

BUSINESS MANAGEMENT AGREEMENT

THIS AGREEMENT, made as of the 1st day of March, 1986, by and between the Estate of L. Ron Hubbard, NORMAN F. STARKEY, Executor ("Estate") and NORMAN F. STARKEY, Trustee of Author's Family Trust ("Trust"), collectively referred to as the "Client", and AUTHOR SERVICES, INC., a California Corporation ("ASI") with reference to the following:

A. L. Ron Hubbard passed away on January 24, 1986. Subsequently, on February 18, 1986, NORMAN F. STARKEY was appointed Executor of the Estate.

B. Mr. Hubbard established the Author's Family Trust by agreement with Norman F. Starkey on January 23, 1986. On the same date, by Grant and Assignment, Mr. Hubbard transferred to Mr. Starkey, as Trustee, all of his assets except copyrights and licenses pertaining thereto;

C. ASI has performed business and management services for L. Ron Hubbard under agreement since May 10, 1982. The services performed included, without limitation, collection of income paid to Mr. Hubbard from any source, the payment of all expenses incurred by Mr. Hubbard, advice to Mr. Hubbard in connection with business and investment programs, advice to Mr. Hubbard concerning the sale or other commercial exploitations of his literary properties, the

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maintenance of Mr. Hubbard's books and records and the preparation and filing of Mr. Hubbard's state and federal income tax returns;

D. Because of ASI's experience with Mr. Hubbard's business affairs, it is well suited to manage the assets of the Client.

E. The parties desire to terminate the Business Management Agreement, dated May 10, 1982, by and between L. Ron Hubbard and ASI covering assets now held by the Client and to enter into a new agreement regarding the management of such assets.

NOW, THEREFORE, based upon the foregoing, and in consideration of the mutual covenants and conditions contained herein, the parties agree as follows:

1. The Business Management Agreement, dated May 10, 1982, by and between L. Ron Hubbard and ASI, is hereby terminated as to any assets now held by the Client. ASI shall be paid all sums due thereunder.

2. Client hereby employs ASI as an independent contractor, to perform the business and management services listed below, and ASI hereby accepts this engagement upon the terms set forth herein:

a. To collect all income paid to Client from any source and to deposit these funds in financial

institutions of the Client's selection. Funds shall be deposited in accounts bearing the name of the Client only;

b. To advise the Client in connection with general business and investment programs, including the research and analysis necessary to furnish such advice;

c. To advise the Client concerning the sale or other commercial exploitation of literary properties and related rights belonging to Client, to seek and analyze prospective exploitation opportunities with respect to such properties, to find literary agents, public relations companies, publishers and producers and act as liaison between them and the Client and to negotiate sale and exploitation agreements in its behalf;

d. To monitor and report to the Client on the exploitation of such literary properties in the various media;

e. ASI, with the approval of the Client, may retain the services of copyright and other attorneys, accountants and other advisors (and to act as liaison between them and the Client) in the Client's behalf when it considers it necessary for the proper rendering of its services under this Agreement. (It is understood that ASI is not licensed to practice law or accounting.) ASI, with the approval of the Client, may also retain such other advisors and consultants, e.g. as gemologists, real estate appraisers or investment advisors, as it deems necessary to

fully and properly perform its services under this Agreement. All such fees incurred by ASI for outside advisors retained for the benefit of the Client shall be Client's responsibility and shall be reimbursed to ASI as set forth below.

f. To keep and maintain the Client's books and records and to cause to be prepared periodic reports as more particularly stated below; and

g. To cause to be prepared the appropriate state and federal income tax returns, including but not limited to any information returns required by any governmental entity.

3. ASI's services to the Client shall not be exclusive, and it may render similar services to others, including persons engaged in literary activities, without violating its obligations under this Agreement; provided that the rendering of services to others shall not interfere with its obligations hereunder.

4. The Trust shall pay ASI each month that portion of ASI's direct cost of doing business ("Overhead") which bears to that portion of ASI's time devoted to the performance of services for Client specified herein. For example, if 90% of ASI's time is devoted to services for the Client, then the Trust shall pay 90% of ASI's overhead. Overhead shall include, but not be limited to, the following:

- a. Total payroll, including federal and state payroll taxes and fringe benefits.
- b. Travel and entertainment expenses relating to activities on behalf of the Client.
- c. Office and equipment rental.
- d. Utilities, including electricity and telephone.
- e. Repairs and maintenance.
- f. Local transportation, including gas, oil and insurance on vehicles owned by ASI and used for Client purpose.
- g. Supplies, including stationery, photocopy and postage.
- h. Insurance, including liability, all risk and workers compensation.
- i. Miscellaneous expenses attributable to Client purposes.

In addition to Overhead, the Trust shall pay ASI each month a fee equal to ten percent (10%) of the Overhead approved by Client, as hereinafter provided.

At least ten (10) days prior of the end of each month, ASI will submit to Client, for Client's approval, a budget of Overhead for the upcoming month together with the Trust's estimated percentage of such expenses. Client may increase, decrease or delete any proposed expense. On the first day of each month the Trust shall pay to ASI the

amount set forth in the approved budget plus a fee of ten percent (10%) of said amount. Within fifteen (15) days after the end of each quarter, ASI shall prepare and deliver to Client an accounting showing its Overhead for the quarter just ended. Any overpayment of Overhead shall be refunded to the Trust or applied to future payments. The Trust shall either pay directly or reimburse ASI for professional (i.e. legal, accounting and advisory) expenses incurred directly for the benefit of Client.

To the extent that the Trust is unable to pay either the Overhead or the fee, such short fall shall be made up by the Estate.

5. It is understood and agreed that the Client may from time to time request ASI to perform services not listed in Paragraph 2 above. In such case, ASI shall render such additional or extraordinary services for the fee provided in Paragraph 4 unless the Client approves additional compensation.

6. ASI shall use its good faith best efforts to perform its obligations under this Agreement. It shall measure its own activities by factual statistics and make good faith best efforts to reverse any decline in statistics.

7. ASI shall provide to Client a periodic report of all its acts and transactions under this Agreement. This report shall include amounts deposited to

the various bank accounts, income from all sources received and expenses paid, and all other information on the conduct of ASI and its employees under this Agreement, from time to time, requested by the Client including, but not limited to, graphs of actual statistics. The Client shall have the right to audit all of ASI's records relating to this Agreement at any time during normal business hours.

8. It is understood that ASI is not licensed as an artist's agency, and its services with regard to the sale or other exploitation for the Client's literary properties shall not include any acts for which licensing is required. It is also understood that ASI is not licensed as an investment advisor under the Investment Advisors Act of 1940, and ASI shall not perform any services, including discretionary control of investments, for which a license is required.

9. This Agreement shall be deemed to have been entered into at the offices of ASI in the State of California, it is primarily to be performed in the State of California, and it shall be interpreted under the laws and judicial decisions of the State of California.

10. Neither party shall be deemed to be the joint venturer, employee or partner of the other, and ASI's role as an agent of the Client shall be strictly limited to the specific obligations listed in Paragraph 2 of this Agreement. In particular, ASI shall not have the right:

- a. To enter into any agreement on behalf of Client;
- b. To provide addresses for service of process or to accept service of process on behalf of Client;
- c. To make any investment on behalf of Client;
- d. To assume or assert ownership of any of the Client's assets; and
- e. To do any act not delegable by NORMAN F. STARKEY, as Executor or by NORMAN F. STARKEY, as Trustee, by virtue of the laws and judicial decisions of the State of California.

11. The Client hereby authorizes ASI to collect and receive all sums of money payable to the Client pursuant to any contract, whether oral or written, existing on the date hereof. Whenever necessary to effect the collection of monies, the Client shall execute a limited power of attorney or payment authority.

12. The term of this Agreement shall be for two (2) years from date of execution; provided that either party may terminate this Agreement upon thirty (30) days' written notice for cause. Unless terminated, this Agreement shall automatically renew for successive one-year periods.

13. The standard of behavior required by ASI under this Agreement is that of a fiduciary. This is not to

be construed as a delegation of NORMAN F. STARKEY's fiduciary duties as Executor or Trustee.

a. ASI and its employees shall maintain the affairs of the Client in absolute confidence. In the event of litigation by any person against ASI, ASI shall keep the Client's assets free from any lien or seizure. ASI hereby indemnifies and holds the Client harmless from any cost, expense or liability of any kind, including attorneys' fees, which arises from or relates to any violation of this paragraph by ASI or its employees.

14. This Agreement contains the entire understanding between the parties and supersedes any prior understanding and agreement between them respecting its subject. There are no representations, agreements or understandings, oral or written, between the parties relating to the subject of this Agreement which are not fully expressed here. This Agreement may be amended only in writing.

15. Any notice, report or writing required or permitted to be given hereunder shall be in writing and shall be served by delivering the same personally either to the other party, or by depositing the notice, contained in a sealed envelope, first class postage prepaid, in any mailbox maintained by the United States Postal System. Any and all such notices shall be delivered to the parties at their respective addresses specified in this paragraph. Any such

notice deposited in the mail shall conclusively be deemed to be delivered to and received by the addressee five (5) days after the deposit in the mail if all of the foregoing conditions of notice shall have been satisfied and if such notice shall at the time of mailing have been contained in an envelope addressed as follows:

To Client: Norman F. Starkey, Executor
6515 Sunset Boulevard
Suite 202
Hollywood, CA 90028

Norman F. Starkey, Trustee
6515 Sunset Boulevard
Suite 202
Hollywood, CA 90028

To ASI: Author Services, Inc.
6464 Sunset Boulevard
Suite 900
Hollywood, CA 90028

Any party hereto may change its address for the purposes of this paragraph by giving such other party notice, as provided for herein, of the new address.

16. Any claim or controversy arising out of or relating to all or any part of this Agreement, including any question of arbitrability, or any breach or alleged breach of this Agreement, shall be settled by binding arbitration in Los Angeles County in accordance with the rules of the American Arbitration Association, and judgment upon any award rendered by the arbitrator(s) may be entered in any Court having jurisdiction thereof. In the event of arbitration, each party hereto shall have the right to conduct reasonable discovery pursuant to the provisions of

California Code of Civil Procedure Sections 2016 through 2036, inclusive, as presently or hereafter constituted, pursuant to all Rules of Court applicable to discovery in civil actions before the Los Angeles Superior Court, as said Rules presently are or hereafter may be constituted, and pursuant to any and all provisions of law and court rules not presently existing which shall in the future come to exist in place of or in augmentation of all or any of said Sections and/or Rules of Court. Arbitration shall not be required with respect to any matter where injunctive relief or specific performance is sought by all or any of the parties hereto. The filing of any such civil action by ASI against the Client shall be, without limitation, a cause for termination of this Agreement, and all of Client's assets shall be returned without delay.

17. The following general provisions shall apply:

a. All parties expressly covenant to deal with each other in good faith regarding all actions, decisions and conduct relating to this Agreement.

b. The failure of any party to insist, in any one or more instances, upon strict performance of any one or more of the provisions, terms and conditions of this Agreement, or to exercise any right or rights hereunder, shall not be construed as a waiver thereof, and any and all

such provision(s), term(s), condition(s) and right(s) shall continue and remain in full force and effect.

c. In the event that any party to this Agreement institutes any action or proceeding, including, but not limited to, litigation and arbitration, to preserve, to protect or to enforce any right or benefit created by or granted under this Agreement, the prevailing party in each respective action or proceeding shall be entitled, in addition to any and all other relief granted by a Court or other tribunal or body, as may be appropriate, to an award in said action or proceeding of that sum of money which represents the attorneys' fees reasonably incurred by the prevailing party therein in filing or otherwise instituting and in prosecuting or otherwise pursuing said action or proceeding, and, additionally, the attorneys' fees reasonably incurred by said prevailing party in negotiating any and all matters underlying said action or proceeding and in preparation for instituting said action or proceeding.

d. Subject to the restriction on assignment set forth in Paragraph 18 below, this Agreement and each and every covenant, condition and other provision herein contained shall apply to, be binding upon and inure to the burden or benefit, as may be the case, of the respective legal representatives, assigns, successors and agents of the parties hereto.

e. Each and every provision of this Agreement is severable from any and all other provisions of this Agreement. Should any provision or provisions of this Agreement be for any reason unenforceable, the balance shall nonetheless be of full force and effect.

f. Each party hereto agrees to execute (with acknowledgment where necessary) and deliver all documents and instruments and to perform such further acts as may be necessary to carry out the agreements set forth herein.

18. ASI shall not assign any of its rights or duties under this Agreement, except the right to receive money, without the prior written consent of the Client.

IN WITNESS WHEREOF, the parties have executed this Agreement as of the date first above written.

"Client":


NORMAN F. STARKEY, Executor of
the Estate of L. Ron Hubbard

NORMAN F. STARKEY, Trustee of
Author's Family Trust

"ASI":

AUTHOR SERVICES, INC.

By 

JOHN ALLCOCK, Treasurer