

IN THE UNITED STATES DISTRICT COURT
FOR THE NORTHERN DISTRICT OF ILLINOIS
EASTERN DIVISION

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THE NATIONAL SPIRITUAL ASSEMBLY)
OF THE BAHA'IS OF THE UNITED STATES)
OF AMERICA UNDER THE HEREDITARY)
GUARDIANSHIP, INC.,)

Counter-Defendant,)

v.)

NATIONAL SPIRITUAL ASSEMBLY)
OF THE BAHA'IS OF THE UNITED STATES)
OF AMERICA, INC.,)

Counterclaimant.)

Civil Action No. 64 C 1878

The Honorable Amy J. St. Eve

**NSA'S REPLY MEMORANDUM TO THE RESPONSE OF FRANKLIN D.
SCHLATTER, JOEL B. MARANGELLA AND PROVISIONAL NATIONAL
BAHA'I COUNCIL**

I. BACKGROUND

The National Spiritual Assembly of the Baha'is of the United States ("NSA") reopened the present action upon a motion for rule to show cause why certain parties should not be held in civil contempt for violating a judgment entered on June 28, 1966 (the "Judgment"). After the rule to show cause was entered, the Court allowed limited discovery pertaining to NSA's show-cause motion. That discovery has now been completed. As discussed below, information disclosed in discovery confirms that a finding of contempt is fully warranted with respect to Franklin D. Schlatter, Joel B. Marangella and the Provisional National Baha'i Council ("PNBC"). NSA is concurrently filing a separate reply regarding alleged contemnors Second International Baha'i Council and Baha'i Publishers Under the Provisions of the Covenant d/b/a/ Bahai's Under the Provisions of the Covenant.

II. THE VALIDITY OF THE JUDGMENT CANNOT BE CHALLENGED

The Judgment provides in pertinent part as follows:

The National Spiritual Assembly of the Baha'is of the United States of America Under the Hereditary Guardianship, Inc., its officers, agents, servants, employees, attorneys, and all persons in active concert or participation with them, including

affiliated Local Spiritual Assemblies, groups, and individuals, or any of them, be and they are hereby enjoined from using in their activities the designations “National Spiritual Assembly of the Baha’is of the United States of America Under the Hereditary Guardianship, Inc.,” “Baha’i News Bureau,” “Baha’i Round Robin,” “Baha’i,” trademark representations of the Baha’i House of Worship, the Arabic design “The Greatest Name [”] and any other designation which by colorable imitation or otherwise is likely to be mistaken for or confused with the counterclaimant’s name or marks as indicated above or is likely to create the erroneous impression that counter-defendant’s religious activities, publications or doctrines originate with counterclaimant, and from otherwise competing unfairly with counterclaimant or infringing counterclaimant’s rights.

See Memorandum For Rule at Exhibit A, pp.24-25.

The National Spiritual Assembly of the Baha’is of the United States of America Under the Hereditary Guardianship, Inc. (the “Remey Corporation”) did not challenge or appeal from the Judgment. Accordingly, the validity and terms of the injunction are not reviewable in this civil contempt proceeding.

It is well-settled that “the terms of the judgment or of the injunction cannot be attacked in a civil contempt proceeding as they are *res judicata*.” See *World’s Finest Chocolate, Inc. v. World Candies, Inc.*, 409 F. Supp. 840, 844 (N.D. Ill. 1976) (rejecting alleged contemnor’s trademark invalidity defense based upon clear rule barring re-litigation of merits underlying judgments); see also *Reich v. Sea Sprite Boat Co. Inc.*, 50 F.3d 413, 416 (7th Cir. 1995) (finding alleged contemnor’s defense that he deemed the Court’s order invalid to be “ludicrous.”). Even as of 1948, the Supreme Court stated that it had “long ago settled” the issue that a final order becomes *res judicata* and is not subject to collateral attack in contempt proceedings. See *Maggio v. Zeitz*, 333 U.S. 56, 68-69 (1948) (“when it has become final, disobedience cannot be justified by re-trying the issues as to whether the order should have issued in the first place”). This rule is unvarying. See e.g., *Federated Dept. Stores, Inc. et al. v. Moitie, et al.*, 452 U.S. 394, 398 (1981) (reversing Court of Appeals and declining to hold that the consequences of *res judicata* as applied to a “final, unappealed judgment on the merits (would be) altered by the fact that the judgment may have been wrong or rested on a legal principle subsequently overruled in another case.”). Thus, the alleged contemnors cannot now challenge the injunction on the merits in this contempt proceeding.

III. THE ALLEGED CONTEMNORS ARE BOUND BY THE JUDGMENT¹

A. The Governing Legal Principles

Federal Rule of Civil Procedure 65(d), which codified common-law principles regarding privity, provides: “Every order granting an injunction . . . is binding only upon the parties to the action, their officers, agents, servants, employees, and attorneys, and upon those persons in active concert or participation with them who receive actual notice of the order by personal service or otherwise.” The Supreme Court has explained that this rule “is derived from the common-law doctrine that a decree of injunction not only binds the parties defendant but also those identified with them in interest, in ‘privity’ with them, represented by them or subject to their control. In essence it is that defendants may not nullify a decree by carrying out prohibited acts through aiders and abettors, although they were not parties to the original proceeding.” *Regal Knitwear Co. v. NLRB*, 324 U.S. 9, 14 (1945).

Rule 65(d) specifically lists “officers,” “agents,” “servants,” “employees,” and “those persons in active concert or participation with them” as among those who are bound by an injunction. Thus, an injunction against a corporation extends, *inter alia*, to the corporation’s officers, agents, and employees. *Reich v. Sea Sprite Boat Co.*, 50 F.3d 413, 417 (7th Cir. 1995) (“An order issued to a corporation is identical to an order issued to its officers, for incorporeal abstractions act through agents.”).

The Seventh Circuit has recognized that an injunction may bind nonparties who are successors in interest to parties named in an injunction as well as those who aid or abet the named parties in activities that violate the injunction. *Rockwell Graphic Syst., Inc. v. DEV Indust., Inc.*, 91 F.3d 914, 919 (7th Cir. 1996). Further, the court observed that “the reach of an injunction will accord with its purpose(s), subject to the limitations of due process.” *Rockwell*, 91 F.3d at 920.

Importantly, the legal effect of an injunction does not end with the dissolution of the enjoined entity. Rather, an injunction “survives the dissolution of the corporate defendant” and remains enforceable against persons who are bound by the injunction including the corporation’s

¹ NSA’s evidence in support of this Reply includes the Declaration of Geoffrey N. Wilson and the Declaration of Tracey L. Giertz, referred to as Exhibit 1 and 2, respectively. The evidence submitted herewith supplements that in NSA’s Memorandum in Support of Its Motion For Rule (“Memorandum For Rule”) and NSA’s Memorandum, and Reply Memorandum In Support of NSA’s Motion For Limited Discovery and the declarations thereto.

former officers, agents, employees, and those in active concert or participation with them. *Walling v. Reuter*, 321 U.S. 671, 674 (1944).

As one court aptly explained in the context of a civil contempt proceeding: “Although directed at AdCon [the enjoined party], the injunction did not necessarily lapse with the cessation of AdCon as a working business. An injunction may survive the dissolution of the corporation at which it was directed and continue to bind any successor in interest to the original defendant.” *Additive Controls & Measurement Systems, Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1351 (Fed. Cir. 1998).

Furthermore, a new entity that is created by one or more people who are subject to the original injunction, and that engages in enjoined conduct, is subject to contempt under Rule 65(d). *E.g., Reich v. Sea Sprite Boat Co.*, 50 F.3d 413, 417 (7th Cir. 1995) (holding that both the owner and the new corporation were bound by the injunction entered against the old corporation that was dissolved); *Panther Pumps & Equipment Co., Inc. v. Hydrocraft, Inc.*, 566 F.2d 8, 18 (7th Cir. 1977) (noting that a person who is subject to an injunction “cannot use the corporate form to evade the prohibitions of the injunction which bound him.”). This rule serves a salutary purpose in that it prevents an enjoined defendant from avoiding the effect of an injunction “by carrying out prohibited acts through aiders and abettors, although they were not parties to the original proceeding.” *Regal Knitwear Co. v. NLRB*, 324 U.S. 9, 14 (1945).

Relevant authority demonstrates how courts have applied these principles. For example, in *ICC v. Rio Grande Growers Cooperative*, 564 F.2d 848 (9th Cir. 1977), an injunction was issued against *Rio Grande*, a company for which Stan Anderson was the managing agent. Mr. Anderson created a new corporation called San Joaquin Valley Growers Corporation, Inc. Mr. Anderson operated San Joaquin in much the same way that he operated Rio Grande. The district court held that both Mr. Anderson and the new corporation, San Joaquin, were bound by the injunction against Rio Grande and in civil contempt, even though neither was a party to the original action.

The court of appeals affirmed, stating:

There is an abundance of evidence in the record which shows that Stan Anderson was an “agent” or “employee” of Rio Grande [the enjoined party] and that San Joaquin was a “successor” organization to Rio Grande. As such they were bound by the prior permanent injunction and judgment. To find otherwise on this evidence would be to allow San Joaquin and Stan Anderson to

nullify the court's decree and circumvent the ICC's regulations by carrying out prohibited acts through successive corporations not party to the original actions. This we cannot accept.

Rio Grande, 564 F.2d at 849. To the same effect, see *Additive Controls & Measurement Systems, Inc. v. Flowdata, Inc.*, 154 F.3d 1345, 1354 (Fed. Cir. 1998) (“courts have consistently held that ‘successors’ are within the scope of an injunction entered against a corporation and may be held in contempt for its violation.”); *People of State of New York v. Operation Rescue Nat’l*, 80 F.3d 64, 71 (2d Cir. 1996) (affirming holding that alleged contemnors are bound by injunction, even though they were not named in the injunction, “where similarly constituted groups of individuals move fluidly between multiple unincorporated associations that share the same basic leadership and goals.”).

Applying these principles to the present case demonstrates that the alleged contemnors are bound by, and in violation of, the Judgment.

B. Franklin Schlatter Is Bound By the Judgment

Frank Schlatter is bound by the Judgment as an officer of the Remy Corporation. In addition to the information of record regarding Franklin Schlatter's extensive role as an officer of the Remy Corporation, he served on its legal committee in connection with this litigation. Exhibit 3 (pp. 10-13, 55-58, 60:1-75:25, 80-82); Exhibit 4. He had notice of the Judgment. Exhibit 3 (p. 16:3-7); Exhibit 5. Accordingly, Frank Schlatter is bound by the Judgment.

C. Joel B. Marangella Is Bound By the Judgment

Prior to and at the time the injunction was entered, Marangella was providing leadership to and acting in active concert and participation with Remy Corporation and its officers, agents and employees. As early as 1960, Joel B. Marangella was coordinating with alleged contemnor Franklin Schlatter and others in support of Mason Remy's claims, including the discussion of legal proceedings against NSA and its affiliated institutions. Exhibit 6; Exhibit 3 (pp. 28:8-53:2); Exhibit 7 (pp. 25:14-27:14, 28:22-31:5, 32:14-37, 38:10-43). Marangella was appointed as the new leader or “guardian” of the Remy group during this litigation and well-prior to the Judgment. Exhibit 8; Exhibit 7 (pp. 21-25; 43:5-45:13); Exhibit 9 (pp. 7-8); *see also* Declaration of Joel B. Marangella at ¶ 11. Mason Remy repeatedly confirmed that Marangella was to handle the affairs of the Remy group, including oversight of the Remy Corporation. Exhibit 10; Exhibit 3 (p. 59); Exhibit 7 (pp. 57-59). Marangella provided direction to the Remy

Corporation and its legal committee on many matters, including this litigation. Exhibit 11; Exhibit 7 (pp. 47-53;71-73); Exhibit 3 (pp. 66-69, 71-81). Remy Corporation recognized Marangella as a leader. Exhibit 12; Exhibit 7 (pp. 59-62.) It also provided financial support to Marangella, and his Second International Baha'i Council. Exhibit 13; Exhibit 14 (pp. 26:5-28:14). Marangella is a U.S. citizen and was stationed overseas by the U.S. Army as an enlisted serviceman during the litigation and when the injunction issued.² Exhibit 3 (pp. 64:13-65:23, 70:11-72:13); Exhibit 7 (pp. 10-16). Marangella had notice of the injunction and that it restricted use of the marks. Exhibit 15; Exhibit 7 (pp. 62-63, 66-71). Marangella later explained, in a statement intended for the U.S. Internal Revenue Service, that as third guardian of the Orthodox Baha'i Faith, he had assumed the responsibilities of the second guardian, Mason Remy. Exhibit 16; Exhibit 7 (pp. 99-108). Marangella is bound under the plain terms of the Judgment.

D. PNBC Is Bound By the Judgment

The Remy Corporation's entire nine-member board, including its entire Legal Committee, joined PNBC's predecessor the National Bureau and several have had leadership roles with PNBC and National Bureau. Exhibit 17; Exhibit 3 (pp. 89-92); Exhibit 9 (pp. 11-33). In all, approximately forty former leaders and members of the Remy group and Corporation organized under the National Bureau. Exhibit 18; Exhibit 7 (pp. 70-73). These former members had notice of the judgment. Exhibit 19 (pp. 36-38).

Notably, some of the former leaders of the Remy Corporation organized under Marangella, because, after the injunction issued, Mason Remy sought to change the name of the group to Abha Faith. Exhibit 19 (pp. 40-42, 154-156); Exhibit 20; Exhibit 7 (pp. 66-70). Marangella, Schlatter, James and Marilyn Meyers and others disagreed with this name change, wishing to continue in their use of the marks. *Id.* Moreover, Marangella and others encouraged former Remy Corporation members to violate the Judgment with arguments directly counter to legal opinions they had received just four years prior. Exhibit 21; Exhibit 7 (pp. 89-95).

In 1978, the National Bureau, composed at the time entirely of former Remy group leaders and members, transferred its responsibilities to another Marangella-created entity, Mother Baha'i Council. Exhibit 22; Exhibit 9 (pp. 16:24-17:12, 32-33, 50-52). The nine-

² The legal presumption is that an individual retains their domicile at time of entry into the military and assignment to another state or country. *See Deese v. Hundley*, 232 F. Supp. 848, 850 (W.D.S.C. 1964) (holding state citizenship does not change by assignment of military service in foreign state or country); *see also Furman v. General Dynamics Corp.*, 377 F. Supp. 37, 45 (S.D.N.Y. 1974).

member Mother Baha'i Council was composed of former Remy Corporation and Remy group members, Franklin Schlatter, **REDACTED**

and recruits, all of Roswell, New Mexico. Exhibit 22; Exhibit 9 (pp. 32-37).

It was responsible for the same membership as National Bureau. Exhibit 23. Mother Baha'i Council and PNBC are one and the same entity, referred to herein collectively as PNBC. Exhibit 24; Exhibit 9 (pp. 10:25-11:25).

Mr. Schlatter incorporated PNBC and served as its secretary from 1978 through 2001. Its corporate address was his home, until it moved to the residence of James and Marilyn Meyer. Exhibit 25, Exhibit 9 (pp. 32-35, 45, 47-49). The response brief notes his retirement from PNBC's board in 2001, but Schlatter regularly participates in PNBC meetings, contributes advice, performs tasks for PNBC and participates in its violations. Exhibit 26; Exhibit 19 (pp. 48, 94-96:7, 119:4-121:12). Mr. Schlatter was also PNBC's 30(b)(6) designee in this proceeding, confirming his continuing close relationship with PNBC. Exhibit 9 (pp. 4-6); Exhibit 27. He was recently named "Secretary General" to Marangella's recently formed "Third International Baha'i Council" and, as such, is second in line to succeed Marangella as "guardian" of the group. Exhibit 28; Exhibit 19 (p. 112); Exhibit 9 (pp. 59-63).

PNBC is a nine member council currently governing a membership of about thirty-four followers, many of whom are related and living in rural New Mexico. Exhibit 29; Exhibit 19 (pp. 50:20-51:11); Exhibit 9 (p. 68). Of the nine on the current council, James Meyer and Marilyn Meyer previously served on the Remy Corporation's nine member board and

REDACTED were members of the Remy group. Exhibit 30.

James and Marilyn Meyer were also leaders of PNBC's predecessor, National Bureau. Exhibit 22; Exhibit 9 (pp. 16:25-17:12, 33:6-34:2, 49:24-50:25, 69:14-70:6). Their roles in the Remy Corporation were significant and they are individually subject to the Judgment. James Meyer was the chairman of the Remy Corporation during the litigation and when the injunction issued. Exhibit 31; Exhibit 19 (pp. 22:20-24:14); Exhibit 14 (pp. 11-12). James Meyer, along with Franklin Schlatter, was on the 1964 Remy Corporation board that voted to sue NSA. Exhibit 32; Exhibit 3 (pp. 55-57). Marilyn Meyer, now the Secretary of PNBC, was a member of the nine-member Remy Corporation board during the litigation and when the injunction issued. *Id.* Together, the Meyers helped found the Remy group, served on the Remy Corporation's Legal Committee, participated in this litigation, and reproduced, distributed and

contributed to materials that were the subject of the injunction, such as the *Glad Tidings* newsletter. Exhibit 33; Exhibit 19 (pp. 8:4-14:7, 18:16-19:19, 30:3-31:4, 32:17-38); Exhibit 14 (pp. 13-18:9, 19:14-20:25, 21:1-16).

At least twelve current members under PNBC were leaders of the Remy Corporation or were in the membership under its auspices. Exhibit 34; Exhibit 9 (pp. 49-55). At least one current PNBC member, resident in Illinois, was a member of the Remy Corporation's local spiritual assembly in Santa Fe. Exhibit 19 (p. 28). At least twelve individuals in Marangella's forty-person following are children or grand-children of those that were in the Remy group. Exhibit 29; Exhibit 19 (pp. 51-55); Exhibit 9 (pp. 51-56).

Property and materials utilized by the Remy Corporation were later used for the benefit of PNBC and its predecessors-in-interest.³ Exhibit 36; Exhibit 14 (pp. 28:18-29:24); Exhibit 7 (pp. 83-84, 91). It uses essentially the same trademarks that the Remy Corporation had used. The Remy group was known by its members as the Orthodox Baha'i Faith, just as PNBC is today. Exhibit 14 (p. 8:13-18); Exhibit 19 (p. 107); Exhibit 3 (pp. 73:11-74:17); Exhibit 7 (pp. 95:22-97:20); Exhibit 37. PNBC's goals are essentially the same as the Remy Corporation's including teaching Mason Remy's ideas regarding the "hereditary" or "continuing" guardianship, positing Remy as the "second guardian," and attempting to divert NSA's membership, just as the Remy group did. Exhibit 19 (pp. 28:18-29:5, 42-43, 49:24-50:19, 74:1-10, 101-103); Exhibit 9 (pp. 8-10:24); Exhibit 38; Exhibit 7 (pp. 110-112). The roles of Marangella and Schlatter in the Remy Corporation and PNBC are another point of continuity. Exhibit 19 (p. 79); Exhibit 39; Exhibit 7 (pp. 108-110, 119-120). PNBC and its predecessor were created to continue the enjoined activity. Exhibit 19 (pp. 40-42, 154-156); Exhibit 7 (pp. 66-67). PNBC has notice of the injunction by virtue of the knowledge of its leadership and because the terms of the injunction were recently circulated to its membership. Exhibit 19 (pp. 126-128); Exhibit 40.

In sum, PNBC is bound by the Judgment because an injunction may bind nonparties "who are successors in interest to parties named in the injunction, with respect to the subject

³ This includes archival papers and other materials that were kept on James and Marilyn Meyers' Espanola, New Mexico, property for the Remy Corporation prior to the 1966 Judgment. The same location served as the Remy Corporation's "Distribution & Reproduction" service. Exhibit 19 (pp. 34-35). The archival materials are on the same property stored in a sea container and dubbed the "National Archives" by Mr. Marangella. Exhibit 19 (pp. 64-65). A photograph of this location, PNBC's corporate address at 6 Meyers Road, Espanola, New Mexico, is attached as Exhibit 35.

matter of the injunction.” *Rockwell*, 91 F.3d at 920. Moreover, PNBC was formed to carry on the enjoined activity. *Panther Pumps*, 566 F.2d at 12; *see also Vacco v. Operation Rescue Nat’l*, 80 F.3d 64, 71 (2d Cir. 1996); *Chanel Indus., Inc. v. Pierre Marche, Inc.*, 199 F. Supp. 748, 752-53 (E.D. Mo. 1961). PNBC’s work with Marangella and Schlatter, who are subject to the injunction, and the fact that PNBC’s Secretary and three of its other board members are subject to the injunction, leaves no doubt that PNBC is bound by the Judgment. Remy Corporation was the legal representative of its adherents regarding the matters resolved in the Judgment. Exhibit 41 at ¶ 6 (stating “said plaintiff corporation consists of the members of the Baha’i Faith resident within the United States of America who have expressed their belief in all the tenets of said faith, including the principle known as ‘the hereditary guardianship.’”); *see also* Memorandum for Rule at p. 5. Accordingly, its membership, several of whom are now involved with PNBC, is bound by the Judgment.

IV. THE ALLEGED CONTEMNORS’ VIOLATIONS ARE CLEAR

That the alleged contemnors are violating the Judgment, is not seriously contested. Their violations are clear and egregious. Joel B. Marangella’s violations are flagrant. Mr. Marangella owns the domain name www.bahai-guardian.com and he is responsible for its content, including designations such as, “Baha’i” “Baha’i Faith” “Guardian of the Baha’i Faith” and “Baha’i Faith Under the Hereditary Guardianship.” Exhibit 42; Exhibit 7 (p. 73, 77-79). His authority over PNBC is absolute. Exhibit 43, Exhibit 9 (pp. 37-38); Exhibit 7 (pp. 91-94, 123-125). Marangella directs PNBC in its attempts to draw members away from NSA, with questionable tactics. Exhibit 44; Exhibit 19 (pp. 65:25-72, 79:21-88:3, 90:25-92:2; 105-06). Under his leadership, the group actively recruits new members while using NSA’s marks without authorization. Exhibit 45; Exhibit 19 (pp. 84-85, 94-99).

Similarly, Frank Schlatter’s violations are clear and willful. Nearly all of the content on the official PNBC Web site at domain name www.rt66.com/~obfusa/council.htm was provided by Frank Schlatter and Mr. Schlatter created the site with his son. Exhibit 46; Exhibit 3 (pp. 17:7-21:7). Schlatter receives emails at the address advertised on PNBC’s official web site. Exhibit 9 (p. 72). He works in close concert with Marangella and PNBC in connection with the violations. Moreover, he has been appointed a “Hand of the Cause” by Marangella, serving as an advisor and charged with convincing people that Mason Remy was right and that Marangella is Remy’s successor. Schlatter has visited Illinois with PNBC in this capacity. Exhibit 3 (pp.

92:2-95:9); Exhibit 19 (pp. 124:5-126:7; 167:17-168:6). Schlatter, like Marangella, willfully persists despite his earlier recognition that the injunction forbids use of the marks. *See Baldwin Piano, Inc. v Deutsche Wuerlitzer*, 2004 WL 1323940 Civ. No. 03 C 2105 (N.D. Ill. June 15, 2004) (finding violation intentional where contemnor knew injunction affected its right to use tradename).

Likewise, PNBC clearly violates the Judgment. PNBC's official web site at www.rt66.com/~obfusa/council.htm contains blatant uses of the marks in violation of the Judgment. Exhibit 9 (p. 72); Exhibit 47. PNBC employs many questionable tactics to attract adherents. Exhibit 48; Exhibit 19 (pp. 65:25-72, 79:21-88:3, 90:25-92:2, 99, 105-06). For example, it attempts to induce NSA's enrolled members to mistakenly "stumble-upon" it on the web. Exhibit 49. PNBC has recently engaged in additional activities that "infring[e] counterclaimant's rights" in violation of the Judgment. Exhibit 50; Exhibit 19 (pp. 70-76, 94-98, 119-120); Exhibit 7 (pp. 111-114); Exhibit 1. It also appears that an Iranian who was facing deportation was confused by the group's use of the marks. Exhibit 9 (pp. 46-47); Exhibit 51. This confusion could have had life-altering effects for the individual involved and this newly discovered evidence is of great concern to NSA. *See* Memorandum for Rule, Exhibit B at ¶¶ 19, 26.

V. THE ALLEGED CONTEMNORS' DEFENSES ARE WITHOUT MERIT

A. The First Amendment Defenses Are Barred By *Res Judicata*

The Remy Corporation filed this case, lost it, and did not appeal. Accordingly, the First Amendment-related defenses fail because a final order becomes *res judicata* and is not subject to collateral attack in contempt proceedings.⁴ *See e.g., Maggio v. Zeitz*, 333 U.S. 56, 68-69 (1948).

B. The Fair Use Defense Is Barred By *Res Judicata* and the Safe Distance Rule

The fair use defense fails under principles of *res judicata* in this contempt proceeding. The alleged contemnors' are using marks that are specifically referenced in the injunction and

⁴ The First Amendment defenses would fail even if this were a new action. The Constitution authorizes Congress to create rights, such as trademark rights, to promote the aims of the First Amendment by preventing the use of confusingly similar names, such that parties can differentiate themselves and avoid public confusion.

others that are within its scope.⁵ When a defendant and its privies are enjoined from using a plaintiff's trademark they are also barred from using words in "close imitation or resemblance to the mark." *See World's Finest* at 845.

C. NSA's Marks Are Valid

NSA's marks were declared valid and enforceable in this case and the Remy group failed to appeal those rulings. Accordingly, claims that NSA's marks containing the word BAHA'I and the GREATEST NAME symbols, are generic are barred in this contempt proceeding. *See e.g. Maggio*, 333 U.S. 56, 68-69. Moreover, NSA has maintained the relevant registrations, all of which, long ago, obtained incontestability. Exhibit 1 at ¶ 5.

While it is unnecessary to address the issue of trademark validity in this contempt proceeding, NSA submits herewith the Expert Report of Gary T. Ford. Exhibit 52. This report contains the results of an empirical study demonstrating that the primary significance of the word BAHA'I is to identify people who are affiliated with NSA, authorized by the Universal House of Justice in Haifa, Israel.

The *McDaniel* case, cited in the response, was brought to the Court's attention during the underlying litigation. Exhibit 53. PNBC also asserts that there are several denominations of the Baha'i Faith, implying that NSA's marks are, therefore, not enforceable. On the contrary, the Baha'i Faith has no denominations whatsoever. There is the Baha'i Faith, on the one hand, and on the other hand there are former followers of Mason Remy, removed from the Baha'i Faith, and their successors, such as the alleged contemnors. Exhibit 1 at ¶¶ 7-18.

D. The "Dormant Judgment" and Unclean Hands Defenses Fail

The statute, 735 ILCS 5/12-108, is inapplicable in the case of a permanent trademark injunction, such as the Judgment. The unclean hands defense unfounded, and without factual or evidentiary support and no nexus to the issues in this proceeding. Where an unclean hands theory is only collaterally related to the trademarks at issue, the defense cannot operate to bar suit. *See R.J. Reynolds Tobacco Co. v. Premium Tobacco Stores, Inc.*, 2001 WL 747422 * 2

⁵ Criticisms of NSA on PNBC Web sites does not obviate confusion. Confusion is measured based on an initial understanding, not one that may develop after careful reading of material. *See e.g. Brach Van Houten v. Save Brach's Coalition*, 856 F. Supp. 472, 475 (N.D. Ill. 1994) (J. Kocoras) (recognizing that preventing defendant's use of the marks, as trademarks, does not prevent it from communicating its criticisms). The Marangella group is free to fairly criticize NSA. It may not, however, cloak itself in NSA's marks to cause confusion and compete unfairly with NSA.

(N.D. Ill. June 29, 2001) (granting motion to strike unclean hands defense). The *Lennon* case cited in support of this unclean hands defense has no bearing on the facts or law of this case.

E. The Equitable Doctrines of Laches and Acquiescence Are Inapplicable

The response brief failed to disclose a single case where laches was applied to deny injunctive relief in a contempt proceeding for violation of a trademark injunction. The Judgment rendered a permanent injunction. The alleged contemnors are fully aware of the injunction and of NSA's rights. In such circumstances, equity will not come to the aid of alleged contemnors.

Furthermore, laches does not apply in likelihood of confusion cases where confusion is inevitable. See e.g. *Coach House Restaurant, Inc. v. Coach and Six Restaurants, Inc.*, 934 F.2d 1551, 1564 (11th Cir. 1991). This is so because the "public interest in preventing confusion around the marketplace is paramount to any inequity caused [by unreasonable delay]. See *id.* Thus, laches will not apply where the marks are identical and the goods are essentially the same. Here, the question of inevitable confusion is not in doubt. Memorandum for Rule, Exhibit A, Conclusions of Law at ¶¶ 11-18. The alleged contemnors are using marks bearing identity to NSA's marks for religious services and publications.

Laches and acquiescence are also inapplicable because the alleged contemnors are willfully and knowingly violating the Judgment through Web publishing efforts. According to the Supreme Court:

"[t]he intentional use of another's trade-mark is a fraud; and when the excuse is that the owner permitted such use, that excuse is disposed of by affirmative action to put a stop to it. Persistence, then, in the use is not innocent, and the wrong is a continuing one, demanding restraint by judicial interposition when properly invoked. Mere delay or acquiescence cannot defeat the remedy by injunction in support of the legal right."

Menendez v. Holt, 128 U.S. 514, 523 (1888). It follows that, laches is an equitable doctrine that "will not bar injunctive relief where a defendant adopted the tradename with knowledge of a plaintiff's rights [in a tradename]" *Kraft Foods Holdings, Inc. v. Helm*, 205 F. Supp. 2d 942, 955 (N.D. Ill. 2002). In the Seventh Circuit's view, "only in the most exceptional circumstances will injunctive relief be denied [on the basis of a laches defense] in a case of deliberate infringement." *Tisch Hotels, Inc. v. Americana Inn, Inc.*, 350 F.2d 609, 615 (7th Cir. 1965). In light of the Judgment, the alleged contemnors cannot claim they relied on a false sense

of security when willfully violating it and infringing NSA's trademarks. *See Blue Cross*, 467 F.3d at 640-641 ("As far as we can see, everything would have proceeded exactly as it did . . . had a protest (been made). If that's so, then there is not reliance, detrimental or otherwise.").

Moreover, there is no support in the record for laches. The "mere passage of time cannot constitute laches." *Helene Curtis Indus., Inc. v. Church & Dwight Co., Inc.*, 560 F.2d 1325, 1334 (7th Cir. 1977) quoting *Friend v. H.A. Friend and Co.*, 416 F.2d 526, 533 (9th Cir. 1969). To prevail on laches, Respondent must prove, by a preponderance of the evidence, that (1) NSA delayed in filing suit for an unreasonable amount of time after receiving notice of infringement of its trademark rights; and (2) that the Respondent was prejudiced by relying, to its detriment, on its belief that NSA's delay signaled an approval of the acts in question. *Blue Cross and Blue Shield Association v. American Express Co.*, 467 F.3d 634, 640 (7th Cir. 2006). Alleged contemnors have failed to support either prong.

In fact, NSA did not delay. The alleged contemnors admit, repeatedly, that they had no success in reaching an audience prior to the Internet and PNBC has been almost entirely unsuccessful in gaining adherents to their faith group, outside of family members. Exhibit 19 (pp. 76; 103-104); Exhibit 54. In fact, PNBC nearly disbanded due to high absenteeism in 1995 and in 1989 because it had too few members. Exhibit 9 (p. 46); Exhibit 55. Discovery revealed that the group considered the Web provided a "golden opportunity" and that almost all recent enrollments are due to the Internet contact. Exhibit 3 (p. 76); Exhibit 9 (p. 76-78); Exhibit 19 (pp. 103-104); Exhibit 56.

The activities of the alleged contemnors were localized, remote and exceedingly small scale, such that NSA did not have a basis for pursuing action until recently, when the alleged contemnors began seeking to raise their profile through the Internet. Once NSA became aware of these changed circumstances it objected. Exhibit 1, ¶ 23-26.

NSA's approach is consistent with the theory of progressive encroachment. According to the doctrine of progressive encroachment, a trademark owner may tolerate *de minimis* or low-level infringements and still have the right to act promptly when a junior user of a mark raises the visibility of their use of the mark.⁶ *AM General Corp. v. DaimlerChrysler Corp.*, 311 F.3d

⁶ The cases relied on by Respondents, *Hot Wax, Inc. v. Turtle Wax, Inc.*, 191 F.3d 813 (7th Cir. 1999), *Lewis Invisible Stitch Mach Co. v. Popper*, 33 F. Supp. 812 (EDNY 1940), and *TMT North America, Inc. v. Magic Touch GmbH*, 124 F.3d 876 (7th Cir. 1997), Resp. 12, are not to the contrary. In *Hot Wax*, the court applied the laches defense because the plaintiff sat idly by with knowledge that the defendant's

796, 823 (7th Cir. 2002). The theory of progressive encroachment has been applied to overturn a finding of laches based on a plaintiff who knew of the activity of the alleged infringer for more than forty years. *University of Pittsburgh v. Champion Prods., Inc.*, 686 F.2d 1040, 1046 (3rd Cir. 1982); *See also A.E. Staley Mfg. Co. v. Staley Milling Co.*, 253 F.2d 269, 279 (7th Cir. 1958) (allowing injunctive relief because the defendant's activity was of a progressive character).

If NSA delayed, the delay was reasonable and there was no prejudice to alleged contemnors. Exhibit 1, ¶¶ 18-28. The alleged contemnors failed to demonstrate detriment attributable to the alleged delay. The record shows merely that they sporadically placed small advertisements in classified sections and then, recently, established Web sites. *See Schlatter declaration*. Exhibit 1, ¶ 28.

NSA does not seek monetary relief, but rather seeks an order that alleged contemnors are bound by the Judgment and that their activities on the Web are violations. Accordingly, even if the court were to find any delay by NSA unreasonable, the court still should refuse to apply laches. *See McLean v. Fleming*, 96 U.S. 245, 248 (1877) (holding that “an injunction will not be refused on account of delay in seeking relief, where proof of [trademark] infringement is clear”).

F. This Court Has Jurisdiction

Minimum contacts analysis is inapposite in a contempt proceeding. *See e.g., Chicago Tribune Co. v. U.S. Dept. of Health and Human Servs., et al.*, No. 95 C. 3917, 1999 U.S. Dist. LEXIS 6848, at * 13-14 (N.D. Ill. April 30, 1999) (holding if an alleged contemnor is bound by the judgment directly or through privity and has committed a violation of the court's order, then the issuing court has jurisdiction over the contemnor pursuant to FED. R. CIV. P. 65).

Nevertheless, jurisdictional contacts are extensive. Frank Schlatter, James Meyer, Marilyn Meyer, Joel Marangella and other former members of Remy's group were directly involved with this litigation. Frank Schlatter and James Meyer were on the Remy Corporation's Board in 1964, when it voted to sue NSA in this District. Exhibit 32. Three or four current members are Illinois residents and they hold an annual “Illinois regional conference.” Exhibit 19 (pp. 55-56,

business was growing exponentially for as long as twenty years. *Hot Wax*, 191 F.3d at 824. In contrast, NSA obtained an injunction and reopened this case when the Marangella group reappeared and escalated its activities on the Web. Respondent's reliance on *TMT North America* is also misplaced. Acquiescence requires an “affirmative word or deed” conveying implied consent. Resp. 12 quoting *TMT North America*, 124 F.3d at 885 (emphasis added). There is no evidence in the record of any such affirmative word or deed. The *Lewis* case is of no discernable assistance regarding whether the court should exercise its discretion and apply the laches defense.

88-90; 99-101); Exhibit 9 (pp. 56-57); Exhibit 57. PNBC receives donations from Illinois members. NSA is a resident of this District and, at Marangella's direction, PNBC seeks new members among NSA's membership. The damage caused by alleged contemnors is felt in this District. *See Indianapolis Colts, Inc. v. Metro Baltimore Football Club, L.P.*, 34 F.3d 410, 411 (7th Cir. 1994). Jeffrey Goldberg, was a resident of this District when he stumbled upon PNBC on the Internet and was recruited by Frank Schlatter while in this District. *See Declaration of Geoffrey N. Wilson In Support Of NSA's Motion For Limited Discovery at ¶ 12.* Mr. Schlatter created PNBC's Web site and most of its content. The alleged contemnors' Web sites are all accessible from this District. Moreover, Mr. Schlatter and PNBC have traveled to this District for a PNBC conference.

VI. NSA Is Entitled To Enforce The Judgment

NSA only differs from the original counterclaimant in its adoption of a new corporate form. Exhibit 1 at ¶¶ 33-36. NSA is the successor to the original counterclaimant's "powers, rights, responsibilities, privileges, obligations, assets and liabilities," and NSA has the ability to enforce the Injunction. *See id.*

VII. CONCLUSION

NSA does not seek an award of monetary damages. Rather, NSA respectfully requests an order finding each alleged contemnor bound by and in violation of the Judgment and directing them to modify their actions so as to comply with the terms of the injunction going forward.

BRINKS HOFER GILSON & LIONE

Dated: June 14, 2007

By: /s/ Christopher M. Dolan

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CERTIFICATE OF SERVICE

I hereby certify that on the 14th day of June 2007, the foregoing document was filed electronically. Notice of this filing will be sent to all parties by operation of the Court's CM/ECF. Parties may access the filing through the Court's system.

/s/ Christopher M. Dolan

Christopher M. Dolan