

CHURCH OF SCIENTOLOGY INTERNATIONAL

Attached Statement to IRS Form 1023

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CHURCH OF SCIENTOLOGY INTERNATIONAL
Attached Statement to IRS Form 1021

A. Introduction

Church of Scientology International ("CSI") was organized as a California nonprofit religious corporation on November 20, 1981 for the exclusive purpose of serving as the Mother Church of the Scientology faith and exercising ecclesiastical authority as to the practice and propagation of the religion throughout the world. (Copies of CSI's articles of incorporation, articles of amendment and bylaws are attached as Exhibits 2, 3 and 4, respectively.) As discussed below, CSI operates exclusively for its religious purpose by guiding, supporting and coordinating the activities of Scientology churches, missions and related organizations on matters relating to the ministration of religious services, training of clergy, dissemination and propagation of the faith, ecclesiastical administration and social-betterment activities.

1. The Scientology Religion

Scientology is a religion based upon the research, writings and recorded lectures of its founder, L. Rhein Hubbard, which collectively constitute the Scriptures of the religion. A Scientologist is one who recognizes the writings and recorded spoken words of L. Rhein Hubbard as providing the fundamental keys to an understanding of his or her existence.

The Scientology Scriptures are the sole source of all the doctrines, tenets, sacraments, rituals and policies of the Scientology faith. They encompass more than 500,000 pages of writings, including over 300 books, hundreds of course material packs, and thousands of individual technical bulletins and policy letters; of over 6,500 reels of tape recordings; and 42 films.

The basic tenet of Scientology religious technology is that man is an immortal spirit who has lived through previous lifetimes. Although he has a mind and a body, he is himself a spiritual being. The ultimate goal of Scientology is "a civilization without insanity, without criminals and without war, where the able can prosper and honest beings can have rights, and where Man is free to rise to greater heights."

The principal sacrament in Scientology is "auditing," which consists of a gradient scale of religious services addressing the spirit. The purpose of auditing is to unburden man of past painful experiences and to orient him as a spiritual being. Auditing results in an increase in spiritual awareness and ability. Ultimately the person achieves certainty of himself as a spirit and freedom from unwanted burdens. At this point he also is certain of immortality.

Scientology is a very exact faith, and a fundamental doctrine of the religion is that its religious services must be orthodox. This doctrine holds that spiritual salvation can be attained if, and only if, the path to salvation outlined in the Scripture's religious technology is followed without deviation. This path starts with the applied religious philosophy expounded in Dianetics: The Modern Science of Mental Health, which Mr. Hubbard wrote in the early 1950's, and develops on through increasing levels of spiritual enlightenment contained in other texts written by Mr. Hubbard. Each of the levels of this ascending spiritual path is described in the Scientology Classification, Gradation and Awareness Chart, a copy of which is attached as Exhibit 5.

The portion of the religious technology that constitute the upper levels of spiritual awareness is called the religion's "advanced technology." Scientology doctrine holds that the advanced technology can be grasped only by those who have attained very high levels of spiritual awareness, so only Scientologists who have progressed to the appropriate levels of spiritual awareness are permitted to see the advanced technology materials.

The Scientology faith is propagated through an international ecclesiastical hierarchy of hundreds of churches and missions located throughout the United States and abroad. Individual churches within the hierarchy either minister Scientology religious services to their parishioners or provide ecclesiastical management and support services to other churches. Churches that minister to parishioners also conduct religious training both as seminary training for Scientology ministers and for the spiritual enlightenment of parishioners.

2. The Scientology Marks and Advanced Technology

Scientology churches assure parishioners that their services are orthodox by providing them under the imprimatur of certain marks associated with the religion. These Scientology religious marks include the terms "Dianetics," "Scientology," and Mr. Hubbard's name, initials and signature. When Scientology parishioners see these marks they know for certain that the services they are receiving are orthodox and have been taken directly from the Scriptures.

Prior to CSI's formation, Mr. Hubbard asserted full ownership over the Scientology Scriptural materials and religious properties he created, and he provided them to the religion in various ways through the years. He provided many Scriptural

materials, such as his copyrighted books, directly to the public through formal written agreements with publishing companies. He permitted churches to use the advanced technology and religious marks through more informal verbal agreements that he could terminate immediately for unorthodox practice.

In the early 1980's, Mr. Hubbard began considering the future of orthodox Scientology religious practice after his death. Mr. Hubbard wanted to give the Scientology Scriptures and religious material to the religion itself, but he thought it more likely that orthodox practice would be compromised sometime in the future if he gave everything to one church.

Mr. Hubbard concluded that the best way to ensure orthodoxy for all future years would be to divide rights to the Scriptures among separate churches serving specific religious functions. He believed one church should be responsible for maintaining orthodoxy by performing the exclusive function of supervising religious practice. He also believed that another church should serve as a "fail safe" mechanism to protect the Scriptures in the event they ever were threatened during the million of years Scientology would be practiced.

Mr. Hubbard decided to make his gift to the religion sequentially through three separate gifts.

In May 1982 Mr. Hubbard made the first gift by assigning ownership of the religious marks and the right to use the advanced technology in the United States to Religious Technology Center ("RTC"), which recently had been formed to receive these properties. (Copies of the marks and advanced technology assignments are attached as Exhibit 6 and 7, respectively.) As discussed below, pursuant to the terms of Mr. Hubbard's assignments, RTC delegates rights to use the advanced technology and religious marks to churches in the ecclesiastical hierarchy and then supervises their activities to ensure compliance with Scriptural requirements.

Mr. Hubbard made the second gift, also in May 1982, by giving Church of Spiritual Technology ("CST") the power to acquire RTC's rights to the advanced technology and religious marks if, and only if, they (i) are not preserved in accordance with the Scientology Scriptures, (ii) are used in a way that both is contrary to the Scriptures and seriously damages the Scientology religion or Mr. Hubbard's image, or (iii) are in danger of appropriation by an entity outside of or hostile of the religion. CST conducts an extensive program of religious

activities to preserve and archive the Scientology Scriptures for use by future generations.

Mr. Hubbard made the third gift upon his death on January 24, 1986 by bequeathing CST the bulk of his estate, including all his copyrights to the Scriptures and his remaining rights in the marks and advanced technology, on the condition CST obtains recognition of its tax-exempt status. If CST does not obtain recognition of its exemption, Mr. Hubbard directed that the bulk of his estate be distributed to one or more organizations recognized as exempt under section 501(c)(3) that operate exclusively for the purposes of the Scientology religion.

CST's exempt status currently is under consideration by the United States Claims Court (see Church of Spiritual Technology v. United States, No. 581-88T), and Mr. Hubbard's bequest to CST is residing in his testamentary trust until CST's exemption finally is determined. While CST's exemption proceeding is pending, Mr. Hubbard's trust will continue to safeguard and care for the religious properties contained in his estate. His trust has, for example, entered into written agreements with churches as may be necessary to authorize their use of the religion's advanced technology.

3. CSI's Activities

The churches and other organizations that comprise Scientology's ecclesiastical hierarchy recognize CSI as the authority on ecclesiastical matters by virtue of its status as the Mother Church. CSI's ecclesiastical authority is further enhanced by a written covenant between it and RTC with respect to the use of the Scientology religious marks by churches and other organizations within the ecclesiastical hierarchy. (A copy of the covenant is attached as Exhibit 8.)

Through the covenant, RTC has given CSI the right and responsibility to permit the organizations of the religion of Scientology to use the marks. Without CSI's written authority to use the marks, and RTC's approval, an organization cannot legally use the marks and thus cannot call itself a Scientology organization. Basically, these written covenants formalize the relationship of the churches within the hierarchy and create legal rights and duties with respect to the marks that are cognizable in the secular world.^{1/} Thus, if a church continues to minister services under the name Scientology despite CSI's

^{1/} In countries where contracts by religious corporations are not enforced, rights to the Scientology marks are granted to local organizations by Inspector General Network ("IGN"), a non-profit secular corporation that serves as RTC's nominee.

objections, CSI is able to stop the practice through the civil judicial system.

These covenants create a very workable framework for assuring orthodox use of the religious marks. Basically, CSI has full responsibility for supervising use of the marks by the churches and other organizations with which it has entered covenants, as well as those that have entered into agreements with IGN. RTC, in turn, supervises CSI's use of the religious marks. As discussed in more detail below, CSI has entered into covenants with each church within the hierarchy and with the ecclesiastical bodies responsible for managing Scientology missions and field ministries.

CSI's primary function is to coordinate the activities of all churches of Scientology and their related organizations to ensure they are working in harmony toward Scientology's ultimate goal -- "a civilization without sanity, without criminals and without war, where the able can prosper and honest beings can have rights and where Man is free to rise to greater heights." CSI carries out this function by providing ecclesiastical guidance and programmatic support to the various churches of Scientology and related organizations.

CSI oversees the ministration of Scientology religious services to ensure orthodoxy. It organizes and produces the written and spoken Scientology scriptural materials into books, recordings, transcripts, course materials and other usable forms and disseminates them where needed. CSI helps establish and staff new churches and expand existing ones. It helps train staff in Scientology religious technology and ecclesiastical administration. It provides needed assistance on financial planning and management and on capital acquisitions and development. It provides direct financial assistance when necessary. It also directs broad-scale proselytization campaigns throughout the world on television and radio and in magazines. In short, CSI is the one entity to which Scientology organizations can look to for advice, guidance and support.

Examples of a few of the many forms of assistance CSI provides other churches include:

- Word Clearing Series - Staff Reference Pack: This is a compilation by CSI of Scriptural issues on the technology of understanding developed by Mr. Hubbard that focuses on the most basic step in comprehension -- the meaning of words. (CSI has found that the inability to comprehend Scientology religious materials is a major barrier to an individuals spiritual progress. These packs are used by staff of Scientology churches in the ministration of religious services. (Exhibit 9.)

- Scientology Results and Successes: CSI compiled this booklet so churches could provide their parishioners and the public with examples of the spiritual gains of various Scientologists and of how Scientology helped them in different facets of their life, including drug, family and marital difficulties and education and self-improvement. (Exhibit 10.)
- Ron The Writer -- The Legend Begins: CSI compiled this booklet to provide information on the literary works of L. Rhein Hubbard to the public. CSI believes readers of Mr. Hubbard's nonreligious works are likely to become interested in his other writings and eventually Dianetics and Scientology as a means of making his works better known. (Exhibit 11.)
- "Can We Ever Be Friends" booklet and cassette: CSI produced a booklet and cassette to provide general background information on the Scientology faith to respond to many of the misconceptions people sometimes have about Scientology. Scientologists provide this booklet to friends, family members or associates who may have expressed some misunderstanding about their religious beliefs. (Exhibits 12 and 13.)
- Television and Radio Spots on Dianetics: The Modern Science of Mental Health and Self-Analysis: Attached are a few of the many television and radio dissemination pieces CSI produced to use in its broad-scale dissemination campaigns all across the United States. This program benefits all Scientology churches because these two basic books attract new members to the religion. (Exhibits 14 to 17.)

CSI's central offices are located in Los Angeles. It also has administrative facilities in Hemet, California. It has approximately 1,096 staff personnel. CSI is governed by a board of four directors who are elected by a self-perpetuating board of four trustees. CSI's trustees and directors must be ministers of Scientology in good standing. None of CSI's trustees or directors are compensated for their services as such.

B. The Scientology Ecclesiastical Hierarchy

The churches that make up the structure of the Scientology religious hierarchy are ecclesiastical entities. They are not secular entities, and they therefore are not cognizable under secular law. Like other churches, the Scientology religious hierarchy also has created a second external structure of civil corporations through which the religion interrelates with the secular world. As Professor Whelan noted in his seminal article on the status of churches under the Internal Revenue Code:

"In actual fact, however, the American churches have diverse, complex and confused structures. They are more like molecules than atoms. Moreover, each church has a double structure: one internal, in its own ecclesiastical law, and the other external, in American civil law.

. . . .

". . . Thus, from a purely technical point of view, the Roman Catholic Church does not exist as such for federal tax purposes. What does exist is a conglomeration (not a corporate conglomerate) of distinct taxable entities united in religious faith, worship and authority but not in civil law identity or control."

Charles M. Whelan, "Church" in the Internal Revenue Code, the Definitional Problems, 45 Fordham Law Review 885, 903-05 (1977).

The structure and entities that make up the ecclesiastical authority of the Scientology religion, including important ecclesiastical staff positions and responsibilities, are

described in detail in the book The Command Channels of Scientology (Exhibit 18), which CSI prepared for use by the staff of churches and other entities that belong to the ecclesiastical hierarchy. This book contains an extensive discussion of the internal structure of Scientology. The external structure -- the secular entities that determine Scientology's posture for civil purposes -- is described in detail in the book The Corporations of Scientology (Exhibit 19) and throughout the balance of this application.

To the extent possible under the laws of the country in which they operate, churches of Scientology are organized as nonprofit religious corporations. All United States churches are housed within such corporations. Generally there is a separate corporation for each church, but occasionally more than one church may operate within a single corporation. For example, almost every continental liaison office -- an ecclesiastical management body that liaises between CSI and lower churches in the ecclesiastical hierarchy -- is housed in a corporation that also houses one or more Scientology churches that minister to parishioners.

The articles of incorporation, bylaws or other organizational documents of churches organized as religious

corporations include specific provisions requiring adherence of the church to the tenets and policies of the religion and, for subordinate churches, to the superiority of the ecclesiastical authority of CSI as the Mother Church. These provisions also expressly subordinate CSI's ecclesiastical authority to local law and to contrary provisions of the church's articles of incorporation and bylaws.

Within Scientology's external framework, each separate church corporation is governed by a board of directors that is responsible for electing officers. The directors and officers of the corporation are responsible, both as a matter of law and of ecclesiastical policy, for ensuring the corporation complies with all applicable secular laws. In most cases, the board of directors is itself elected by a self-perpetuating board of trustees. The trustees, in turn, are responsible for electing and removing directors. As a general matter, the trustees (and often the directors) must be ministers of Scientology in good standing with CSI in order to serve as trustee (or director).

All Scientology churches at the higher levels of the ecclesiastical hierarchy are staffed by Scientologists who have joined the Sea Organization, the religious order of the Scientology faith. As discussed in detail in Section E,

Scientists who are members of the Sea Organization have made a total commitment to the Scientology faith by dedicating their lives to religious service. Sea Organization personnel are subject to a strict code of moral conduct and lead a relatively-cloistered life from the secular world consisting almost exclusively of the Scientology religious community.

The Scientology churches that provide religious services to parishioners are arranged in a hierarchy that reflects the gradient nature of the religion's spiritual levels. As discussed below, the lowest levels of religious services are ministered by independent ministers and by missions of Scientology; intermediate levels by Class IV churches; high levels by Saint Hill organizations and Advanced Organizations; higher levels by Church of Scientology Flag Service Organization; and the highest levels by Church of Scientology Flag Ship Service Organization.

As the Mother Church of the Scientology religion, CSI exercises ultimate ecclesiastical authority over these hierarchical churches. It furnishes them with ecclesiastical advice, programs and guidance with respect to ministration of religious services, propagation and dissemination of the faith, religious administration and policy, and financial planning and management. CSI also provides religious training to the

ministers and staff of churches within the hierarchy. CSI provides its ecclesiastical and training services either directly or indirectly through continental liaison offices.

The following makes up the Scientology ecclesiastical hierarchy:

1. Field Ministers

At the lowest level of the Scientology ecclesiastical hierarchy are the individual ministers of Scientology who do not serve on the regular staff of a church or a mission. Under Scientology ecclesiastical policy, individual Scientology ministers may minister only the lowest levels of Scientology religious services (through New Era Dianetics). They may not train clergy.

CSI interacts with individual field ministers through an intervening management entity, International Hubbard Ecclesiastic League of Pastors ("IHELP"). IHELP is a nonprofit religious corporation that was formed in November 1982 for the purpose of serving as the Mother Church of field ministers. IHELP's goal is to propagate the Scientology religion throughout the world by concentrating on individual ministers. IHELP accomplishes its goal by acting to ensure that the number of

Scientology ministers practicing in the field continues to grow and that their ministries are orthodox and comport with Scientology Scriptures. IHELP also provides individual and group ministries such religious assistance and support as they may need.

As the Mother Church of Scientology ecclesiastical hierarchy, CSI furnishes IHELP with ecclesiastical advice, programs and guidance, staff training and general coordination of activities with other organizations and churches in the hierarchy. IHELP exercises similar authority with respect to independent Scientology ministers who minister to Scientology parishioners and who do not serve on the staff of a Scientology church or mission. CSI has authorized IHELP to assist independent Scientology ministers to maintain orthodoxy by permitting them to use certain marks associated with the practice of the religion only under its supervision. (A copy of the agreement permitting IHELP to use the marks and to in turn permit their use by individual ministers is attached as Exhibit 20; a representative agreement between IHELP and individual ministers is attached as Exhibit 21.)

Ministers who join IHELP as full members support IHELP's program by contributing to it annual dues and a tithe

equal to ten percent of the contributions they receive for performing Scientology ministerial services. IHELP uses this funding to support its day-to-day activities, to compensate CSI for its ecclesiastical guidance, and to reimburse CSI for portions of its broad-scale dissemination activities and legal costs in defending the religion. IHELP contributes to CSI approximately ten percent of the funding it receives.

IHELP's application for recognition of its section 501(c)(3) status currently is pending before the National Office.

2. Missions

At the next level of the Scientology ecclesiastical hierarchy are the missions of Scientology. A Scientology mission is a regularly-organized church and congregation that is commissioned to minister the lowest levels of Scientology religious services (through New Era Dianetics). Missions cannot train clergy. The primary function of missions is to contact the general public and bring new people into Scientology and encourage their spiritual advancement through the higher levels of the religion. There are 252 missions located throughout the world.

CSI interacts with missions through an intervening management-entity, Scientology Missions International ("SMI"), a California nonprofit religious corporation that serves as the Mother Church for missions. SMI's ecclesiastical responsibility is to proselytize and disseminate the religion by helping to form new missions and by assisting existing missions to grow. A representative copy of a journal SMI publishes for missions, the Centre, is attached as Exhibit 22.

SMI's religious program of activities is very similar to IHELP's -- it acts to ensure that the number of Scientology missions continues to grow and that their ministries are orthodox and comport with Scientology Scripture. CSI also interrelates with SMI in the same way it interrelates with IHELP -- by providing SMI with ecclesiastical advice, programs and guidance, staff training, and general coordination with respect to the activities of other churches and organizations in the hierarchy.

CSI has authorized SMI to exercise similar authority with respect to Scientology missions throughout the world. SMI, in turn, assists existing and newly-formed missions to maintain orthodoxy by permitting them to use certain marks associated with Scientology and Scientology missions only under its supervision. Not unlike IHELP's function in the ecclesiastical hierarchy, SMI

provides guidance on matters of orthodoxy to its subordinate organizations, the missions, while CSI guides SMI. (A copy of the agreement by which CSI permits SMI to use the marks is attached as Exhibit 23.)

SMI uses several forms of agreements in authorizing the orthodox use of the Scientology religious marks. When an individual or group of individuals desires to form a mission, SMI will designate one to serve as the mission's "mission holder" (the highest ecclesiastical position within a mission), and authorize him or her to use the marks on an interim basis until a suitable nonprofit religious corporation is formed. (A representative copy of SMI's authorization is attached as Exhibit 24.) After incorporation, missions execute more formal agreements concerning use of the marks. (Exhibits 25 (for the United States missions) and 26 (for foreign missions). In countries where agreements by religious corporations are not enforced, Inspector General Network authorizes use of the marks through a "pioneer agreement." Each mission also enters into a motion picture agreement with CSI pursuant to which it may show introductory films to the Scientology religion to their parishioners and interested members of the general public in accordance with the Scripture. (A representative motion picture agreement is attached as Exhibit 27.)

In recent years SMI has actively sought to bring Scientology to developing countries, including many where western-style religions are in the minority. SMI's efforts have been extraordinarily successful, and already missions are forming in such disparate countries as Brazil, Pakistan, Ghana, and Malaysia. SMI often authorizes a "missionary" to visit such developing areas for the purpose of either forming a mission or finding someone else to do so.

Missions of Scientology support SMI's religious program of activities by contributing a tithe equal to ten percent of the contributions they receive for performing Scientology ministerial services. SMI uses this funding to support its day-to-day activities, to compensate CSI for its ecclesiastical guidance, and to reimburse CSI for portions of its broad-scale dissemination activities and legal costs in defending the religion. SMI generally contributes to CSI most of the funding it receives, other than funds necessary to sustain its operations.

3. Class IV Churches

At the next level of the Scientology ecclesiastical hierarchy are Class IV churches, which provide religious services at the lower and intermediate levels (through Clear Certainty

Rundown and Sunshine Rundown). Class IV churches also have the authority to train and ordain ministers (the "Class IV" designation relates to the highest level of ministerial training provided by such churches). Class IV churches do not minister Scientology's advanced technology. A complete description of the Scientology religious services that Class IV churches are authorized to minister to their parishioners is contained in the booklet Your Guide to Scientology Services (Exhibit 28). At present, there are 112 Class IV churches throughout the world, with 49 located in the United States.

CSI directly grants Class IV churches the right to use the Scientology religious marks in ministering orthodox religious services to their parishioners. (A copy of the form used is attached as Exhibit 29.) CSI has entered into ecclesiastical management agreements with the churches through which it provides them with ecclesiastical advice, programs and guidance, staff training and general coordination of activities with other organizations and churches in the hierarchy, generally through continental liaison organizations. (Exhibit 30.) In exchange for these services, the churches support CSI's program of activities by making ecclesiastical management payments in accordance with their means, generally around ten percent of their receipts, to be offset against CSI's subsequent billings.

CSI also has entered into agreements with each Class IV church with respect to the orthodox exhibition of motion pictures (Exhibit 31) and the care of confidential information parishioners provide them in the ministration of religious services (Exhibit 32).

Class IV churches are required to adopt organizational documents that dedicate their activities and assets exclusively to Scientology religious purposes. To the extent permitted by local law, each Class IV church is governed by a board of directors elected by a board of trustees, and both directors and trustees must be ministers of Scientology in good standing with CSI in order to be eligible to continue to serve as director or trustee. In the few countries where agreements by religious corporations are not enforced, the religion is represented by a secular organization that is authorized to use the Scientology marks by IGN.

4. Celebrity Centres

Certain Class IV churches called "Celebrity Centres" specialize in proselytizing and disseminating Scientology among artists, professionals and other community leaders. Celebrity Centres are organized and operated either as a Class IV church or as a local parish of the Church of Scientology Celebrity Centre

("CSCC"), a nonprofit religious corporation formed to oversee the activities and development of Celebrity Centres throughout the world. Celebrity centers are just like other Scientology churches except that their congregations include many local leaders and other celebrities. At present there are 14 Celebrity Centres, 7 of which are local parishes of CSCC, and 7 of which are Class IV churches).

CSI has entered into agreements with each Celebrity Centre concerning the exhibition of Scientology religious films and the care of confidential information provided by parishioners in the ministration of religious services and the provision of ecclesiastical management services. (The agreements are identical to those CSI entered into with Class IV churches.) Celebrity Centres receive ecclesiastical management services primarily from continental liaison offices though they also receive ecclesiastical assistance from CSCC.

CSCC serves as the Mother Church of celebrity centres and is responsible for overseeing their activities and assisting their growth. However, unlike the other lower-level Mother Churches in the ecclesiastical hierarchy (IHLP and SMI), CSCC's congregation is composed of members of the general public to whom it ministers Scientology religious services (through the same

levels as Class IV churches). Thus, CSCC both ministers to the public and manages other Celebrity Centres throughout the world. (A representative copy of CSCC's publication Celebrity is attached as Exhibit 33.)

CSI and CSCC have entered into agreements concerning the provision of ecclesiastical services (Exhibit 34), the orthodox use of motion pictures (Exhibit 35), and the care of confidential information CSCC receives from its parishioners (Exhibit 36). CSI has authorized CSCC to use the Scientology religious marks in ministering to its congregation and to permit local celebrity centres to use the marks in their religious services in accordance with the Scriptures. (Exhibit 37.) CSCC, in turn, has authorized the Celebrity Centres to use the marks in the orthodox ministration of religious services to their parishioners. (A representative copy of CSCC's authorization is attached as Exhibit 38.)

5. Saint Hill and Advanced Organizations

At the higher levels of the Scientology religious hierarchy are Saint Hill Organizations and Advanced Organizations. These churches deliver high level religious services, including the lower levels of Scientology's advanced technology, with the Saint Hill churches concentrating on the

training of Scientology ministers and the Advanced Organizations on ministering sacramental services to parishioners. An excellent description of the Scientology religious services that Saint Hill and Advanced Organizations are authorized to minister to their parishioners is contained in American Saint Hill Day Organization, Saint Hill Services To Help You Reach Total Freedom (Exhibit 39).

At present, there are four Saint Hill Organizations and four Advanced Organization throughout the world. These ecclesiastical bodies are housed in four corporations, with a Saint Hill Organization and an Advanced Organization in each corporation. The four corporations, in turn, are located in four continental areas -- the United States (Church of Scientology Western United States), the United Kingdom (Church of Scientology Religious Education College), Europe and Africa (Church of Scientology Advanced Organization Saint Hill Europe and Africa), and Australia, New Zealand and Oceania (Church of Scientology, Inc.).

As with the Class IV churches, CSI has entered into written agreements with each Advanced Organization with respect to the orthodox use of the Scientology religious marks (Exhibit

40), the orthodox exhibition of Scientology religious films (Exhibit 41), and the care of confidential information provided by parishioners in the ministration of religious services (Exhibit 42), and the provision of ecclesiastical management services (Exhibit 43). CSI provides ecclesiastical management and other religious services to the Advanced Organizations either directly or through a continental liaison office (which often is housed within the same corporation that houses the Advanced Organizations in its respective area). The Advanced Organizations also have entered into a written agreement with RTC that authorizes them to use the lower levels of Scientology's advanced technology in accordance with strict Scriptural requirements (Exhibit 44).

The Advanced Organizations compensate CSI for its ecclesiastical management and other religious services by making necessary payments, according to their means, to be offset against CSI's subsequent billings. Pursuant to their agreements with RTC, the advanced organizations contribute to RTC six percent of the value of religious services they minister that utilize the advanced technology. RTC, in turn, retains ten percent of these contributions to cover its operating costs. It contributes the balance of what it receives to Church of

Spiritual Technology to apply toward its archival and preservation programs.

6. Church of Scientology Flag Service Org, Inc.

At the next higher level of the Scientology religious hierarchy is Church of Scientology Flag Service Org, Inc. ("CSFSO"), a Florida nonprofit corporation that ministers higher levels of religious services (through OT VII) and the highest levels of ministerial training (through Class XII). A representative copy of CSFSO's publication Source magazine is attached as Exhibit 45.

As with other churches in the hierarchy, CSI directly grants CSFSO the right to use the Scientology religious marks in accordance with the Scriptures (Exhibit 46) and has entered into agreements with CSFSO concerning ecclesiastical management services (Exhibit 47), the orthodox exhibition of Scientology religious films (Exhibit 48), and the care of parishioners' confidential information (Exhibit 49). Unlike other churches, however, CSFSO receives managerial services directly from CSI rather than indirectly through a continental liaison office. CSFSO compensates CSI for its ecclesiastical and other religious services by making necessary payments directly to CSI. It also contributes to CSI's overall financial support.

RTC has authorized CSFSO to use the higher levels of the advanced technology in accordance with strict Scriptural requirements. (Exhibit 50) As required by RTC's authorization, CSFSO contributes to RTC six percent of the value of religious services it ministers that utilize the advanced technology.

CSFSO ministers to Scientologists from all parts of the world and an average of one-half of CSFSO's parishioners come from outside the western hemisphere. Since many of the religious services CSFSO offers can be completed only in several weeks, its parishioners often must remain in the Clearwater area for long periods of time. CSFSO therefore maintains facilities to provide for their meals and lodging and a distraction-free environment while they are there.

7. Church of Scientology Flag Ship Service Organization

At the next level is Church of Scientology Flag Ship Service Organization ("CSFSSO"), a Netherlands Antilles religious foundation which ministers the highest levels of Scientology religious services (through OT VIII) as well as special Scientology religious courses unavailable elsewhere. CSFSSO is unique among Scientology churches in that it conducts its services aboard the M.V. Freewinds, a 7056 ton, 440 foot ship based in the Caribbean. Extensive descriptions of the Freewinds

and of the religious services aboard the ship are contained in Freewinds, CSFSSO's magazine (Exhibit 51).

CSI directly grants CSFSSO the right to use the Scientology religious marks in accordance with the Scriptures (Exhibit 52) and has entered into agreements with CSFSSO concerning ecclesiastical management services (Exhibit 53), the orthodox exhibition of Scientology religious films (Exhibit 54), and the care of confidential information received from parishioners in the ministration of religious services (Exhibit 55). Like CSFSO, CSFSSO receives managerial services directly from CSI. RTC has authorized CSFSSO to use the highest released levels of the advanced technology in accordance with strict Scriptural requirements. (Exhibit 56) CSFSSO contributes to RTC six percent of the value of the religious services it ministers that utilize the advanced technology.

Because of CSFSSO's unique circumstances as an on-vessel church constantly sailing from port to port, several organizations have been formed to provide it necessary administrative support and to carry out additional secular functions unique to ships (i.e., ship operations and passenger services).

The Flag Ship Trust is a Scientology religious trust formed in 1985 for the purpose of receiving donations from Scientologists who wanted to help their religion acquire a sea-going ship from which the highest levels of Scientology religious services could be ministered to parishioners from around the world. The Flag Ship Trust also received contributions from parishioners who wished to receive services aboard the Freewinds during the period before it was purchased or ready to sail.

The Flag Ship Trust is organized and operated to meet the requirements of section 501(c)(3). Its instrument of trust contains language designed to satisfy the organizational test of section 501(c)(3). The Flag Ship Trust also does not operate for the benefit of any private individual or entity. It has never made any distribution of income or assets and has no income or expenses.

Flag Ship Trust is the sole owner of four corporations that perform specific secular support functions for CSFSSO -- San Donato Properties, S.A. (which owns the Freewinds), Transcorp Services S.A. (which financed the purchase), Majestic Cruise Lines (which operates the Freewinds), and FSS Organization (a vehicle for paying certain taxes).

CSI also formed a nonprofit religious corporation to serve as a liaison between the Freewinds and CSI and other Scientology churches, organizations and individuals on shore. This organization, the Church of Scientology Freewinds Relay Office, Inc. (the "Relay Office"), informs Scientologists throughout the world of CSFSSO's religious program, helps register parishioners for religious services and courses and for the cruise itself, and then assists in getting them to and from the Freewinds. (Copies of the Relay Office's articles of incorporation and bylaws are attached as Exhibits 57 and 58, respectively.)

CSI has granted the Relay Office the right to use the Scientology marks in providing religious services to its staff and to use the marks related to the ship in its program in general (Exhibit 59). The Relay Office also receives managerial support and assistance from CSI. A copy of the Relay Office's most recently completed financial statement (for the period ending December 31, 1988) is attached as Exhibit 60.

C. Publications and Film Organizations

As discussed above, the Scientology religion is based on the research, writings, and recorded lectures of L. Rhein Hubbard, which collectively constitute the Scriptures of the religion. As

Mother Church of the Scientology faith, CSI is responsible for making the Scriptures and E-Meters (used in the ministration of Scientology religious services) available to Scientologists throughout the world. CSI's task is not an easy one -- the Scientology Scriptures encompass over 300 books, hundreds of course materials packs, thousands of individual policy letters and issues, over 6,500 reels of tape recordings and 42 films.

CSI fulfills its responsibility to disseminate the Scriptures through an international network of publishing organizations operated exclusively in furtherance of Scientology religious purposes. The three primary organizations performing this religious function are Bridge Publications, Inc. ("Bridge"), a Californian corporation which publishes books and other written Scriptural materials in the United States and Canada, New Era Publications ApS ("New Era"), a Danish corporation which publishes books and other written Scriptural materials in other countries, and an internal division of CSI itself called Golden Era Productions ("Gold"), which produces Scriptural tape recordings, records and motion pictures and E-Meters for dissemination worldwide.

The operations of the Scientology publishing network fully comport with section 501(c)(3). All organizations work in close liaison with and under the direct supervision of CSI staff personnel responsible for disseminating the Scripture throughout the world. Pricing for Scriptural materials and E-Meters are set by CSI or under its close scrutiny. Scientology ecclesiastical policy requires that each price meet the following three criteria: (1) the price must be affordable to a broad segment of the general public; (2) the price must enable the organizations involved to recover their costs of production or delivery (whether incurred by the publisher or a church); and (3) the price or rate must produce a sufficient return to enable the church (or publisher) to remain operational so it can continue performing its function, replenish stocks if necessary, and expand so it can provide for and minister to an ever growing congregation.

As a general rule New Era, Bridge and Gold sell the Scriptures and other religious material they publish and produce directly to churches of Scientology throughout the world. New Era, Bridge and Gold deal with commercial retailers only to the extent necessary to disseminate Mr. Hubbard's nonreligious works or, more importantly, to disseminate introductory Scriptural

texts such as Dianetics: The Modern Science of Mental Health and Self-Analysis.

Individual churches and missions of Scientology maintain bookstores where their parishioners can obtain copies of the Scriptures and E-Meters. Bookstores generally sell at the list prices issued from time to time by BPI. Most sales are at the 20 percent discount from list available to members of the International Association of Scientologists (see section E, below). Other discounts may be offered from time to time. Individual parishioners also may receive a discount for large purchases from church bookstores.

While Bridge and New Era were organized as secular proprietary companies (thereby facilitating their transactions with other publishers), they in fact operate like organizations described in section 501(c)(3). Both have adopted organizational documents that effectively meet the organizational test of section 501(c)(3) and prohibit them from operating for the benefit of private interests. Both companies dedicate their operations exclusively to Scientology religious purposes. Finally, both are wholly owned by International Publications Trust, a Scientology religious trust organized and operated in accordance with section 501(c)(3).

1. Mr. Hubbard's Trust

Mr. Hubbard held copyrights to Scientology Scriptural materials and patents to E-Meters, and during his life he licensed the rights to produce and distribute Scriptures and E-Meters to various Scientology organizations. At present, Mr. Hubbard's testamentary trust (the "Trust") holds his copyrights and patents pending distribution of his estate and is receiving reasonable royalties in exchange for licensing the properties. As discussed previously, Mr. Hubbard's testamentary plan requires that these properties be distributed to Church of Spiritual Technology if it obtains exemption under section 501(c)(3), or to a Scientology organization whose section 501(c)(3) status already is recognized if CST does not obtain exemption. As a result of this limitation on the distribution of Mr. Hubbard's estate, the copyrights and patents, and the royalties they are producing currently, are irrevocably dedicated to section 501(c)(3) purposes.

The Trust has continued Mr. Hubbard's practice of copyrighting his works and licensing the rights to produce and distribute Scriptural material to Bridge, New Era or CSI, as appropriate. In order to continue using Mr. Hubbard's name in the copyright notices (copyright notices of posthumous works must be in the name of the decedent's executor or personal

representative), the executor of his estate (and later the trustee of the Trust) registered and used the name "L. Rhein Hubbard Library" as a legal form of operation. As a result, copyright notices on Mr. Hubbard's posthumous works read "L. Rhein Hubbard Library" rather than the individual name of Mr. Hubbard's personal representative.

At present, the licensing arrangement pursuant to which Bridge and New Era publish Scientology Scriptural material runs from Mr. Hubbard's estate (i.e., the Trust) to New Era and then to Bridge. NEP and Bridge distribute their publications directly to church book stores, which are primarily responsible for disseminating Scientology Scriptures and other religious material to church parishioners. The licensing arrangement for Mr. Hubbard's works of fiction, on the other hand, runs either from the Trust directly to Bridge (for United States and Canadian publication rights) or from the Trust directly to New Era (for foreign publication rights).

The Trust relies on the technical expertise of Author Services, Inc. ("ASI") with respect to its financial and literary affairs. ASI helps the Trust manage Trust funds and supervise use of its literary properties. ASI works closely with Bridge

and New Era with respect to Mr. Hubbard's fictional works and related artwork, film and soundtracks.

2. International Publications Trust

As noted above, all the outstanding stock of New Era and Bridge are owned by International Publications Trust ("IPT"), a religious trust organized for the exclusive purpose of furthering the practice and dissemination of the Scientology faith. IPT's only activity is to hold the stock to the companies that publish the Scientology Scriptures for the benefit of the entire religion. It owns all the outstanding stock of Bridge directly and all the stock of New Era indirectly through an intermediary corporation, Publications Int Limited ("PIL"), which IPT also wholly owns. (IPT must hold New Era's stock through an intervening corporate subsidiary because Danish law does not permit trusts to register as shareholders of Danish corporations.)

IPT is organized and operated to meet the requirements of section 501(c)(3). Its instrument of trust contains language designed to satisfy the organizational test of section 501(c)(3). IPT also does not operate for the benefit of any private individual or entity. It has never made any distribution of income or assets and has no income or expenses.

IPT's wholly-owned corporate subsidiary, PIL, also operates in accordance with the requirements of section 501(c)(3). It has never made any distribution of income or assets or paid unreasonable compensation (it has no employees). Its officers and directors serve without compensation.

3. New Era Publications

New Era Publications International ApS ("New Era") publishes and distributes the Scientology scriptures in countries other than the United States and Canada. Prior to his death, Mr. Hubbard granted New Era the right to publish his religious writings world-wide, and his fictional work in all areas outside of the United States. Mr. Hubbard also granted New Era world-wide rights to produce E-Meters, recorded lectures and other properties. New Era, like Bridge and Gold, sells the religious publications and materials it produces to churches of Scientology located throughout the world.

Since New Era's program of activities is limited to countries outside the United States and Canada, it has granted Bridge the right to carry out its publication and production rights in these two countries. It also has granted Bridge the right to produce the E-Meters world-wide, which activity Gold recently assumed with New Era's consent. New Era also has

authorized World Institute of Scientology Enterprises to sublicense the rights to produce items bearing Scientology marks and deliver related services. New Era has formed subsidiaries in several countries so its activities can be conducted by a local corporation. Although New Era was formed as a secular proprietary corporation, it has adopted special Rules of Procedure that effectively dedicate its activities to the furtherance of section 501(c)(3) purposes.

4. Bridge Publications, Inc.

Bridge Publications, Inc. ("Bridge") is responsible for publishing and distributing Scientology religious books and other Scriptural material in the United States and Canada. Through separate licenses Bridge also publishes Mr. Hubbard's fictional work in these countries. Bridge previously manufactured E-Meters, but Gold took over this activity in 1988. For the most part, Bridge contracts out actual publication of its books. Although Bridge was formed as a secular proprietary corporation in February 1981, it since has adopted bylaws designed to meet the organizational test of section 501(c)(3).

5. Golden Era Production

Golden Era Publications ("Gold") is responsible for producing audio and visual Scientology Scriptural material and for broad-scale proselytization. Gold produces Scientology religious films at its in-house film studio, both technical films for training Scientology ministers and more general films used for introducing the religion to the general public. Gold produces an extensive array of photographs for booklets, brochures and posters; and produces radio and television spots; and other items for CSI to use in proselytizing the faith. It also produces musical compositions for use in CSI's dissemination program. Since 1988 Gold has produced the E-Meter.

One of Gold's important objectives is to ensure that the Scriptures are widely available and easily accessible to all Scientologists. It achieves this objective by reproducing Mr. Hubbard's recorded lectures (including transcripts) to provide parishioners with clearer, more durable recordings (some of the original recordings date back to the 1950s). It also records translations of the Scriptures into the many languages spoken by Scientologists throughout the world.

As noted above, Gold is an ecclesiastical body housed within CSI. It currently has 337 staff members. A more detailed

description of Gold and its facilities is contained in the attached edition of its newsletter, Goldline - A Special Briefing on Golden Era Productions. (Exhibit 61.) Many of the various tapes, films, videos and meters that Gold produces are described in the catalogue Golden Era Productions - Audio - Visual Materials. (Exhibit 62.)

D. Social Betterment Organizations

Though Mr. Hubbard is best known for founding the religion of Scientology, he also authored very effective technologies for handling society's ills and bettering the lot of mankind as a whole. Over time these technologies have developed into four general social-betterment programs, each addressing a specific area of current social concern: Narconon, a drug rehabilitation program; Applied Scholastics, an educational program; Criminon, a criminal rehabilitation program and a program for improving public morality in general based on a nonreligious moral code called "The Way To Happiness". Not unexpectedly, the public has come to associate the four names Narconon, Applied Scholastics, Criminon and The Way To Happiness with highly effective and successful programs to better society.

For many years CSI and other churches of Scientology have conducted highly-successful social reform programs based on Mr.

Hubbard's technologies. They conducted these programs either directly or in close conjunction with non-religious organizations formed to help them bring Mr. Hubbard's technologies to the secular world. In addition to these technical organizations churches of Scientology support and work closely with several other charitable organizations that are active in various fields of public interest, particularly combatting psychiatric abuse and governmental corruption.

1. Association for Better Living and Education

The bulk of CSI's social betterment program is carried out under the supervision and direction of Association for Better Living and Education, a California nonprofit public benefit corporation formed in November 1988. ABLE's sole purpose is to improve society through the application of Mr. Hubbard's social betterment technologies. In general, ABLE promotes, funds and provides assistance to organizations that use L. Rhein Hubbard's technologies in education, in rehabilitating drug abusers and criminals, and in raising public morality in general.

ABLE accomplishes its goals primarily by providing technical and financial assistance and general promotional support to the international social-betterment organizations that work in ABLE's four areas of concern: Narconon International

ABLE's application for recognition of its exemption under section 501(c)(3) currently is pending before the National Office.

a. Narconon International

Narconon International is a nonprofit corporation that gives overall guidance and technical assistance and support to local organizations that use Mr. Hubbard's technology to rehabilitate drug users. Narconon -- meaning "non-narcosis" or "no drugs" -- started in the mid-1960s when a prisoner in the Arizona State Penitentiary applied principles expounded in one of Mr. Hubbard's books to solve his drug problem as well as the drug problems of many of his fellow inmates. This one-man crusade flourished into a grassroots movement that eventually moved from penal institutions out into society as a whole.

Today, the Narconon program has developed into a two-pronged assault on the world's drug problem: it encompasses an extraordinarily effective residential rehabilitation program as well as an objective, hardhitting public education program. [NOTE: Too much emphasis on nonreligious] At present, there are 33 residential Narconon centers in various countries, including the United States, Canada, Spain, Italy, Switzerland, France, Germany, Holland, Sweden, Denmark, England, Australia, and

(drug rehabilitation); Applied Scholastics (education), The Way To Happiness Foundation (public morality) and, though not yet formed, Criminon (criminal rehabilitation). These four international organizations, in turn, assist organizations that work in their respective fields at the local level.

ABLE is responsible for ensuring that the programs that use the names referring to Mr. Hubbard's social-betterment technologies -- Narconon, Applied Scholastics, The Way To Happiness and Criminon -- meet the high standards of quality with which they have come to be associated. ABLE discharges this responsibility by permitting the international social-betterment organizations and local organizations to use the names subject to ABLE's ultimate supervision.

ABLE assists social-betterment organizations in other ways. It provides technical assistance when necessary to help them better achieve their program goals. It helps raise funding to support their charitable programs. It promotes their programs throughout society through the printed media as well as radio and television. It also will provide social-betterment organizations that are not financially secure the physical facilities necessary to house their charitable and educational programs.

Mexico. Current plans are to establish a Narconon center near each of the 100 largest cities in the world. The Narconon program of activities is described in detail in the attached booklet, Narconon. Drug Rehabilitation and Education Services. (Exhibit 63.)

Narconon International was formed in 1970 to formalize what was then a loose, grassroots movement, to help establish Narconon programs throughout the world, and to provide local centers the same sort of guidance and technical assistance and support that ABLE provides it. Narconon International also permits local centers to use the name Narconon. In exchange, local centers support Narconon International's program by providing it with five percent of the funds they receive in connection with their Narconon activities. Narconon International also runs a 33-bed rehabilitation center in Los Angeles under the name Narconon Los Angeles.

Narconon International has a group exemption ruling under section 501(c)(3) dated January 20, 1975, and the four Narconon centers now operating in the United States are exempt under this group ruling.

b. Applied Scholastics

Applied Scholastics has overall responsibility for furthering the application of Mr. Hubbard's educational technology throughout society as a whole. This technology consists of a number of very basic yet powerful principles of learning that Mr. Hubbard developed into a methodology for grasping any subject of study. This technology already is bringing about remarkable results throughout the world in improving the ability of individuals to learn and to apply what they learn. The technology has been translated into 12 languages and is in use in schools and by tutors in the United States, China, Pakistan, Australia, South Africa and much of Europe. More than 30 schools ranging from pre-school to high school are using this technology in the United States. A very good description of this educational program is contained in the attached booklet Applied Scholastics International -- Achieving Quality Education In Communities Around the World. (Exhibit 64.)

The schools and other local educational organizations that use the name Applied Scholastics in their educational programs do so pursuant to the authorization of Applied Scholastics, Inc., a nonprofit educational organization located in Los Angeles, which provides the schools overall guidance and technical assistance and support. In exchange, the schools

support Applied Scholastics' program by providing it five percent of the funds they receive in connection with their Applied Scholastics' activities.

The IRS recognized Applied Scholastics' exemption under section 501(c)(3) by determination letter dated December 22, 1972.

c. The Way to Happiness Foundation

The Way To Happiness Foundation takes its name from Mr. Hubbard's book, The Way To Happiness, a very basic, non-religious moral code of fundamental principles and values for living an ethical and happy life. (A copy of The Way To Happiness is attached as Exhibit 65.) Since it was first published in 1981, tens of millions of copies of The Way To Happiness have been distributed throughout the world, and it has served as the genesis of thousands of community and school programs to combat moral decline and juvenile delinquency. To date, most of the community service projects based on The Way To Happiness have come about through the work of The Way To Happiness Foundation (the "Foundation") or Concerned Businessmen's Association of America (the "Association").

The Foundation is a nonprofit California public benefit corporation formed for the purpose of raising the moral standards of society through the dissemination of The Way To Happiness moral code. It is funded primarily by contributions from the general public and churches of Scientology. The Association is a nonprofit California public benefit corporation formed for the purpose of bringing together business people with an interest in raising social values. While the Association works closely with CSI and other churches of Scientology, it is an autonomous organization wholly independent of the Scientology ecclesiastical hierarchy. (None of its directors or officers serve on the staff of a Scientology church or organization.) The IRS has recognized the Association's exemption under section 501(c)(3) by letter dated December 17, 1981.

d. Criminon

Criminon (meaning "no crime") is a social-betterment program using Mr. Hubbard's technologies to rehabilitate criminals in the penal system. It currently consists of a system of several independent and supervised courses and drills, including an extension course based on The Way To Happiness, that has been carried out as special projects between Narconon International and interested volunteers. Although Criminon the program is just beginning to get underway, already The Way To

Happiness extension courses are being delivered in 57 prison facilities in the United States and in Canada. As Criminon programs become better established, they will work within the penal system to provide needed assistance and help bring about necessary reforms and also will work closely with Narconon programs to address drug use in prisons, a major problem in criminal rehabilitation.

Narconon International currently is assisting in the formation of the first formal Criminon program to take place in the Los Angeles area. An international organization to supervise and coordinate the activities of local criminon programs will be formed in the near future as a nonprofit corporation intended to qualify for tax-exempt status under section 501(c)(3). Once it is formed and obtains exemption, ABLE will license it the right to use the Criminon name under the same arrangements as those for Narconon and Applied Scholastics. The international organization, in turn, will be supported by the local organizations and will permit them to use the name Criminon in their rehabilitation programs under its general supervision.

2. Citizen's Commission on Human Rights

Citizen's Commission on Human Rights ("CCHR") is a research and educational organization dedicated to investigating,

publicizing and stopping violations of human rights committed through the guise of psychiatric "treatments" and to recommending viable alternatives to such practices through an extensive program of objective educational and outreach activities.

(Educational brochures made available by CCHR resulting from its research are included as Exhibit 66.) It works in close liaison with a social reform program sponsored by Scientology churches and serves as a clearinghouse and coordinating body for the many local CCHR chapters that are forming throughout the world. CCHR is funded primarily with contributions from the general public and churches of Scientology and with membership dues. CCHR is a California nonprofit public benefit corporation. CCHR's application for recognition of its tax-exempt status under section 501(c)(3) is pending before the National Office.

3. National Commission on Law Enforcement
and Social Justice

National Commission on Law Enforcement and Social Law ("NCLE") is a recently formed nonprofit corporation that operates exclusively for the purpose of guarding against and correcting abuses resulting from corruption in law enforcement and other governmental agencies that violate the United States Constitution or the Universal Declaration of Human Rights. NCLE is an outgrowth of public interest activities conducted for over 20

years by various churches of Scientology. NCLE plans to continue the research, investigation and publication begun by Scientology churches and also will undertake other activities to safeguard society from governmental corruption. It also will serve as a clearinghouse and coordinating body for the many local NCLE organizations that are forming in the United States and Europe. NCLE is funded primarily by contributions from the general public and various churches of Scientology.

NCLE's application for recognition of its tax-exempt status under section 501(c)(3) is pending before the Internal Revenue Service.

4. Foundation for Religious Freedom

The Foundation for Religious Freedom (the "Foundation") is a nonprofit trust operated for the exclusive purpose of safeguarding religious freedom in the United States and throughout the world. It constantly monitors for governmental and private conduct that threatens freedom of religious worship and then acts to guard against or correct inappropriate acts. The Foundation is non-denominational and does not espouse or support the religious beliefs of any one denomination. The Foundation's primary activity is the publication of The Crusader, a bi-monthly newspaper containing articles about current events

affecting religious freedom. (Exhibit 67.) The Foundation is supported primarily by contributions from the general public and from various churches of Scientology.

The Internal Revenue Service has recognized the Foundation's tax-exempt status under section 501(c)(3).

5. Scientology Defense Fund Trust

Scientology Defense Fund Trust ("SDFT") is a nonprofit religious trust organized for the exclusive purpose of defending the human and civil rights of persons whose rights are threatened because they belong to a church of Scientology or because of their religious persuasion. SDFT's program of activities is still developing (it is in the planning stage) and is likely to include defending religious organizations that are attacked because of their religious beliefs.

The Internal Revenue Service has recognized SDFT's tax-exempt status under section 501(c)(3).

6. Churches of Scientology

In addition to the social-betterment activities carried out under the auspices of ABLE, CCHR and other organizations

formed for this purpose, as described above, Scientology churches and individual Scientologists also conduct community projects and social reform actions directly. For example, CSI and Church of Scientology Western United States publish Freedom magazine each month in order to bring to public attention areas of society in need of reform. (Exhibit 68.) Scientology churches have united other groups in their communities in "Say No To Drugs" campaigns, promoting anti-drug slogans through concerts, marches and distribution of promotional materials. Other community outreach activities in which Scientologists and Scientology churches are active include campaigns to improve the environment and to assist children, the elderly and other neglected individuals. A selection of some of many thousands of news articles describing specific social-betterment projects of individual Scientology churches and Scientologists is attached as Exhibit 69.

E. Membership Organizations

Over the years the religion of Scientology has had several different membership programs. At present, there are two. One, the Sea Organization, is the Scientology religious order and is composed of Scientologists women who have dedicated themselves totally to the religion. The International Association of Scientologists is a membership program open to clergy and laity

alike and serves as an expression of its members' desire to propagate the faith.

1. The Sea Organization

The Sea Organization is a religious order of the Scientology faith. It is made up of men and women who have pledged the next billion years of their existence to the Scientology religion. Members of the Sea Organization generally also serve on the staff of Scientology churches and related organizations.

Initially, the Sea Organization consisted of a small group of Scientologists who had pledged their lives to the religion and were accompanying Mr. Hubbard in the mid-1960s, while he researched the upper levels of spiritual awareness aboard a sea-going ship. In 1968 members of the Sea Organization left the ship and established Scientology churches in the United Kingdom and the United States to minister the higher level Scientology religious services. At present all churches of Scientology that minister religious services above the level of a Class IV church are staffed primarily, if not entirely, by members of the Sea Organization. These churches are called "Sea Org churches." CSI, RTC and CST also are "Sea Org churches."

In order to join the Sea Organization, a Scientologist must sign a Sea Organization contract (Exhibit 70) dedicating his or her lives to the Scientology religion for the next billion years and has activated that contract by successfully completing a rigorous training program.

There are marked differences between church staff who are members of the Sea Organization and staff who are not. Those differences arise naturally from the fundamental and total commitment to the Scientology faith that each member of the Sea Organization makes. As a general matter, while on church staff Sea Organization members are required to live within closely-knit religious communities composed exclusively of fellow members of the Sea Organization. They must live communally in church-provided berthing and eat communally in church-provided dining rooms. They are required to live on church premises, if at all reasonable, so they can live free of the distractions of the secular world and be ready to attend to their religious duties at any time during the day or night.

The degree of commitment members of the Sea Organization have made to Scientology is evidenced by the meager earnings they receive for their services while on staff. Like members of other religious orders, staff who are members of the

Sea Organization receive the necessities of life and a nominal allowance (currently \$30 a week and bonuses for good performance of their assigned duties). This allowance is to enable members to purchase clothing and other small personal items of their choosing such as toiletries, cigarettes, etc. Sea Organization members also may receive commissions from sales of religious books and, if they are not serving on the staff of a churches, from fundraising. Sea Organization members are required to wear the official uniforms of the order, which are provided by their church as funds permit.

In the early days of the Sea Organization, its members constituted the officers and crew of Apollo and other vessels and held ranks and ratings corresponding to their positions patterned after naval tradition. The Sea Organization has continued the tradition of ranks and ratings. Generally speaking, Sea Organization rank is a rank of respect, earned by faithful service to the religion.

The holder of a particular Sea Organization rank has no authority within the ecclesiastical hierarchy of the Scientology religion by reason of such rank, though generally he or she will be entitled to courtesy and respect befitting his rank. There are positions within the Scientology hierarchy that are assigned

Brevert ranks. Actual authority within the Scientology religion, if any, derives from the position one holds within the hierarchy. If a Sea Organization member holds no position within the hierarchical church, he or she will have no ecclesiastical authority within the church, regardless of rank. Sea Organization rank has no relevance to the authority and responsibilities of officers, directors and trustees of the corporations formed for the purposes of the religion, because such authority and responsibilities derive from the articles of organization and bylaws of the corporation and applicable state laws rather than from the ecclesiastical hierarchy.

The Sea Organization is not incorporated, nor is it an unincorporated association, and it has no income, expense, assets or liabilities. A copy of the Sea Organization magazine, High Winds, is attached as Exhibit 71. It describes some of the many activities Sea Organization members undertake to further Scientology.

2. International Association of Scientologists

Since 1984 CSI has recognized International Association of Scientologists ("IAS") as the membership organization for Scientologists. The purposes of IAS are to assure the continued practice and expansion of Scientology throughout the world, to

assist churches of Scientology when needed, and to maintain communications with Scientologists on matters of common concern. It is an unincorporated religious membership association composed of individuals, churches of Scientology and national associations of Scientology.

F. Miscellaneous Organizations

1. Building Management Services

Building Management Services ("BMS") is a nonprofit religious corporation that holds title to real estate in Southern California that CSI and various churches of Scientology located there use in accomplishing their religious purposes. (BMS acquired its real estate holdings from Church of Scientology Religious Trust, which provided it with properties and a loan valued at \$25 million and a grant of approximately \$2.5 million.) BMS leases its properties to churches of Scientology at very reasonable rates designed to cover only its obligations without producing any surplus. BMS has no staff; CSI staff personnel manage both its accounts and its property.

BMS is governed by a board of three directors who are elected by CSI as it's sole voting member (there are no other members). Copies of BMS's articles of incorporation, amendment

thereto and bylaws are attached as Exhibits 72, 73 and 74, respectively. A copy of BMS's most recent financial statement (for the period ending December 31, 1989) is attached as Exhibit 75.

2. World Institute of Scientology Enterprises

World Institute of Scientology Enterprises ("WISE") is a California nonprofit religious corporation. WISE was formed to accomplish several objectives with respect to expanding the religion and disseminating secular applications of the technology throughout society. It assures that Scientologists who operate commercial enterprises do not interfere with church activities by conducting or soliciting business on church premises or hiring church staff members. It provides a chaplain service to its members by providing them means to settle disputes in accordance with the Scientology ethics and justice systems. It also is responsible for licensing commercial enterprises offering secular services under the Scientology or Dianetics or secular works derived from Mr. Hubbard's copyrighted works to ensure usage does not violate the Scriptures. WISE members pay membership dues at rates that vary depending on the member's membership class.

During Mr. Hubbard's life WISE was authorized to license and supervise the use of certain marks associated with

Scientology and Dianetics to commercial enterprises pursuant to an agreement between it and New Era Publications. This license has remained in effect since Mr. Hubbard's death. All such use is subject to CSI's supervision to ensure Scriptural mandates are not violated. (Exhibit 76.)

3. Hubbard Dianetics Foundation

Hubbard Dianetics Foundation ("HDF") was formed by CSI in 1985 to assist it in disseminating the religion to the general public. CSI uses HDF to mail out literature on dianetics and to sponsor an 800 telephone number members of the general public can call to obtain more information on Dianetics. HDF has no income; its operating expenses are paid directly by CSI.

HDF is a nonprofit religious corporation. It is governed by a board of directors elected by a board of trustees. (Copies of its articles of incorporation, amendments thereto and bylaws are attached as Exhibits 77, 78 and 79, respectively.) Trustees and directors must be ministers of Scientology in good standing with CSI. None are compensated for their services as trustees, directors or officers.

G. Funding and Reserves

1. Funding

The primary source of funding for the Scientology ecclesiastical hierarchy is its congregation -- the thousands and thousands of individual Scientologists throughout the world who contribute fixed amounts to their churches in order to receive Scientology religious services. For most churches of Scientology, these contributions barely cover their current operating expenses, and generally it is only the very large churches that raise sufficient funding to set aside some reserves to finance the large-scale projects that are necessary for continued expansion of the faith. (Administration of these reserve funds are discussed below.) As discussed above, ecclesiastical management organizations like CSI, SMI and IHELE also are indirectly supported by parishioners' contributions since they are funded by the churches and missions that they manage.

Like other religious and charitable organizations, churches of Scientology rely on Field Staff Members ("FSM") to help raise financial support. Pursuant to Scientology policy, successful FSMs receive a commission of ten to fifteen percent of the contributions they raise for religious services. If a church

staff member is the FSM, the commission is paid to his or her church. Individuals who help disseminate Scientology Scriptural materials receive fifteen percent of the amount of their sales.

Missions and Class IV churches deposit the fixed contributions they receive for services directly in their bank accounts and apply the receipts toward their current expenses, even though the services may not be provided until far in the future. On the other hand, higher United States churches (CSWUS and CSFSO) forward their advance contributions to trusts established for the benefit of the contributors until he or she actually receives the services in question or directs that the contribution be transferred to another church of Scientology.

Two trusts have been established to administer advance contributions to CSWUS and CSFSO. One trust, United States Parishioners Trust ("USPT"), holds advance contributions of parishioners from the United States to both CSWUS and CSFSO; the other trust, Trust for Scientologists ("TFS"), holds advance contributions of parishioners from foreign countries to CSFSO.

USPT is a Scientology religious trust formed in December 1988 for the purpose of holding advance contributions for religious services at CSWUS and CSFSO made by United States

parishioners. USPT's sole function is to receive advance contributions from CSWUS and CSFSO and hold them in trust subject to appropriate instructions from contributors. In most cases, USPT will pay the advance contributions over to CSWUS or CSFSO at the time the contributing parishioner receives the religious services for which the advance contribution was made. Contributors also may direct their contributions be transferred to another church of Scientology. Pursuant to the terms of USPT's trust instrument, interest earned on its corpus may distributed only for purposes of the Scientology faith that are consistent with section 501(c)(3). USPT has no staff, and it is administered by CSI staff personnel.

Trust for Scientologists ("TFS") is a Scientology religious trust formed in July, 1987 for the purpose of holding advance contributions by non-United States parishioners made for religious services at CSFSO. TFS receives parishioners' advance contributions from CSFSO and holds them subject to the contributors instructions. Ordinarily, TFS pays the advance contributions to CSFSO when the contributing parishioner receives the religious services for which the was made, though contributors also may direct their contributions be transferred to another church of Scientology where they plan to receive services. Pursuant to the terms of TFS's trust instrument, any

interest earned on its corpus may distributed only for purposes of the Scientology faith that are consistent with section 501(c)(3).

2. Reserves

Like other hierarchial churches, the Scientology ecclesiastical hierarchy maintains a reserves system to fund important long-term programs and extraordinary projects that benefit the entire faith such as capital development, broad-scale dissemination and defense.

The principal body within the ecclesiastical hierarchy responsible for managing central reserves is CSI's Reserves Committee. The Reserves Committee ensures that reserves are kept safe, expended only for purposes of the religion, and are increased to assure continued expansion of the faith and broader defense and dissemination of the religion. There are five members of the Reserves Committee.

Reserves accounts are funded through different procedures, depending on the church or trust involved. SMI and IHELP, for example, use the tithes they receive to cover operating expenses and use any excess as reserves to apply toward programs that benefit their subordinate organizations and the

hierarchy in general, such as dissemination. Class IV churches participate in the reserve system indirectly, through CSI. Class IV churches make weekly payments to CSI which are credited against CSI's billings for ecclesiastical management services, payments which are determined primarily on the particular church's ability to pay rather than by reference to specific billings. While these funds are subject to CSI's control, they are used for purposes that benefit the religion as a whole -- usually for capital expenditures or for dissemination or defense -- rather than for CSI's routine operating expenses.

CSFSO, on the other hand, funds its reserves accounts directly. Each week, CSFSO allocates its receipts among its operating expenses and any required payments to advance payment trusts. These represent all of CSFSO's recurring local operating expenditures; any excess of receipts over these expenses is transferred directly to CSFSO's reserves accounts.

Generally, all important Scientology churches and organizations participate in the central reserves system. In addition, two Scientology religious trusts participate in the reserves system by functioning like special endowment funds. One, Church of Scientology Religious Trust ("CSRT"), is a Scientology religious trust formed in 1981 to serve as a reserves

trust for funds of United States churches. In 1982 CSI directed United States churches to send their management payments to CSRT. In 1985 CSI instructed churches to pay it directly so CSRT no longer receives these payments. The other, Scientology International Reserves Trust ("SIRT"), is a Scientology religious trust formed in late 1988 to serve as the Scientology reserves trust for funds of foreign Scientology entities. SIRT performs the same function as CSRT except that it serves non-U.S. entities.

H. Private Benefit

The final ruling letter that terminated CSI's prior exemption determination proceeding concluded that CSI had failed to establish that it was not operated for the benefit of private interests because it did not provide information about individuals in positions of control with respect to various Scientology organizations and related interests. The direct implication of this conclusion is that the IRS suspects that these individuals use their positions of influence for their own financial benefit.

In point of fact, nothing can be further from the truth. Without exception, the men and women who serve in these fiduciary positions have made a fundamental commitment to the Scientology

religion. Their primary concern is the religion itself -- the last thing they think about are their personal and private interests. These men and women are not paid for serving as fiduciaries of their faith. Rather, each trustee, director and officer who serves on the staff of a church or church-related entity, receives his or her compensation for services performed as a staff member, not as a fiduciary.

<u>Trustee</u>	<u>Address</u>	<u>1989 Compensation As Trustee</u>	<u>1989 Compensation As CSI Employee</u>
M. Rathbun	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	\$ - 0 -
M. Yager	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	- 0 -
R. Mithoff	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	- 0 -
M. Ingber	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	9,276.24

<u>Director</u>	<u>Address</u>	<u>1989 Compensation As Director</u>	<u>1989 Compensation As CSI Employee</u>
B. Newton	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	\$ 6,166.47
J. Grady	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	7,190.01
M. Rinder	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	5,454.21
G. Lesevre	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	10,866.71

<u>Officer</u>	<u>Address</u>	<u>1989 Compensation As Officer</u>	<u>1989 Compensation As CSI Employee</u>
H. Jentzsch	5165 Fountain Avenue Los Angeles, CA 90029	- 0 -	\$ 2,165.00
B. Anderson	334 E Street, N.E. Washington, D.C. 20002	- 0 -	1,841.46
L. Farny	1609 N. Normandie Ave. Los Angeles, CA 90029	- 0 -	1,998.00
L. Browning	1616 N. Normandie Ave. Los Angeles, CA 90029	- 0 -	2,023.68
J. Epstein	6331 Hollywood Blvd. Los Angeles, CA 90028	- 0 -	5,053.87

CSI's officers, directors and trustees are not compensated in these capacities. However, CSI's officers and directors and one trustee (Mr. Ingber) also serve as full-time members of its staff and receive a nominal allowance for their services as staff members of \$30.00 per week and periodic bonuses (as indicated above for 1989), meals and lodging, medical and dental expenses (when necessary), child care or school tuition for children, and provision of clothing for wear in their work.