 1076, 1088, 1090 (9th [*3] Cir. 1986), cert. denied, 479 U.S. 1103, 55 U.S.L.W. 3571, 94 L. Ed. 2d 187, 107 S. Ct. 1336 (1987). The court noted that "the higher level materials at issue in this suit have neither copyright nor trademark protection," id. at 1078 n.2. The court also expressed "no view whether the new Church's materials are copies of the Church materials stolen by Scott," id. n.3.

Following the dissolution of the preliminary injunction, Norman Starkey, as Executor of the Estate of L. Ron Hubbard dba L. Ron Hubbard Library ("the Hubbard Estate"), registered a copyright in the NOTs materials with the United States Copyright Office (Registration Number TXU 257326, November 10, 1986). On November 20, 1986, the Hubbard Estate executed a license agreement granting plaintiff Religious Technology Center ("RTC") an exclusive license to reproduce, distribute and utilize NOTs and "the right to pursue, litigate, settle, compromise, or deal with in any way, any and all actions and causes of action . . . for the infringement or violation of any copyright" in the materials. On December 5, 1986, this Court granted plaintiffs leave to file an amended complaint stating a new claim for copyright infringement. This application for a preliminary [*4] injunction under 17 U.S.C. 502(a) followed.

III. DISCUSSION

To obtain a preliminary injunction, plaintiffs must show either (1) a likelihood of success on the merits and the possibility of irreparable injury, or (2) the existence of serious questions going to the merits and the balance of hardships tipping in plaintiff's favor. *Apple Computer, Inc. v. Formula International, Inc.*, 725 F.2d 521, 523 (9th Cir. 1984). The more this balance of hardships weighs against the movants and in favor of defendants, the more robust must be the showing of movants' likelihood of success on the merits to justify an injunction. See *Aleknagik Natives Ltd. v. Andrus*, 648 F.2d 496, 502 (9th Cir. 1980).

A. Likelihood of Success on the Merits

Defendants argue that plaintiffs have no more than a remote chance of success on the merits. They base this argument on two grounds: first, that the copyright is invalid; and second, that the new Church's materials do not infringe the NOTs materials.

1. The Validity of Plaintiffs' Copyright

Plaintiffs' certificate of copyright registration is prima facie evidence of the validity of the NOTs copyrights, 17 U.S.C. @ 410(c). Defendants [*5] have the burden of overcoming this presumption of validity, *Apple* at 523. Defendants attempt to carry this burden by pointing, first of all, to the testimony of defendant Mayo at the evidentiary hearing before the first

injunction was issued that he and not L. Ron Hubbard was the author of the NOTs materials. The NOTs copyright registration application ("the application") lists L. Ron Hubbard as the author of the work in question, and defendants thus hope to raise sufficient doubt as to the truthfulness of the application for registration to overcome the presumption of the copyright's validity. However, there are a number of problems with Mayo's testimony, not the least of which is that the evidence shows him to have publicly attributed the NOTs materials to L. Ron Hubbard on more than one occasion, see, e.g., Reporter's Transcript, November 21, 1985, at 34. Also, this Court did not find Mayo to be a credible witness. Even if believed, Mayo's testimony is not inconsistent with plaintiffs' application. [*518] NOTs is registered as a compilation. Mayo indicated that, while a number of people, including L. Ron Hubbard, worked on NOTs, Hubbard revised and approved the final product [**6] before it was issued, id. at 50-51. Each NOTs series bears a copyright notice reading "Copyright [date]/by L. Ron Hubbard/ALL RIGHTS RESERVED." Defendants, in short, have not succeeded in rebutting the presumption that L. Ron Hubbard was indeed the author of each NOTs series and of the compilation as a whole. At most, defendants have created some doubt as to whether Hubbard owned the copyright as author or as the employer in a work-for-hire situation, see 17 U.S.C. @ 201(b).

Defendants' other challenges to the validity of the copyright are easily disposed of. Defendants contend that the Hubbard Estate perpetrated a fraud on the Copyright Office by representing the materials as a "secure test" to get around the deposit requirement of 17 U.S.C. @ 407(a), 37 C.F.R. Ch. 11 @ 202.19. Plaintiffs, however, provide convincing evidence that they applied for and were granted "special relief" from the deposit requirement under 37 C.F.R. @ 202.20(d) and did not misrepresent the nature of their materials. Defendants also argue that plaintiffs are estopped from seeking this injunction by their failure to assert the copyright claim earlier. However, plaintiffs were not dilatory in the filing [**7] of this suit, and haste, rather than delay, marks the registration and assertion of the copyright following the dissolution of the injunction on plaintiffs' other legal theories. The Hubbard Estate cannot be faulted for its failure to register earlier its copyright in unpublished materials that were never meant to be distributed to the public.

B. Do Defendants' Materials Infringe the NOTs Copyright?

Defendants' claim that the new Church materials do not infringe the NOTs materials poses a somewhat more difficult problem. To establish copying by the new Church, plaintiffs must show that the new Church had access to the copyrighted materials and that there is substantial similarity between NOTs and defendants' materials. Sid & Marty Krofft Television Productions, Inc. v. McDonald's Corp., 562 F.2d 1157, 1162 (9th Cir. 1977).

Clearly, the new Church had access to the NOTs materials. Even if plaintiffs cannot ultimately establish that the new Church received the stolen NOTs package or copies thereof, it is undisputed that Mayo and other officers of the new Church were intimately familiar with NOTs and had earlier assisted in writing or been trained through the use of the NOTs [**8] materials. Mayo himself described his efforts to "reconstruct" NOTs from memory in creating the new Church's "Advanced Ability V" ("AAV") materials. Reporter's Transcript, November 21, 1985, 28-30. For the purposes of a claim for copyright infringement, it does not matter whether defendants, if they copied NOTs, did so with the originals in front of them or from memory

Given defendants' undeniable access to NOTs, the question to be answered is whether AAV is substantially similar to NOTs. This inquiry is complicated by two characteristics of the copyrighted material: (1) NOTs describes a process or procedure which cannot itself be copyrighted, see *Mazer v. Stein*, 347 U.S. 201, 98 L. Ed. 630, 74 S. Ct. 460 (1954); *Baker v. Selden*, 101 U.S. 99, 25 L. Ed. 841 (1879); 17 U.S.C. @ 102(b); and (2) NOTs is alleged to be the sacred scripture of a religion. Neither feature, of itself, requires the conclusion that NOTs is not protected by copyright or that AAV does not infringe that copyright, but taken together these features do serve to make the determination more difficult. n1

-Footnotes-

n1 To make this determination, the Court compared NOTs to the AAV materials contained in Volume 1 of defendants' exhibits in opposition to the first preliminary injunction. This version of AAV seems to be the final one, and bears a copyright notice, "Copyright Church of the New Civilization 1984."

-End Footnotes-

[**9]

Defendants argue that, as a process or procedure, NOTs is not subject to copyright [*519] protection at all. This assertion by defendants is somewhat disingenuous, since each series of the AAV materials, like NOTs, is clearly marked with a copyright notice. It is, however, true that copyright protection does not extend to the ideas expressed in a work. Presumably, it was for this reason that plaintiffs originally relied on the laws of trade secret, not copyright, as the basis of their suits against defendants. The Church has already failed in its attempt to obtain a preliminary injunction on its trade secret theory. While plaintiffs are not foreclosed from pursuing this theory at trial, see *City of Anaheim v. Duncan*, 658 F.2d 1326, 1328 n.2 (9th Cir. 1981); 11 *Wright & Miller, Federal Practice and Procedure, Civil @ 2962 at 630-31* (1973), it cannot form the basis of the injunction they now seek.

Even if an idea, procedure or discovery is in the public domain, it is well established that the expression of the idea can be protected by copyright, see, e.g., *Sid & Marty Krofft* at 1163. The nature of the procedure described in NOTs and in AAV, however, requires a certain level [**10] of similarity of expression. The NOTs procedure, briefly, treats a particular condition of the adherent through the use of a structured sequence of questions, dictated in part by the adherent's response to the questions as registered on a device known as the Hubbard E-meter. It appears that the wording of the questions must conform to a standard; in addition, there is a fairly large vocabulary of specialized terminology used to describe phenomena that might be encountered during the procedure. It can also be assumed that the use and behavior of the needles or dials on an E-meter can be described only in a limited number of similar ways. Similarities of expression dictated by the nature of the process described do not constitute infringement, cf., *Frybarger v. International Bus. Mach., Inc.*, 812 F.2d 525, 529-530 (9th Cir. 1987); *Apple Computer, Inc. v. Formula International, Inc.*, 725 F.2d 521, 525 (9th Cir. 1984). In comparing NOTs with AAV, this Court has taken care to look for similarities that are not the result of the similarity of the procedures being described. Due in part to the indirect style in which both works are written, there is ample text to compare.

The [**11] religious nature of the ideas expressed in NOTs and AAV also renders comparison

difficult. AAV is not identical to NOTs, but substantial similarity, not identity, is all that plaintiffs must show. The test for substantial similarity is two-fold: first, an "extrinsic" test is applied to determine whether the ideas expressed in the two works are similar; and second, an "intrinsic" test is used to determine whether, given similarity of ideas, the expression of these ideas is substantially similar, *Sid & Marty Krofft* at 1164. The extrinsic test may require analytic dissection of the work or even expert testimony, *id.*

Defendants argue that this Court cannot apply the extrinsic test to determine whether NOTs and AAV express the same or similar ideas, because to do so would impermissibly entangle the Court in determining religious doctrine, see, *Serbian Orthodox Diocese for the United States of America and Canada v. Milivojevich*, 426 U.S. 696, 708-09, 49 L. Ed. 2d 151, 96 S. Ct. 2372 (1976); *Presbyterian Church in the United States v. Mary Elizabeth Blue Hull Mem. Presby. Church*, 393 U.S. 440, 449, 21 L. Ed. 2d 658, 89 S. Ct. 601 (1969). Defendants' argument is a troubling one, because it seems to lead to the conclusion that religious [**12] scriptures cannot be protected by copyright. This result is untenable, however. Where the statutory formalities have been met, scriptures must receive the same protection as other works. Not only would any other result offend the first amendment's guarantee of freedom of religion, it would also inevitably involve courts in deciding whether various works are or are not religious scriptures - an inquiry of even greater constitutional infirmity. Where "neutral principles of law" are available to resolve religious property disputes, see *Jones v. Wolf*, 443 U.S. 595, 604, 61 L. Ed. 2d 775, 99 S. Ct. 3020 (1979), courts can, and in this case must, apply them.

[*520] Defendants also overstate the constitutional pitfalls involved in comparing these two works. This Court need not evaluate the religious significance of any differences between NOTs and AAV. It is only necessary to determine whether such differences exist and, if they do, whether similarities or differences predominate. The inquiry is one of linguistic, not theological, interpretation. The difficulty of this inquiry is also reduced by the nature of the procedures described in NOTs and AAV. Both works deal, not with abstract matters of religious principle, but with [**13] concrete applications laid out step-by-step. If A happens, the student auditor is told, do B. At this level of examination, the similarities between NOTs and AAV overwhelm any differences between them. The AAV and NOTs procedures treat the same conditions in the same ways by use of the same commands and steps. The two works clearly express substantially the same ideas.

Defendants, in any event, have rendered the application of the extrinsic test unnecessary by admitting, at least for the purposes of this application for a preliminary injunction, that the procedure described in AAV is substantially similar to that described in NOTs. For example, the Advanced Ability Center ("AAC") , run by the new Church, published a price list in its Journal in which the "Name Used by Church of SCN" is given for each "Name of Service at AAC, " see, e.g., *The Journal of the Advanced Ability Center*, Vol. 1 No.4, May-June 1984 at 31. On this list, under "Training," item seven is the AAC's "Advanced Ability 5 Pro Auditor's Crse." The corresponding Church of Scientology entry is "NOTs Auditor Course." As another example, at the November 21, 1985 hearing on plaintiff's first application for a [**14] preliminary injunction, a videotape was played in which defendants Mayo and Zegel both said that the techniques and procedures offered at the AAC were standard Scientology services, Reporter's Transcript at 56-57, but had to be given different names because the Church of Scientology had registered their trademark in the name "Scientology," *id.* at 58-59. On the tape, Zegel explained that "it's not an interpretation or a reinterpretation of the

material; a very precise application and exactly the way the material was laid out, just legally we will be in jeopardy if we call it Scientology," *id.* at 59. Mayo claimed that the tape was made under false pretenses, but did not deny the truth of the statements made in it.

Having determined that NOTs and AAV express substantially the same idea, the Court must apply the intrinsic test for similarity of expression. See *Sid & Marty Krofft*, at 1164. Defendants argue that, by this test, the two works are not substantially similar because NOTs contains more headings than AAV, the discussions of individual issues vary in length between the two works, and the order and sequence of subject matter are not alike. New Church defendants' Memorandum [**15] of Points and Authorities in Support of Motion to Dismiss at 7. This analysis, however, resembles the extrinsic test, *cf.* *Sid & Marty Krofft* at 1166; the intrinsic test depends not on dissection of the works, but on "the response of the ordinary reasonable person," *id.* at 1164.

Keeping in mind the similarities required by the subject matter of the two works, and scrupulously avoiding any evaluation of the religious doctrine contained therein, this Court cannot conclude that the ordinary reasonable person would find NOTs and AAV substantially similar in expression. This finding is different from but not inconsistent with the Court's finding of substantial similarity that led to the imposition of the first preliminary injunction in this case in November 1985. At that time, the Court concluded, as above, that the two documents described the same procedure. The Court further concluded, and remains convinced, that nobody could have created AAV without having a copy of NOTs at hand. Such a conclusion does not necessarily imply a finding of substantial similarity of expression justifying an injunction under 17 U.S.C. @ 502 (a).

NOTs and AAV do share a number of similarities of [**16] expression. Like NOTs, AAV consists of numbered "series"; while NOTs is apparently in this format because [*521] it was originally issued piecemeal in a series of bulletins as research on the technology progressed, there is no evident reason for AAV to be in this format except to more closely resemble NOTs. While the sequence of topics dealt with in AAV and NOTs is similar, there are differences Whether the sequence is dictated by the demands of the subject matter is not clear.

AAV is written in much the same informal style as NOTs, and the two works have a number of sentences and images in common. For example, NOTs notes that "stress is also a heavy button," NOTs Series 6, page 1, while AAV says that "Stress can be a heavy button," AAV Series 8. In NOTs, certain entities are described as saying "Yah, yah, I'm your nemesis ...," NOTs Series 7, page 3; in AAV they say "'Yeah, I'm your nemesis' or whatever," AAV Series 8. Similarities like these are found throughout the documents. However, the bulk of AAV consists of text not found in NOTs. The actual percentage of text that appears to have been copied verbatim is very small, although a much larger proportion of AAV seems to be a paraphrase [**17] of NOTs. In summary, the similarities between the two documents raise serious questions going to the merits of plaintiffs' claim of copyright infringement, but are not so clear as to require a finding of a reasonable likelihood of success.

IV. The Balance of Hardships

Since plaintiffs have shown only a possibility of eventual success on their claim of copyright infringement, they must demonstrate that the hardship to defendants that would result from

the granting of an injunction is exceeded by the hardship to plaintiffs should their application be denied. *Apple Computer, Inc. v. Formula International Inc.*, 725 F.2d 521, 523 (9th Cir. 1984). A preliminary injunction could and very likely would cause irreparable injury to defendants. Defendants and the adherents of the new Church are likely to be prevented from practicing their religion by the issuance of an injunction. While in theory the new Church would be permitted to practice - and could not, of course, be enjoined from practicing - the auditing procedures described in AAV, in practical effect they would find this practice significantly chilled by the fear that whatever materials they used might violate an injunction. [**18] The first preliminary injunction in this case apparently put the new Church's Advanced Ability Center out of business. A very strong showing of hardship to plaintiffs would be required to justify the imposition of an injunction so severely affecting defendants' constitutional rights to practice their religion unhindered.

Balanced against this harm of constitutional proportions is plaintiffs' fear that their confidential scriptures will be made public. However, defendants have repeatedly expressed their own opposition to the publication of the advanced technology of Scientology, so the risk of this injury seems remote. In addition, if it was defendants' intention to make the technology public, they could do so without infringing plaintiffs' copyright by creating and publishing a noninfringing description of the procedure.

Plaintiffs also expect to suffer pecuniary damage through the loss of parishioners' fees if the lack of an injunction allows the new Church to lure adherents away by offering the same services more cheaply. It is apparent that many new Church adherents were once members of the Church, and that there is competition for members and for the fees that they pay for services, [**19] between the two groups. Until enjoined in November 1985, defendant Mayo and the new Church offered adherents standard Scientology services for less than the prices charged by the Church. The Church will undoubtedly lose revenues if the new Church is once again able to compete for parishioners. It is unclear how much, if any, of this loss could be traced to copyright infringement and how much to defendants' ability to offer the same procedures. In any event, monetary damages are available to redress such injury.

Finally, plaintiffs fear the loss of control over the integrity of their materials. They claim that defendants are modifying the procedure by revising NOTs, resulting not [*522] only in spiritual harm to adherents of the new Church, but also in damage to the Church's reputation. The new Church clearly advertises its procedure to be the same as that offered by the Church; if the procedure actually delivered by the new Church is somehow less effective than that offered by the Church, plaintiffs' reputation may suffer injury. Again, however, this injury would result more from defendants' ability to employ a procedure not subject to copyright protection than from infringement of the copyright. [**20]

On balance, it appears that the potential hardship from interference with defendants' religious freedom that would result from a preliminary injunction in this case exceeds the possible injury to plaintiffs if the injunction does not issue. In the absence of a showing of a reasonable likelihood of plaintiffs' success on the merits of their claim of copyright infringement, plaintiffs' application for a preliminary injunction must be, and hereby is, denied.

IT IS SO ORDERED.

RELIGIOUS TECHNOLOGY CENTER and CHURCH OF SCIENTOLOGY INTERNATIONAL, INC., Plaintiffs-Appellees, v. LARRY WOLLERSHEIM, et al., Defendants, and CHURCH OF THE NEW CIVILIZATION, HARVEY HABER, DEDE REISDORF, JON ZEGEL and DAVID MAYO, Defendants-Appellants

No.85-6547

UNITED STATES COURT OF APPEALS FOR THE NINTH CIRCUIT

796 F.2d 1076; 1986 U.S. App. LEXIS 27912

March 5, 1986, Argued and Submitted
August 8, 1986, Filed

PRIOR HISTORY: [**1]

An Appeal from the United States District Court for the Central District of California, Hon. Mariana R. Pfaelzer, Judge Presiding.

D.C. No. CY 85-7197-MRP.

COUNSEL: Attorney for Appellee: Joseph Yanny, Esq., Herzig & Yanny, Earle C. Cooley.

Attorney for Appellant: Michael J. Treman, Esq., Richard C. Brautigam

JUDGES: Pregerson, Poole, and Thompson, Circuit Judges.

OPINION BY: PREGERSON

OPINION: [*1077] PREGERSON, Circuit Judge.

The Church of the New Civilization ("new church") is a splinter from the Church of Scientology ("Church"). The Church alleged that certain scriptural materials offered by the new church were copies of materials stolen from the Church. Recognizing federal jurisdiction under the Racketeer Influenced and Corrupt Organization Act ("RICO"), the district court held that the Church's materials constituted a trade secret and granted the Church a preliminary injunction ordering the new church to desist from using or disseminating the disputed materials.

We reverse the district court's order granting a preliminary injunction. Pursuant to this court's order, the district court advised that it issued its preliminary injunction "on both the plaintiffs' 18 U.S.C. @@ [**2] 1861-1968 [1961-1968] ("RICO") claim and on plaintiffs' state law trade secrets claim." We resolve the appeal, therefore, under both these theories. We hold that injunctive relief is not available to a private plaintiff in a civil RICO action. Additionally, we hold that the California courts would conclude that sacred scriptures do not meet the definition of a trade secret under California law.

FACTS

The Church of Scientology teaches that a person's behavior and well-being are improved by removing "engrams" from the unconscious mind. Engrams are impressions recorded by the unconscious mind in times of trauma in this life or in previous lives. Engrams return in moments of similar stress to the detriment of the person's behavior. Removing engrams from the unconscious permits the person's analytical mind to function unhindered.

Engrams are located and purged through "auditing." Auditing uses the "technology" and "advanced technology" of the Church. An "auditor" directs a set of structured questions and drills ("rundowns") at the Church adherent. The adherent's responses are measured on a "Hubbard E-meter" which reflects changes in "skin voltage." The auditor's aim is to detect [**3] the "buttons" which indicate a conscious or subconscious response to the rundown and enable the adherent to identify his or her engrams. The adherent must proceed through a series of increasingly sophisticated technologies of closely structured questions and answers to reach "a higher spiritual existence. "

The Church asserts that the unsupervised, premature exposure of an adherent to these materials will produce a spiritually harmful effect. n1 The Church keeps the [*1078] higher level materials in secure places, and makes the materials available only to adherents who agree in writing to maintain their confidentiality. The Church stated to the district court that it does "not safeguard these materials from any commercial consideration."

-Footnotes-

n1 The new church, which follows essentially identical religious precepts and practices to those of the Church, does not dispute this assertion.

-End Footnotes-

Defendant David Mayo was apparently at one time a close associate of Church founder L. Ron Hubbard, and assisted in the preparation [**4] of the Church's higher level materials. n2 Following an acrimonious dispute between Mayo and other senior Church officers, Mayo left the Church and, in July 1983, established the Church of the New Civilization. The new church embraces beliefs and provides counseling and training to its adherents which are essentially identical to those offered by the Church.

-Footnotes-

n2 The new church asserts that Mayo authored the disputed higher level materials. The Church vigorously disputes this, maintaining that Hubbard created all Church materials.

Hubbard apparently assigned the materials, together with other materials forming the technology and advanced technology of "Scientology" and "Dianetics," to the Religious Technology Center. See Church of Scientology International v. The Elmira Mission of the Church of Scientology, 794 F.2d 38, slip op. at 14 (2d Cir. 1986) (Hubbard validly assigned his rights in all Scientology materials to Religious Technology Center). Hubbard apparently intended the Center to be the "trustee of the scriptures" of Scientology. The Center makes available the higher level materials of the advanced technology to Church offices around the world in the form of "packs." Apparently the advanced technology packs at issue here are only available at six Church offices in the world.

Many lower level materials are copyrighted, and these copyrights apparently passed to the Religious Technology Center in Hubbard's will. The trademarks "Dianetics" and "Scientology" are now similarly held by the Center. The higher level materials at issue in this suit have neither copyright nor trademark protection.

-End Footnotes-

[**5]

In December 1983, Robin Scott, and two others (all of whom are unrelated to this action) stole certain higher level materials from Church offices in Copenhagen, Denmark. Danish authorities subsequently convicted Scott of burglary. While the stolen materials were returned, the Church maintains that copies were made and that the new church later acquired these copies. The district court found that the higher level materials offered to its adherents by the new church are "essentially identical" to the stolen Church materials. n3

-Footnotes-

n3 The new church states that it began using its higher level materials in August 1983, before the Scott theft. It claims that Mayo, as the principal original author of the Church's materials, wrote the new church's materials from memory. It also asserts that the new church's materials differ from the Church's materials because they reflect "improvements" recently added by Mayo. The district court rejected Mayo's testimony as not credible." The court does not believe that anyone, even Mr. Mayo, could have reproduced from memory materials substantially identical to those stolen in Denmark from the church. The documents are too voluminous, too detailed and too nearly identical in substance and wording to have been created by Mr. Mayo without reference to the stolen documents."

The new church asserts that there is no evidence to link the new church to the Scott theft. The Church offered evidence to the district court of international phone calls by new church members around the time of the theft, and produced a handwritten memorandum in which defendant Harvey Haber, then a new church officer, referred to a conversation with a person alleged to be Ron Lawley, a colleague of Scott. The memo then records what appears to be a continuing series of negotiations involving an offer and counteroffer. The memo does not refer to any agreement between the negotiating parties. The Church's complaint alleges that the new church obtained the materials from Scott's colleagues in February 1984.

Because we dissolve the injunction on jurisdictional grounds, we express no view whether the new church's materials are copies of the Church materials stolen by Scott.

-End Footnotes-

[**6]

The present suit was filed on November 4, 1985. The Church states that, in late October 1985, it learned that the new church intended to disseminate the contents of the materials stolen by Scott "in a non-confidential setting." Counsel for defendant Larry Wollersheim, a former Church adherent who has a pending California state tort action against the Church, had

obtained copies of the higher level materials during the deposition of defendants Margaret Singer and Richard Ofshe. Singer [*1079] had obtained the materials from defendant Leta Schlosser. Schlosser testified that she had received the materials from an adherent of the new church. On November 1, 1985, the Los Angeles Superior Court hearing Wollersheim's suit against the Church refused a Church request to seal its records including the Church's higher level materials. Three days later, the Church brought this suit in federal court against the new church, its principal officers, Wollersheim, his counsel, and those allegedly involved in passing the materials to Wollersheim's counsel. The suit based jurisdiction on the RICO claim and stated six pendent California state law claims including misappropriation of trade secrets. [**7]

The district court first granted a temporary restraining order preventing the state court plaintiff and the new church from disclosing the confidential materials. The court then conducted an evidentiary hearing lasting two days, and, on November 23, 1985, granted the Church the preliminary injunction that prompted this appeal.

The injunction prohibited the new church, its officers "and those persons in active concert or participation with them or who are acting at their request or insistence ... from using, distributing, exhibiting or in any way publicly revealing" any version of certain enumerated higher level Church materials. The enjoined parties were required to return all such material in their possession to the court under seal. The court also required the Church to post a bond of \$100,000.

In supplementary findings of fact, the district court stated that it "views this as a stolen document case." The court recognized that both parties accepted that adherents must be exposed to the materials in strict progression. On this basis, the court concluded that Church adherents may suffer irreparable harm from the unsupervised dissemination of the materials, thus justifying preliminary [**8] injunctive relief. In additional comments from the bench, the district court held the materials to constitute a misappropriated trade secret but noted that the Church was not arguing commercial disadvantage as an injury. The court also recognized its jurisdiction under RICO "based on the idea that the documents were stolen and that they found their way into their present use."

The new church filed a timely appeal. We denied the new church a stay pending appeal, but heard the appeal on an expedited schedule. We have jurisdiction under 28 u.s.c. @ 1292 (a) (1).

STANDARD OF REVIEW

Determining whether a private remedy should be afforded for violation of duties mandated by a statute that does not expressly create a suitable private remedy causes the concepts of "standing, " "subject matter jurisdiction, " and "implication of a private cause of action" to "overlap ... even more than they ordinarily would." *National Railroad Passenger Corp. v. National Association of Railroad Passengers*, 414 U.S. 453, 455-56, 38 L. Ed. 2d 646, 94 S. Ct. 690 (1974). The issue is best described as falling within the generic problem of "federal jurisdiction" without attempting to characterize it with [**9] greater specificity. See generally 13 C. Wright, A. Miller, and E. Cooper, *Federal Practice and Procedure* @ 3531.6 at 494-506 (2d ed. 1984). We are obligated to raise a jurisdictional issue sua sponte as a threshold question before considering a matter on its merits. See *Solano v. Beilby*, 761 F.2d 1369, 1370

(9th Cir. 1985); *Othman v. Globe Indemnity Co.*, 759 F.2d 1458, 1462-63 (9th Cir. 1985). Interpretation of the statute under which an injunction has been issued is a question of law, which we review de novo. *California ex rel. Van de Kamp v. Tahoe Regional Planning Agency*, 766 F.2d 1308, 1312 (9th Cir. 1985). We review matters of state law de novo. *In re McLinn*, 739 F.2d 1395, 1403 (9th Cir. 1984) (en banc).

[*1080] I. Is Injunctive Relief Available to a Private Party in a Civil RICO action?

A.

The Church's basis for federal jurisdiction is 18 U.S.C. @ 1964 ("civil RICO"). n4 Civil RICO permits both the government and private plaintiffs to sue for violations of substantive provisions of the Racketeer Influenced and Corrupt Organizations Act, which formed Title IX of the Organized Crime Control Act of 1970, Pub. L. 91-452, 84 Stat. [**10] 941 (1970), as amended, codified as 18 U.S.C. @@ 1961-1968. Neither party questioned before the district court, nor in briefs before this court, whether injunctive relief is available under civil RICO. We ordered the parties to submit supplemental briefs on this issue.

-Footnotes-

n4 The Church's complaint alleges federal jurisdiction under RICO, 18 U.S.C. @ 1964. The complaint also alleges jurisdiction under 28 U.S.C. @@ 1332 and 1339, covering diversity, patent, trademark, and copyright matters, and pendent jurisdiction over several state claims. The parties are not diverse, both being California corporations. The complaint makes no substantive allegations of patent, copyright, or trademark infringement. Thus, RICO provides the only basis for federal court jurisdiction over the Church's complaint.

-End Footnotes-

Civil RICO is directed at "racketeering activity," which it defines as any act "chargeable" under several generically described state criminal laws; any act "indictable" under numerous specific federal criminal provisions, [**11] including mail and wire fraud; and any "offense" involving narcotics or bankruptcy or securities fraud "punishable" under federal law. 18 U.S.C. @ 1961(1). Civil RICO prohibits the use of income derived from a "pattern of racketeering activity" in relation to an "enterprise" engaged in or affecting interstate commerce. 18 U.S.C. @ 1962(a). A "pattern" of racketeering activity "requires at least two acts of racketeering activity." 18 U.S.C. @ 1961(5). Broad criminal penalties are provided for RICO violations. See 18 U.S.C. @ 1963. In addition, Congress provided for a civil enforcement scheme, including private treble damages actions. See 18 U.S.C. @ 1964.

Despite repeated efforts by courts to limit the reach of civil RICO private damages actions, it is clear that suits alleging the requisite predicate acts are entitled to federal court jurisdiction, even if the acts are of a common-garden variety far removed from what is normally regarded as "organized crime" activity. See *Sedima, S.P.R.L. v. Imrex Co.*, 473 U.S. 479, 105 S. Ct. 3275, 3284-85, 87 L. Ed. 2d 346 (1985) (civil RICO suit may be based on commercial contract dispute involving two allegations of mail and [**12] wire fraud; civil RICO jurisdiction requires no prior criminal convictions for predicate acts nor any showing of "racketeering injury.") The Church's complaint alleges that the higher level materials are the Church's trade secret which the new church misappropriated through several acts of mail or

wire fraud constituting a pattern of racketeering activity. n5 The complaint characterizes the contacts between the new church and Wollersheim and his counsel as a conspiracy within RICO's definition of "enterprise." The Church's complaint also includes a claim for money damages under RICO. Thus, the Church apparently satisfies the federal jurisdictional requirements for a civil RICO damages action. n6

-Footnotes-

n5 The new church characterizes the predicate acts as the Copenhagen burglary and the receipt of the stolen materials. It argues that since the theft was not punishable in the United States, it cannot be a predicate act, and thus the Church has not demonstrated a pattern of racketeering. Even if the Danish theft falls outside RICO, the Church alleges sufficient telephone and mail contacts between the new church and Scott's group to satisfy the pattern requirement through several predicate acts of mail and wire fraud. [**13]

n6 While the complaint states a claim for money damages, at the hearing on the motion for the preliminary injunction, the Church denied that it had suffered financially from the new church's behavior. Rather, the Church characterized its injury as the harm caused to its adherents from premature, unsupervised exposure to the higher level materials. It is not clear whether such an injury is sufficient to allow the Church to press even a civil RICO damages action.

In *Sedima*, the Supreme Court stated that "the plaintiff only has standing if, and can only recover to the extent that, he has been injured in his business or property by the conduct constituting the violation ... Where the plaintiff alleges each element of the violation, the compensable injury necessarily is the harm caused by predicate acts sufficiently related to constitute a pattern, for the essence of the violation is the commission of those acts in connection with the conduct of an enterprise." 105 S. Ct. at 3285-86. The district court found such a "nexus" between the Scott theft and the new church. The court did not expressly find a further nexus between the new church's actions via the predicate acts and the injury to the Church adherents. *Sedima* apparently requires such a nexus for civil RICO damages "standing."

Assuming that this nexus can be established, the injury alleged by the Church may not be compensable under civil RICO. In a footnote in *Sedima*, the Court explains that civil RICO damages "include, but are not limited to ... competitive injury." 105 S. Ct. at 3286 n.15. In disagreeing with the dissent's attempt to limit civil RICO standing, *Sedima* apparently embraces the notion that "harm proximately caused by the forbidden conduct" is compensable. *Id.* The court gives no indication whether nonfinancial proximate harm, such as the emotional-type injury alleged by the Church, is compensable under civil RICO. Since we are reviewing only the injunctive relief granted to the Church, we need not decide this issue. However, if the action proceeds to trial on the Church's damages claim, the district court will then be obliged to confront the problem.

-End Footnotes-

[*14] [*1081] B.

No appellate court has expressly determined whether civil RICO permits a private party to

secure injunctive relief. The Fourth Circuit has implied that injunctive relief is not available to a private civil RICO plaintiff, but reserved ultimate judgment on the matter. See *Dan River, Inc. v. Icahn*, 701 F.2d 278, 290 (4th Cir. 1983) (“While we do not undertake to resolve the question ... in light of the most recent indications from the Supreme Court, Dan River's action for equitable relief under RICO might well fail to state a claim.”). In dictum in a moot appeal in *Trane Co. v. O'Connor Securities*, 718 F.2d 26, 28 (2d Cir. 1983) the Second Circuit stated: “We have the same (serious) doubts [as courts such as the Fourth Circuit in *Dan River*] as to the propriety of private party injunctive relief ...” More recently, in *Sedima, S.P.R.L. v. Imrex Co.*, 741 F.2d 482, 489 n.20 (2d Cir. 1984), rev'd, 473 U.S. 479, 105 S. Ct. 3275, 87 L. Ed. 2d 346 (1985), the Second Circuit observed that “it thus seems altogether likely that @ 1964(c) as it now stands was not intended to provide private parties injunctive relief.” However, the precedential [**15] value of this conclusion, itself somewhat equivocal, is thrown into considerable doubt by the Supreme Court's total rejection of the conclusions drawn by the Second Circuit from its historical analysis of the RICO statute. See 473 U.S. 479, 105 S. Ct. 3275, 87 L. Ed. 2d 346.

In contrast, the Eighth Circuit, expressly without resolving the issue, has hinted that injunctive relief may be available either under civil RICO or under a court's general equitable powers. See *Bennett v. Berg*, 685 F.2d 1053, 1064 (8th Cir. 1982) (citing a law review article which supports the availability of injunctive relief), aff'd on rehearing, 710 F.2d 1361 (8th Cir.) (en banc), cert. denied, 464 U.S. 1008, 78 L. Ed. 2d 710, 104 S. Ct. 527 (1983) .n7 See also *USACO Coal Co. v. Carbomin Energy, Inc.*, 689 F.2d 94, 97-98 (6th Cir. 1982) (affirming grant of injunctive relief to private plaintiff on pendent state claims where RICO provided federal jurisdiction base).

-Footnotes-

n7 The Eighth Circuit panel cited Blakey and Gettings, *Racketeer Influenced and Corrupt Organizations (RICO) : Basic Concepts - Criminal and Civil Remedies*, 53 Temple L.Q. 1014, 1038 nn. 132-33 (1980) (statutory language provides for equitable relief). 685 F.2d at 1064.

-End Footnotes-

[**16]

A similar disunity of views exists among those district courts that have confronted the issue. The only three published decisions explicitly to hold that injunctive relief is not available to a civil RICO plaintiff are all from the Northern District of Illinois. See *Miller v. Affiliated Financial Corp.*, 600 F. Supp. 987, 994 (N.D. Ill. 1984); *DeMent v. Abbott Capital Corp.*, 589 F. Supp. 1378, 1382-83 (N.D. Ill. 1984); and *Kaushal v. State Bank of India*, 556 F. Supp. 576, 581-84 (N.D. Ill. 1983). See also *Ashland Oil, Inc. v. Gleave*, 540 F. Supp. 81, 85-86 (W.D.N.Y. 1982) (statutory attachment not available to private civil RICO plaintiff).

Two district courts have held that injunctive relief is available to a private civil RICO plaintiff. See *Aetna Casualty and Surety Co. v. Liebowitz*, 570 F. Supp. 908, 910-11 (E.D.N.Y. 1983), aff'd on other grounds, 730 F.2d 905 (2d Cir. 1984); and *Chambers Development Co. v. Browning-Ferris Industries*, 590 F. Supp. 1528, 1540-41 [*1082] (W.D. Pa. 1984). Additionally, several district courts have simply assumed the availability of injunctive relief to civil RICO plaintiffs. See *USACO Coal Co. v. Carbomin* [**17] *Energy, Inc.*, 539 F. Supp.

807, 814-16 (W.D. Ky.), *aff'd* on other grounds, 689 F.2d 94 (6th Cir. 1982); *Marshall Field & Co. v. Icahn*, 537 F. Supp. 413, 420 (S.D.N.Y. 1982); *Vietnamese Fishermen's Association v. Knights of the Ku Klux Klan*, 518 F Supp. 993, 1014 (S.D. Tex. 1981).

Still other district courts have raised, but managed to avoid deciding the issue. See *McLendon v. Continental Group, Inc.*, 602 F. Supp. 1492, 1518-19 (D.N.J. 1985) ("The law [in this area] is in great flux."); *Kaufman v. Chase Manhattan Bank, N.A.*, 581 F. Supp. 350, 359 (S.D.N.Y. 1984).

Thus, we must decide essentially as a matter of first impression for an appellate court whether injunctive relief may be granted to a private plaintiff under civil RICO. When interpreting a statute, the plain meaning of the words used is controlling absent "a clearly expressed legislative intent to the contrary." *United States v. Turkette*, 452 U.S. 576, 580, 69 L. Ed. 2d 246, 101 S. Ct. 2524 (1981) (quoting *Consumer Product Safety Commission v. GTE Sylvania, Inc.*, 447 U.S. 102, 108, 64 L. Ed. 2d 766, 100 S. Ct. 2051 (1980)); *Powell v. Tucson Air Museum Foundation of Pima County*, 771 [**18] F.2d 1309, 1311 (9th Cir. 1985). When the language of a statute is ambiguous, we construe the statute in the light of Congress's purpose in enacting it as expressed in the legislative history. See *Train v. Colorado Public Interest Research Group, Inc.*, 426 U.S. 1, 9-10, 48 L. Ed. 2d 434, 96 S. Ct. 1938 (1976).

C.

Section 1964 has four parts. n8 Part (c) was added late in RICO's legislative passage through Congress. The bill passed by the Senate included only the present parts (a), (b), and (d). See *infra* slip op. pages 19-20; *Sedima*, 105 S. Ct. at 3280-81.

-Footnotes-

n8 18 U.S.C. @ 1964 states:

(a) The district courts of the United States shall have jurisdiction to prevent and restrain violations of section 1962 of this chapter by issuing appropriate orders, including, but not limited to: ordering any person to divest himself of any interest, direct or indirect, in any enterprise; imposing reasonable restrictions on the future activities or investments of any person, including, but not limited to, prohibiting any person from engaging in the same type of endeavor as the enterprise engaged in, the activities of which affect interstate or foreign commerce; or ordering dissolution or reorganization of any enterprise, making due provision for the rights of innocent persons.

(b) The Attorney General may institute proceedings under this section. In any action brought by the United States under this section, the court shall proceed as soon as practicable to the hearing and determination thereof. Pending final determination thereof, the court may at any time enter such restraining orders or prohibitions, or take such other actions, including the acceptance of satisfactory performance bonds, as it shall deem proper.

(c) Any person injured in his business or property by reason of a violation of section 1962 of this chapter may sue therefor in any appropriate United States district court and shall recover threefold the damages he sustains and the cost of the suit, including a reasonable attorney's fee.

(d) A final judgment or decree rendered in favor of the United States in any criminal proceeding brought by the United States under this chapter shall estop the defendant from

denying the essential allegations of the criminal offense in any subsequent civil proceeding brought by the United States.

-End Footnotes-

[**19]

Part (a) is a broad grant of equitable jurisdiction to the federal courts. Part (b) permits the government to bring actions for equitable relief. Part (d) grants collateral estoppel effect to a criminal conviction in a subsequent civil action by the government. Part (c), the private civil RICO provision, states that a private plaintiff may recover treble damages, costs and attorney's fees. In contrast to part (b), there is no express authority to private plaintiffs to seek the equitable relief available under part (a).

Admittedly, part (c) also does not expressly limit private plaintiffs "only" to the enumerated remedies, nor does part (a) expressly limit the availability of the illustrative [*1083] equitable remedies to the government. See Strafer, Massumi, and Skolnick, *Civil RICO in the Public Interest: "Everybody's Darling,"* 19 Am. Crim. L. Rev. 655, 710 (1982). However, the inclusion of a single statutory reference to private plaintiffs, and the identification of a damages and fees remedy for such plaintiffs in part (c), logically carries the negative implication that no other remedy was intended to be conferred on private plaintiffs.

As the Supreme [**20] Court has emphasized, Congress expressly admonished that RICO "be liberally construed to effectuate its remedial purposes," and that "the statute's 'remedial purposes' are nowhere more evident than in the provision of a private action for those injured by racketeering activity." *Sedima*, 105 S. Ct. at 3286; see also, *Turkette*, 452 U.S. at 587. In this spirit, those sympathetic to a private equitable remedy under civil RICO have suggested two other readings of the statute. The Church urges us to adopt either or both of these constructions of section 1964.

First, the Church suggests that it is significant that the treble damage clause of section 1964(c) is preceded by "and" rather than "to." Thus, it is suggested, all appropriate relief, including the equitable remedies of part (a), are available to private plaintiffs because there is no clear statutory limitation. Moreover, the Church argues, there is no good reason for Congress denying victims equitable relief while permitting them damages relief. See Blakey, *The RICO Civil Fraud Action in Context: Reflections on Bennett v. Berg*, 58 Notre Dame L. Rev. 237, 332 (1982); Blakey and Gettings, *Racketeer Influenced and [**21] Corrupt Organizations (RICO): Basic Concepts - Criminal and Civil Remedies*, 53 Temple L.Q. 1014, 1038 n.133 (1980). No court has accepted this reading. Indeed, two courts have been vehement in their rejection of this analysis. See *Sedima*, 741 F.2d at 489 n.20 ("rather remarkable argument"); *Kaushal*, 556 F. Supp. at 582 ("bizarre and wholly unconvincing as a matter of plain English and the normal use of language."). See also *infra* note 11.

Second, the Church asserts that the variation in language used in parts (a) and (b) of section 1964 indicate that Congress did not intend to limit the inherent powers of federal courts to grant equitable relief in suitable cases. The argument is made that because part (b) grants the Attorney General the express power to seek temporary equitable relief, other parties are permitted to seek permanent equitable relief. Moreover, the Church contends, if the availability of equitable relief under section 1964 were determined solely by part (b), part (a)

would become superfluous. See J. Fricano, Civil RICO - An Antitrust Plaintiff's Considerations, in 1 Current Problems in Federal Civil Practice 827-28 (PLI, 1983); [**22] Chambers, 590 F. Supp. at 1540.

The Church develops this textual argument with particular vigor. It argues that part (a), alone of the subparts of section 1964, is general in theme and apparently unrestricted in application. Its plain words place no limit on the class or category of litigants who might avail themselves of the remedies it makes available under RICO. While the other subparts of section 1964 provide for specific relief to specific parties, the Church observes that they give no indication that part (a) is anything other than a simple and broad grant of jurisdiction. See Belgard, Private Civil RICO Plaintiffs Are Entitled to Equitable Relief under @ 1964(a), 2 RICO Law Rep. 537, 537-38 (1985). The Church reads section 1964(b) as permission for the government to secure injunctive relief without satisfying the traditional equity tests of irreparable harm and inadequacy of alternative remedy at law. See *United States v. Cappetto*, 502 F.2d 1351, 1358-59 (7th Cir. 1974), cert. denied, 420 U.S. 925, 95 S. Ct. 1121, 43 L. Ed. 2d 395 (1975). Thus, the Church asserts, part (b) does not restrict RICO injunctive relief to the government, but merely sets aside [**23] for civil RICO cases the traditional rule that only a victim may enjoin a crime. See *In re Debs*, 158 U.S. 564, 582-84, 15 S. Ct. 900, 39 L. Ed. 1092 (1895). Thus, the Church would have us read part (a) as sufficient for a [*1084] federal court to grant an injunction to a private RICO plaintiff even if part (c) had never been added to section 1964.

This latter construction of section 1964 is certainly a plausible reading of the statutory language. However, our review of Congress' intent in enacting civil RICO convinces us that the Church is incorrect. The legislative history mandates us to hold that injunctive relief is not available to a private party in a civil RICO action. The Supreme Court's apparent endorsement of the conclusion that we reach here reinforces this reading of the statute. See *Sedima*, 105 S. Ct. at 3280 ("The civil remedies in the bill passed by the Senate, S. 30, were limited to injunctive actions by the United States and became @@ 1964 (a), (b), and (d).").

D.

RICO has a long legislative lineage. The Organized Crime Control Act of 1970 was derived from S. 30, 91st Cong., 1st Sess., 115 Cong. Rec. 769 (1969). Title IX of the Act, RICO, was added [**24] to S. 30 by the Senate. The substance of Title IX was contained in an earlier Senate bill, S. 1861, 91st Cong., 1st Sess., 115 Cong. Rec. 9,568-71 (1969). See also 116 Cong. Rec. 591 (remarks of Sen. McClellan). Neither S. 1861 nor S. 30 contained a private civil cause of action. An earlier predecessor of RICO, S. 1623, 91st Cong. 1st Sess., 115 Cong. Rec. 6,995-96 (1969), did contain a private civil cause of action based closely on the Clayton Act, providing explicitly for injunctive relief as well as for treble damages. S. 1623 @@ 3(c), 4(a). That bill was itself patterned on two earlier Senate bills, S. 2048 and S. 2049, 90th Cong. 1st Sess. (1967), both of which provided for private civil action similar to that in S. 1623. See generally, Belgard, 2 RICO Law Rep. at 538 (quoting relevant provisions of these bills).

The Senate Subcommittee on Criminal Laws and Procedures of the Senate Committee on the Judiciary replaced S. 1623 with S. 1861 apparently in part because S. 1861 provided broader governmental civil relief, such as the investigative demand, and was in other ways a more comprehensive bill. See Hearings on Measures Relating to Organized Crime Before the Subcommittee [**25] on Criminal Laws and Procedures of the Senate Committee on the

Judiciary, 91st Cong., 1st Sess. 387-88, 407-08 (1969).

There were also a number of House predecessors to RICO which paralleled S. 30. See H.R. 19215, 91st Cong. 2d Sess. 116 Cong. Rec. 31,914 (1970). H.R. 19215 included a more complete private cause of action section than that eventually inserted by the House, and explicitly allowed for private party injunctive relief.

While the Act for the most part originated in the Senate, the civil RICO provision permitting suit by private persons, 18 U.S.C @ 1964(c), originated in the House. See *Sedima*, 105 S. Ct. at 3280. During hearings on S. 30 before the House Judiciary Committee, Representative Steiger proposed the addition of a private treble damages action "similar to the private damage remedy found in the antitrust laws ... Those who have been wronged by organized crime should at least be given access to a legal remedy. In addition, the availability of such a remedy would enhance the effectiveness of title IX's prohibitions." *Organized Crime Control: Hearings on S. 30, and related proposals, before Subcommittee No. 5 of the House Committee on the Judiciary* [**26] , 91st Cong., 2d Sess. 520 (1970) ("House Hearings"). The American Bar Association also proposed an amendment "based upon the concept of Section 4 of the Clayton Act." *Id.* at 543-44, 548, 559; see 116 Cong. Rec. 25,190-91 (1970); *Sedima*, 105 S. Ct. at 3280-81.

Significantly, Representative Steiger's proposal, like those in the rejected Senate bills, provided explicitly for a private injunctive remedy under section 1964(a). House Hearings at 521 (subsection (c) of proposal of Rep. Steiger). The legislative history is silent as to why the subcommittee rejected this language and explicitly created only the private action for treble damages which was eventually enacted as section 1964(c). See 116 Cong. Rec. 25,190 (remarks of Sen. McClellan welcoming [*1085] House addition of private treble damages remedy). The adopted statutory language was drawn from H.R. 19586, 91st Cong., 2d Sess. 56 (1970), one of the two House bills that paralleled S. 30. In choosing H.R. 19586 over H.R. 19215, the House apparently explicitly rejected a private injunctive relief provision.

E.

The Church's argument rests on the assertion that the private treble damages remedy [**27] provided by section 1964(c) is additional to the equitable RICO remedies made available to private plaintiffs by section 1964(a). The legislative history offers some support for this thesis. Introducing the bill during House debate, the House sponsor, Representative Poff, stated:

Courts are given broad powers under the title to proceed civilly, using essentially their equitable powers, to reform corrupted organizations, for example, by prohibiting the racketeers to participate any longer in the enterprise, by ordering divestitures, and even by ordering dissolution or reorganization of the enterprise. In addition, at the suggestion of the gentleman from Arizona (Mr. Steiger) and also the American Bar Association and others, the committee has provided that private persons injured by reason of a violation of the title may recover treble damages in Federal courts - another example of the antitrust remedy being adapted for use against organized criminality.

116 Cong. Rec. 35,295 (1970) (emphasis added). Earlier, during Senate floor debate on the bill before the addition of the present section 1964(c), Senator McClellan, the bill's principal

Senate sponsor, described [**28] the value of civil RICO thus:

Since enactment of the Sherman Antitrust Act in 1890, the courts have used several equitable remedies ... to implement the language of 15 U.S.C. sections 1 and 2. I believe, and numerous others have expressed a similar belief, that these equitable devices can prove effective in cleaning up organizations corrupted by the forces of organized crime.

Id. at 592.

However, two separate episodes from the history of civil RICO's legislative passage convince us that the conclusions the Church would have us draw from these congressional statements do not reflect Congress' intent in section 1964. First, the House rejected an amendment, described as "an additional civil remedy," which would expressly permit private parties to sue for injunctive relief under section 1964(a). Second, in the very next year after RICO's enactment, Congress refused to enact a bill to amend section 1964 and give private plaintiffs injunctive relief.

During debate on the House floor, Representative Steiger offered an amendment that would have allowed private injunctive actions, fixed a statute of limitations, and clarified venue and process requirements. [**29] 116 Cong. Rec. at 35,346; see also id. at 35,227-28. n9 The proposal was greeted with some hostility because it had not been reviewed [*1086] in committee, and Representative Steiger withdrew it without a vote being taken. Id. at 35,346-47. Representative Steiger's withdrawal was in response to remarks by the bill's House sponsor. Representative Poff stated:

Mr. Chairman, I want to pay special tribute to the gentleman in the well for having raised the issue which his amendment defines. It does offer an additional civil remedy which I think properly might be suited to the special mechanism fashioned in title IX. Indeed, I am an author of an almost identical amendment. It has its counterpart almost in haec verba in the antitrust statutes, and yet I suggest to the gentleman that prudence would dictate that the Judiciary Committee very carefully explore the potential consequences that this new remedy might have in all the ramifications which this legislation contains and for that reason, I would hope that the gentleman might agree to ask unanimous consent to withdraw his amendment from consideration with the understanding that it might properly be considered [**30] by the Judiciary Committee when the Congress reconvenes following the elections or some other appropriate time.

Id. at 35,346 (emphasis added). The House then passed the bill, with the treble damages provision in the form recommended by the Committee. Id. at 35,363-64. The Senate did not seek a conference and adopted the bill as amended in the House. Id. at 36,296.

-Footnotes-

n9 Representative Steiger's amendment was very specific. The present section 1964(c), the private treble damages remedy, which the House had already agreed to add to the bill, and the present part (d), concerning collateral estoppel, would become parts (e) and (g) respectively of section 1964. 116 Cong. Rec. at 35,346. The new part (c) proposed by Representative Steiger read:

(c) Any person may institute proceedings under subsection (a) of this section. In any proceeding brought by any person under subsection (a) of this section, relief shall be granted in conformity with the principles which govern the granting of injunctive relief from threatened loss or damages in other cases. Upon the execution of proper bond against damages from an injunction improvidently granted and a showing of immediate danger of irreparable loss or damage, a preliminary injunction may be issued in any action before a determination thereof upon its merits.

Id. A new part (d) would permit the government to sue for damages; proposed part (f) would allow government intervention in private suits of "general public importance"; and proposed part (h) provided for a five year statute of limitations tollable during the pendency of a government or private suit on a similar matter. Id.

-End Footnotes-

[*31]

In the next term of the Senate, the same amendment as that offered by Representative Steiger on the House floor during debate on the RICO bill, see supra note 9, was proposed as a bill to amend the now enacted legislation. S. 16, 92nd Cong., 1st Sess. (1971). See Victims of Crime, Hearing before the Subcommittee on Criminal Laws and Procedures of the Senate Committee of the Judiciary, 92nd Cong., 1st Sess. 3 (1972). The new bill "would expand the available civil remedies" since "now only the United States can institute injunctive proceedings." Id. at 158. (Statement of Richard Velde, Associate Administrator, Law Enforcement Assistance Administration) (emphasis added). n10

-Footnotes-

n10 While post-enactment legislative history is not by any means conclusive, it cannot merely be ignored. *North Haven Board of Education v. Bell*, 456 U.S. 512, 530-35, 72 L. Ed. 2d 299, 102 S. Ct. 1912 (1982).

-End Footnotes-

The Senate Judiciary Committee reported favorably on S. 16, 92d Cong., 2d Sess., 118 Cong. Rec. 29,368-69 (1972). [**32] The committee report noted that RICO as enacted, provided for private treble damages actions, and that the new bill would supplement this and "authorize private injunctive relief from racketeering activity." S. Rep. No.1070, 92d Cong., 2d Sess. 10 (1972) (emphasis added). During Senate floor debates on S. 16, Senator McClellan observed that the bill would add to existing private RICO remedies by "authorizing private injunctive relief from racketeering activity." 118 Cong. Rec. 29,370 (1972). See also id. (remarks of Senator Hruska). Although the Senate passed S. 16, the bill never passed the House, and its substance never became law.

The clear message from the legislative history is that, in considering civil RICO, Congress was repeatedly presented with the opportunity expressly to include a provision permitting private plaintiffs to secure injunctive relief. On each occasion, Congress rejected the addition of any such provision.

F.

This clear message is reinforced by recalling that civil RICO was intended to provide a private cause of action modeled on the analogous provision of the antitrust laws. See 116 Cong. Rec. 592 (remarks of Sen. McClellan); [**33] id. at 602 (remarks of Sen. Hruska) (RICO's civil provisions employ "time-tested antitrust remedies"); S. Rep. No.617, 80-82, 125, 160 (1969); 116 Cong. Rec. 35,295 (Private treble damages provision is "another example of the antitrust remedy being adapted for use [*1087] against organized criminality.") (remarks of Rep. Poff); House Hearings at 543-44 (testimony of ABA President Wright); *Sedima*, 105 S. Ct. at 3282 ("The clearest current in [the legislative] history is the reliance on the Clayton Act model ...").

The language of the treble damages antitrust remedy, section four of the Clayton Act, 15 U.S.C. @ 15(a), is similar to that of civil RICO. n11 The Supreme Court has explicitly held that the language of section 4 precludes private injunctive relief. See *Paine Lumber Co. v. Neal*, 244 U.S. 459, 471, 61 L. Ed. 1256, 37 S. Ct. 718 (1917). Cf. *Minnesota v. Northern Securities Co.*, 194 U.S. 48, 70-71, 48 L. Ed. 870, 24 S. Ct. 598 (1904) (no private right to injunctive relief under section 4 of Sherman Act). Private antitrust plaintiffs can, however, secure injunctive relief only by virtue of a separate section of the Clayton Act which expressly [**34] provides for private equitable actions. See Section 16 codified at 15 U.S.C. @ 26. n12 RICO contains no parallel provision to section 16's grant of a private right to injunctive relief.

Footnotes-

n11 15 U.S.C. @ 15(a) provides in pertinent part:

"(A)ny person who shall be injured in his business or property by reason of anything forbidden in the antitrust laws may sue therefor in any district court of the United States in the district in which the defendant resides or is found or has an agent, without respect to the amount in controversy, and shall recover threefold the damages by him sustained, and the cost of suit, including a reasonable attorney's fee." (Emphasis added.)

It should be noted that this provision includes the word "and" before stating the remedy. It was the inclusion of this word in civil RICO that prompted the Church and some commentators to conclude that civil RICO permitted private injunctive relief. See supra [Slip Op.] page 18. The fact that the Clayton Act treble damages provision does not extend to private injunctive relief, even with the "and" included, surely undermines the argument that its inclusion in section 1964(c) indicates that injunctive relief is not precluded by that section. [**35]

n12 15 U.S.C. @ 26 provides in pertinent part:

Any person, firm, corporation, or association shall be entitled to sue for and have injunctive relief, in any court of the United States having jurisdiction over the parties, against threatened loss or damage by a violation of the antitrust laws, including sections 13, 14, 18, and 19 of this title, when and under the same conditions and principles as injunctive relief against threatened conduct that will cause loss or damage is granted by courts of equity, under the rules governing such proceedings, and upon the execution of proper bond against damages for an injunction improvidently granted and a showing that the danger of

irreparable loss or damage is immediate, a preliminary injunction may issue.

A proviso to this section prevents an equitable suit against a common carrier.

-End Footnotes-

Presumably, had it desired to do so, Congress could have completed the analogy between civil RICO and the antitrust laws by including in civil RICO a private equitable relief remedy like section sixteen of the Clayton Act. That it did not do so, despite [**36] the repeated efforts of several members of Congress, strongly suggests that Congress did not intend to give private civil RICO plaintiffs access to equitable remedies. n13

-Footnotes-

n13 The Church argues that comparisons with section 16 of the Clayton Act are inappropriate because the Clayton Act also includes a provision, section 15, 15 U.S.C. @ 25, expressly limiting injunctive relief to the government and thus the statutes - RICO and the Clayton Act - are not similar. See Belgard 2 RICO Law Rep. at 541, n.13. See also Fricano, Civil RICO at 828-29. This argument is to no avail. The legislative history shows that Congress recognized and accepted the validity of the comparison during the passage of RICO.

In his remarks on the House floor which prompted Representative Steiger to withdraw his late amendment specifically providing injunctive relief to a private RICO plaintiff, Representative Poff stated that Representative Steiger's amendment "has its counterpart almost in haec verba in the antitrust statutes." 116 Cong. Rec. 35,346. See supra page 1086. Representative Poff must have been comparing Representative Steiger's abortive private injunctive relief provision to section 16 of the Clayton Act, the private antitrust injunctive relief provision. Thus, Congress was well aware that civil RICO was not symmetrical with the antitrust laws with respect to private injunctive relief. Congress' rejection of Representative Steiger's amendment is additional proof that Congress deliberately and knowingly excluded private injunctive relief from the arsenal of remedies created by RICO.

-End Footnotes-

[*37]

G.

Further support for the conclusion that injunctive relief is not available under civil [*1088] RICO is found in the Supreme Court doctrine that sharply limits the implication of causes of action or remedies not expressly provided by statute.

It is an elemental canon of statutory construction that where a statute expressly provides a particular remedy or remedies, a court must be chary of reading others into it.

Transamerica Mortgage Advisors, Inc. v. Lewis, 444 U.S. 11, 19, 62 L. Ed. 2d 146, 100 S. Ct. 242 (1979); see also Touche Ross & Co. v. Redington, 442 U.S. 560, 568, 61 L. Ed. 2d 82, 99 S. Ct. 2479 (1979).

Where a statute provides an elaborate enforcement scheme that confers authority to sue on both government officials and private citizens, "it cannot be assumed that Congress intended to authorize by implication additional judicial remedies for private citizens." *Middlesex County Sewerage Authority v National Sea Clammers Association*, 453 U.S. 1, 14, 69 L. Ed. 2d 435, 101 S. Ct 2615 (1981). "In the absence of strong indicia of a contrary congressional intent, we are compelled to conclude that Congress provided precisely the remedies [**38] it considered appropriate." *Id.* at 15. Compare *Sea Clammers* (no private right of action implied in federal environmental statutes) with *Herman & MacLean v. Huddleston*, 459 U.S. 375, 380-87, 74 L. Ed. 2d 548, 103 S. Ct. 683 (1983) (implied remedy under securities law available because of congressional intent even where cumulative to express remedies).

For civil RICO, there are strong indicia of congressional intent against any implied injunctive relief remedy. Similarly, there is no indication in the language of section 1964 that civil RICO was not intended, as its plain wording states, to limit private plaintiffs only to damages, costs, and fees. Taken together, the legislative history and statutory language suggest overwhelmingly that no private equitable action should be implied under civil RICO. n14

-Footnotes-

n14 The Church argues that a more appropriate test whether civil RICO implies a private right is that articulated in *Cort v. Ash*, 422 U.S. 66, 78, 45 L. Ed. 2d 26, 95 S. Ct. 2080 (1975). See *Belgard*, 2 RICO Law Rep. at 539. *Cort* posed four "relevant" questions to assist in determining "whether a private remedy is implicit in a statute not expressly providing one." *Cort*, 422 U.S. at 78. We see no conflict between *Cort* and the more recent line of Supreme Court cases upon which we rely. Applying the *Cort* factors still produces a ruling adverse to the Church. First, the Church is not "one of the class for whose especial benefit the statute was enacted." *Id.* (emphasis in original). RICO was aimed principally at protecting the public from organized crime front enterprises, not at enabling a religious organization to prevent the dissemination of doctrinal materials by a rival religious organization. Second, as we have discussed supra, there is substantial "indication of legislative intent, explicit and implicit" against an implied private remedy. *Id.* Third, while implying an injunctive remedy may be consistent generally with RICO's purpose, in this particular case, we doubt whether this is so. *Id.* Fourth, to the extent that the dispute here concerns trade secrets misappropriation, "it would be inappropriate to infer a cause of action based solely on federal law." *Id.*

-End Footnotes-

[**39]

H.

Thus we conclude that Congress did not intend to give private RICO plaintiffs any right to injunctive relief. In reaching this conclusion, we recognize that strong policy arguments can be made to support a right to injunctive relief for private RICO plaintiffs.

It may be that in drawing the line between private equitable relief and private damages, Congress wished to preclude federal courts from interfering with the day-to-day running of businesses at the behest of what might be only a disgruntled competitor. However, this same concern about anticompetitive litigation has been frequently leveled at RICO's treble

damages provision. The Supreme Court, despite expressing sympathy for this concern, has rejected it as not consistent with the statute's wording and history. See *Sedima*, 105 S. Ct. at 3277-78.

In contrast, we recognize the force of the Church's argument that a private injunctive remedy would permit an injured party to put an immediate stop to racketeering behavior that threatens his or her business (*1089] with economic destruction before the business has been brought to its knees. While the treble damages remedy is a potent weapon, it necessarily assumes [**40] that economic injury has occurred. The preventive effect of injunctive relief is often a more just remedy. Although civil RICO empowers the government to bring an injunctive suit to protect a threatened enterprise, we recognize that the resources of the United States Attorney's office are limited. Civil RICO deliberately created dual avenues of enforcement - private and public. We recognize that precluding enforcing parties from employing the weapon of equitable relief partially hamstring the statute's effect. "Private attorney general provisions such as @ 1964(c) are in part designed to fill prosecutorial gaps," *Sedima*, 105 S. Ct. at 3284, and use of equitable remedies by private parties would frequently result in substantial benefits to society generally. These broad social benefits, such as the dismantling of an illegitimate enterprise, would generally exceed the gain to the private plaintiff from this action, especially where the individual's injury has been ameliorated by treble damages.

Even so, while, on balance, it may well have been desirable for Congress to have extended to private parties the right to injunctive relief under civil RICO, we are convinced that Congress [**41] chose not to do so, and we must respect and follow that judgment. n15

-Footnotes-

n15 Since the remedy granted to the Church by the district court was beyond the jurisdiction of the court, it is not necessary for our resolution of this appeal to reach the additional jurisdictional questions whether the Church had standing to assert its adherents' "religious injury" caused by the new church's alleged conduct and whether the dispute was ripe for resolution by the court. See *Liberty National Insurance Holding Co. v. Charter Co.*, 734 F.2d 545, 553 n.19 (11th Cir. 1984); *Raypath, Inc. v. City of Anchorage*, 544 F.2d 1019, 1021 (9th Cir. 1976) (per curiam) (if no cause of action can exist, the case should be dismissed before reaching the issue of standing).

By resolving this appeal on jurisdictional grounds we avoid deciding the significant first amendment issues raised by the district court's injunction. For example, the effect of the injunction's prohibition on the use of any of the higher level materials is to curtail the religious practice of the new church's adherents. See *Sherbert v. Verner*, 374 U.S. 398, 10 L. Ed. 2d 965, 83 S. Ct. 1790 (1963). Similarly, the court's review of the Church's stolen materials and the new church's documents to determine whether essential elements have been appropriated raises the potential for impermissible entanglement in matters of religious doctrine. See *Serbian Eastern Orthodox Diocese v. Milivojevich*, 426 U.S. 696, 96 S. Ct. 2372, 49 L. Ed. 2d 151 (1976). Further, the court's recognition of "religious injury" from premature unsupervised exposure to Church materials as irreparable harm justifying an injunction prompts worrisome establishment concerns. See *Lemon v. Kurtzman*, 403 U.S. 602, 29 L. Ed. 2d 745, 91 S. Ct. 2105 (1971).

-End Footnotes-

[**42]

II. Can Religious Materials Constitute a Protectible Trade Secret?

The Church's complaint included several pendent California state law claims, including misappropriation of trade secrets. Even though the Church is not entitled to injunctive relief under RICO, we must also decide whether it is entitled to the same relief under state law. See USACO, 689 F.2d at 97-98 (affirming on state law grounds an injunction which district court had issued where RICO provided the jurisdictional base).

"The maintenance of standards of commercial ethics and the encouragement of invention are the broadly stated policies behind trade secret law." *Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 481, 40 L. Ed. 2d 315, 94 S. Ct. 1879 (1974) *Chicago Lock Co. v. Fanberg*, 676 F.2d 400, 404-05 (9th Cir. 1982). States may regulate trade secrets only to the extent that state law does not conflict with federal copyright and patent laws. *Kewanee*, 416 U.S. at 479. We review matters of state law de novo. *McLinn*, 739 F.2d at 1403.

Before 1985, California trade secrets law was based on Restatement of Torts @ 757, comment (b) (1939). The leading California case prior to the [**43] present legislation adopted verbatim the Restatement's definition of trade secret:

It is now settled that a trade secret may consist of any formula, pattern, devise or [*1090] compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it.

Sinclair v. Aquarius Electronics, Inc., 42 Cal. App. 3d 216, 221, 116 Cal. Rptr. 654, 658 (1974) (emphasis omitted); see also *Chicago Lock*, 676 F.2d at 404; 7 B. Witkin, *Summary of California Law, Equity* @ 82 (8th ed. 1974 and Supp. 1984). The Restatement (Second) of Torts omitted section 757 and any reference to trade secrets. In response, a Uniform Trade Secrets Act was drafted. California adopted this uniform Act, with minor changes, in 1985. See 14 U.L.A. 537 538-40 (1980 and 1985 Supp.); M. Jager, *Trade Secrets Law*, @ 3.04 (1985); 3 R. Milgrim, *Milgrim on Trade Secrets App. AA* (1985). n16

-Footnotes-

n16 Because the new church's alleged trade secrets' misappropriation spanned the effective date of the California statute, both old and new law must be applicable to sustain the injunction. See Cal. Civ. Code @ 3426.10.

-End Footnotes-

[**44]

California law now defines a trade secret as:

information, including a formula, pattern, compilation, program, devise, method, technique, or process, that:

(1) Derives independent economic value, actual or potential, from not being generally known to the public or to other persons who can obtain economic value from its disclosure or use; and

(2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.

Cal. Civ Code @ 3426.1(d) (West Supp. 1986).

The district court held that the Church's higher level materials were a trade secret. The court relied heavily on the Church's concededly elaborate efforts to maintain the secrecy of its materials. However, the Church's contention that the disputed materials are "religious scripture" was not reconciled with the California statute's reference to "economic value" as an element of a protectible trade secret.

To be protectible as a trade secret under either Restatement section 757 or the new California statute, the confidential material must convey an actual or potential commercial advantage, presumably measurable in dollar terms. We do not accept that a trade secret can [**45] be based on the spiritual advantage the Church believes its adherents acquire over non-adherents by using the materials in the prescribed manner. Former Restatement @ 757 defines trade secrets as information which is "used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it." (Emphasis added). See also 1 Milgrim @ 2.02 ("An element common to the definitions [of trade secret] is actual use of the secret in a trade or business.") (emphasis added); Klitzke, Trade Secrets: Important Quasi-Property Rights, 41 Bus. Lawyer 555, 559 (1986) ("Information that can have no commercial value cannot be the subject of trade secret protection."); Commissioners' Comment to @ 1 of Uniform Act, 14 U.L.A. at 543 ("The definition includes information that has commercial value from a negative viewpoint ... (A) trade secret need not be exclusive to confer a competitive advantage ...") (emphasis added).

No published California decision has yet construed Civ. Code @ 3426.1(d) 's definition of trade secret. In the only significant effort by any state court to construe the Uniform Act's definitional [**46] reference to "independent economic value," the Minnesota Supreme Court stated: "This statutory element carries forward the common law requirement of competitive advantage ... This does not mean ... that the owner of the trade secret must be the only one in the market ... If an outsider would obtain a valuable share of the market by gaining certain information, then that information may be a trade secret if it is not known or readily ascertainable." *Electro-Craft Corp. v. Controlled Motion, Inc.*, 332 N.W.2d 890, 900 (Minn. 1983) (emphasis added). We think it probable that the California courts will follow the Minnesota Supreme Court's view because of the wording of the California criminal law equivalent of Civ. Code @ 3426.1(d). Cal. Penal Code @ 499c(a) (9) (West Supp. 1986) states: [*1091] "Trade secret' means ... information ... which is secret and which is not generally available to the public, and which gives one who uses it an advantage over competitors who do not know of or use the trade secret." (Emphasis added) See *People v. Serrata*, 62 Cal. App. 3d 9, 22, 133 Cal. Rptr. 144, 152 (1976) ("The phrase 'advantage over competitors' [in [**47] Cal. Pen. Code @ 499c] refers to any form of commercial advantage." (emphasis added)).

In its supplementary findings of fact, the district court noted that the new church offers its

services to its adherents at a price “substantially less than that charged by the Church.” However, the Church alleged no competitive market advantage from maintaining the secrecy of its higher level materials. Indeed, to do so would raise grave doubts about its claim as a religion and a not-for-profit corporation. Rather, the Church alleges that its precepts require adherents to be audited in a structured manner with exposure to higher level materials only when the auditor considers the adherent ready. The injury inflicted on the Church by the new church's misappropriation of its “secret” is the “religious harm” that would be suffered by Church adherents from premature unsupervised exposure to the materials. The value of the confidential materials is thus spiritual not commercial, and the materials cannot be said to have the “independent economic value” necessary to qualify as a protectible trade secret. n17

-Footnotes-

n17 The Church relies heavily on language in *Purcell v. Summers*, 145 F.2d 979, 985 (4th Cir. 1944) which states that unfair competition law applies fully to religious and not-for-profit organizations. That case involved an injunction under South Carolina law for the improper use of a church's name by a splinter church. The Methodist Episcopal Church South had merged with two other churches to form the United Methodist Church. Dissident members who opposed the merger formed their own church using the former name. The Fourth Circuit held that the property and charitable gifts of the merged church would be threatened by the use of its former name by a different church.

Purcell does not involve trade secrets. Rather, it is an example of “the common law of trademark infringement and unfair competition [which] is replete with cases holding that benevolent, religious, charitable or fraternal organizations are entitled to injunctive relief protecting against the continued use of their name by local chapters which disaffiliate.” *United States Jaycees v. San Francisco Junior Chamber of Commerce*, 354 F. Supp. 61, 71 (N.D. Cal. 1972) (citing numerous cases), *aff'd* 513 F.2d 1226 (9th Cir. 1975) (per curiam).

-End Footnotes-

[**48]

III. Conclusion

The Church was not entitled to an injunction either under civil RICO or under California trade secrets law. We therefore dissolve the injunction forthwith.

REVERSED.