

RESPONSE TO THIRD SERIES OF QUESTIONS (November 23, 1992)

VOLUME 1

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Question 1-a

a. On page 1-4 of your prior response, you state that you "exclude unrelated commercial licensees from [certain] subparts..." Do all members of this excluded class meet the definition of "wholly unrelated commercial vendor."

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We confirm that all members of this excluded class meet the definition of "wholly unrelated commercial vendor."

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QUESTION 1-b

b. Do all United States Missions have substantially identical organising documents? Please provide representative samples of two Missions' organising documents.

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In 1982, attorneys for the church prepared uniform model articles and bylaws for use in incorporating a mission.

The purpose of the model articles and bylaws is to ensure that all missions of Scientology are organized and operated for exclusively religious purposes as described in section 501(c)(3) as well as organized and operated solely for purposes of the Scientology religion.

The models were prepared to conform to California law, and all missions in California are instructed by Scientology Missions International to use these without variation. Missions outside of California are sometimes required to make relatively minor changes to conform to state corporation law. They are instructed to conform as closely as possible to the model articles and bylaws, and to ensure that the mission and its assets are dedicated exclusively to purposes of the religion of Scientology.

Copies of articles and bylaws for two missions, one within California and another outside of California, are enclosed as Exhibits III-1-A and III-1-B.

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Question 1-c

c. As part of the response to Question 1 and elsewhere, entities are listed about which the Service has little or no information. Have any of the following entities had, at any time after December 31, 1988, gross assets in excess of \$1,000,000 or annual gross receipts/contributions in excess of \$250,000? If so, please provide for each such entity the information contained at Exhibit I-9 and Exhibit I-17. Where possible, data should be for 1989 and 1990. The entities are as follows: (i) the publications organizations that were first described in your June 29, 1992 response; (ii) Nesta Investments, Ltd.; (iii) C.W. Properties, Inc.; (iv) Dexter Development Company; (v) Graymoss, Inc.; and (vi) Northstar Publishing (disclosed on CSI Form 1120 for 1987). If the entity dissolved or otherwise wound up its operations, please state when and to whom all assets were distributed.

(i) The answers relating to the publications organizations are as follows:

(1) New Era Publications International ApS Tokyo

This corporation did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(2) Nueva Era Dinamica, S.A.

This corporation did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(3) Importaciones y Exportaciones Nueva Civilizacion S.A. de C.V.

This corporation did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(4) Continental Publications (Pty) Ltd

This corporation did not have gross assets over \$1,000,000, but it did have gross receipts over \$250,000 since 31 December 1988. Therefore, a schedule of its Exhibit I-9 data for 1989 and 1990 is attached.

(5) South African Publications Trust

This trust did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(6) 719008 Ontario Limited

This company did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(7) Scientology Publications Limited

This company did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(ii) Nesta Investments, Ltd. (page 1-45);

This company did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988.

(iii) C.W. Properties, Inc. (page 1-46);

This US corporation, which was formed in 1990 as a wholly owned subsidiary of Church of Scientology Religious Trust, was dissolved in September 1991. It did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988. All of its assets were transferred to Church of Scientology Religious Trust.

(iv) Dexter Development Company (page 1-46);

This US corporation, which was formed in 1990 as a wholly owned subsidiary of Church of Scientology Religious Trust, was dissolved in September 1991. It did not have gross assets over \$1,000,000 or gross receipts over \$250,000 at any time since 31 December 1988. All of its assets were transferred to Church of Scientology Religious Trust.

(v) Graymoss, Inc. (page 1-46);

This corporation was formed in 1990 as a wholly owned subsidiary of Church of Scientology Religious Trust. It was inactive until early 1991 when it purchased real estate in Clearwater with funds provided by the Trust on behalf of the Trust. It was dissolved in October 1991 and all of its assets were distributed to Church of Scientology Religious Trust. Exhibit I-9 information for 1989 and 1990 is therefore not applicable.

(vi) Northstar Publishing

This corporation was dissolved in September 1988 and its assets were transferred to Church of Scientology International. No Exhibit I-9 information for 1989 and 1990 is therefore applicable.

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CONTINENTAL PUBLICATIONS (PTY) LTD.
Analysis of Financial Money Flows
1990

<u>RECEIPTS</u>	<u>SOURCE(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
SALE OF BOOKS & MATERIALS	SCIENTOLOGY CHURCHES	97.32%	1,074,467
SALE OF BOOKS & MATERIALS	COMMERCIAL COMPANIES	2.38%	26,229
BANK INTEREST RECEIVED	COMMERCIAL BANK	0.13%	1,471
COMMISSIONS	SCIENTOLOGY CHURCHES	0.17%	1,907
		100.00%	\$1,104,074

<u>DISBURSEMENTS</u>	<u>RECIPIENT(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
PURCHASES FOR RESALE	NEW ERA PUBLICATIONS	49.51%	535,123
FREIGHT & DUTY	COMMERCIAL VENDORS	23.97%	259,046
SALARIES	STAFF	1.71%	18,521
OPERATING EXPENSES	COMMERCIAL VENDORS	20.49%	221,523
OPERATING COSTS	S.A. CHURCH	2.34%	25,240
CORPORATION TAX	RECEIVER OF REVENUE	1.98%	21,418
		100.00%	\$1,080,872

CONTINENTAL PUBLICATIONS (PTY) LTD.
Analysis of Financial Money Flows
1989

<u>RECEIPTS</u>	<u>SOURCE(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
SALE OF BOOKS & MATERIALS	SCIENTOLOGY CHURCHES	99.52%	888,404
BANK INTEREST RECEIVED	COMMERCIAL BANK	0.38%	3,422
COMMISSIONS	SCIENTOLOGY CHURCHES	0.10%	876
		100.00%	\$892,702

<u>DISBURSEMENTS</u>	<u>RECIPIENT(S)</u>	<u>PERCENT</u>	<u>US\$ AMOUNT</u>
PURCHASES FOR RESALE	NEW ERA PUBLICATIONS	50.82%	438,250
FREIGHT & DUTY	COMMERCIAL VENDORS	19.62%	169,212
SALARIES	STAFF	1.79%	15,460
OPERATING EXPENSES	COMMERCIAL VENDORS	22.87%	197,240
OPERATING COSTS	S.A. CHURCH	2.98%	25,696
CORPORATION TAX	RECEIVER OF REVENUE	1.91%	16,497
		100.00%	\$862,356

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QUESTION 1-d (i)

(i) "We are concerned with the private ownership of Author Services, Inc. ("ASI"). This concern is based on an understanding that the corporation has private shareholders and that no other Scientology-related organization appears to retain an ownership interest in this corporation. Please provide all currently in force shareholder agreements related to ASI, including any buy-sell agreements, redemption agreements, voting trusts, or other similar interests in control or ownership. In addition, please provide all management or other service-provider agreements currently in force between ASI and other Scientology-related organizations. After resolution of issues relating to Mr. Hubbard's estate (including distribution of the residual assets), does the Church intend to continue to use the services of ASI?"

* * * *

The only in force shareholder agreement is a Stock Redemption Agreement between ASI and its shareholders; the agreements for all current shareholders are enclosed as Exhibit III-1-C. The Agreement basically prohibits the shareholders from selling their stock except on separation from employment and then only to ASI for \$1.00 a share. There are no other shareholder agreements relating to ASI, nor any other buy-sell agreements, redemption agreements, voting trusts, or other similar interests in control or ownership.

All of ASI's outstanding shares of stock are owned by three of its staff members: Ryland Hawkins (5 shares), Doug Hay (5 shares) and Hugh Wilhere (5 shares). Each of these shares is subject to the above redemption agreement and each share bears a legend that restricts transfer of the shares. See shares at Exhibit III-1-D.

The only reason ASI issued stock was to comply with requirements of California corporate law. ASI was originally separately incorporated so that Mr. Hubbard's literary affairs were managed by an entity that was not part of the Church. ASI's shareholders have never received any personal benefit as a result of their ownership of its stock. They never have and never will receive any dividend or other distribution of profits, compensation, expense reimbursement or other benefit as a result of their status as shareholders. (They do receive compensation and other benefits for their service as full time staff of ASI on the same terms and conditions as other ASI staff.) All changes in share ownership in the past have followed the share redemption agreement.

There is an in force service-provider agreement between ASI and Mr. Hubbard's estate and Author's Family Trust. This is a Business Management Agreement dated March 1, 1986, which is enclosed as Exhibit III-1-E. As a result of ASI's extensive

experience in managing Mr. Hubbard's properties, Author's Family Trust and his estate entered into this Business Management Agreement with ASI.

Following the resolution of issues relating to Mr. Hubbard's estate and the distribution of the residual assets to CST, it is expected that ASI's ownership structure will be changed at that time by making it a wholly-owned subsidiary of CST and that the Church will continue to use the services of ASI. There is, however, some uncertainty on exactly what the arrangement between ASI and CST will be and the final resolution will be monitored by an overriding concern to protect the exempt status of the Church, just as the original formation of ASI was arranged as discussed above.

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Question 1-d (ii)

An individual owned stock in New Era Publications International ApS Tokyo prior to its acquisition by NEP. Please identify the individual and describe the sale or transfer of the stock to NEP.

There were two individuals who owned stock in New Era Publications International ApS Tokyo. The majority shareholder was Makoto Jimbo who owned 270 shares and the minority shareholder was Toru Hoshino who owned 30 shares.

Neither Jimbo nor Hoshino are Scientologists or have or had any connection to the Church or a Scientology-related entity other than as discussed here. They were originally hired by New Era Publications International ApS as consultants to assist in the edit, publication and distribution of Mr. Hubbard's books in Japan - which was a new and unfamiliar territory for New Era at that time.

While working for New Era, Jimbo and Hoshino formed a publishing company for the purpose of publishing the book they were then working on, which they called New Era Publications International ApS Tokyo. Neither New Era nor any other Scientology-related organization was aware of this fact that they had formed this corporation with New Era's name.

When New Era learned of this corporation, it decided that it should acquire this existing corporation and use it to publish Mr. Hubbard's books in Japan.

The sale was concluded in March of 1991 and resulted in the unconditional conveyance to New Era of all shares of New Era Publications International ApS Tokyo, including all its assets which consisted of 3,000,000 yen cash (the equivalent of \$22,400) as paid-in capital. New Era's purchase price was equal to the corporations paid-in capital, or 3,000,000 yen. Jimbo received 2,700,000 yen (the equivalent of \$20,200) and Hoshino received 300,000 yen (the equivalent of \$2,200). In addition, Jimbo received the equivalent of \$3,000 for his initial expenses establishing the company.

QUESTION 1-d (iii)

(iii) Please describe the transfer of stock in SOR Management Services, Ltd. between Ms Beryl Garside and CSREC. In addition, who or what entity owns SOR Services U.K., Ltd. as of the date of this letter.

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SOR Management Services Limited ("SORMS") was wholly-owned by Church of Scientology Religious Education College ("CSREC") from late 1985 until 31 December 1988 when it was liquidated.

Under relevant U.K. law, a U.K. limited company is required to have a minimum of two registered shareholders. Thus CSREC was unable to hold all of the shares in SORMS itself. Ms Beryl Garside was a director of Church of Scientology Religious Education College ("CSREC") and any share(s) of SORMS registered in her name were held as a nominee for CSREC, under a declaration of nominee shareholding. Any transfers of stock in her name were done on the instructions of CSREC. She never, at any time, had any beneficial interest in the shares of SORMS.

As at the date of this letter, SOR Services U.K. Limited is a wholly-owned subsidiary of Church of Scientology Religious Education College Inc., as indicated on page (1-45) and (1-52) of our June submission. It currently has an issued capital of Two Pounds comprising two ordinary shares of One Pound each, which are held in the names of CSREC (One) and Ms Jane Fraser, a director of CS REC, (One). The latter holds this share as a nominee for CSREC, under a declaration of nominee shareholding. She has no beneficial interest in the shares of SOR Services U.K. Limited.

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Question 1-e

e. Why is CSC listed as "inactive." Please define the terms "inactive" and "dormant".

* * * *

We have used the term "inactive" to refer to entities that were once active but are no longer carrying on any activity. The term "dormant" is used to describe entities that were formed but never conducted any activities.

CSC is termed inactive because it is no longer carrying out any activity though it was once an active church corporation.

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Question 1-f

f. What does the term "N/A" imply concerning the jurisdiction of certain trusts, including SIRT, TFS, and FST.

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The term "N/A" means that the trust instrument does not require the trust to operate in a specific jurisdiction. In the case of TFS, the amended trust declaration provides that the trust shall not be administered from within the United States. To date, the trustees have had no reason to determine the applicable jurisdiction of these trusts other than to determine that such trusts are not U.S. trusts.

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Question 1-g

g. At various places you refer to one entity as "owned by" or as a "subsidiary of" another entity. Do both terms mean that the first entity is "owned" entirely by the second entity or is the 100-percent subsidiary of such entity.

* * * *

The phrase "subsidiary of" has been used in a technical sense to indicate ownership of a corporation by another corporation, while the phrase "owned by" has been used to indicate ownership of a corporation by a non-corporate entity (e.g., by a trust). In the broader, nontechnical sense, both phrases mean that the first entity is owned entirely by the second entity.

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QUESTION 1-h

h. Are you aware of the existence of a Florida corporation named Majestic Cruise Lines, Inc.? Is that corporation related, directly or otherwise, with any Scientology-related organization, including Majestic Cruise Lines, Inc., the Panamanian corporation? If so, please explain.

* * * *

We were unaware of the existence of any Florida corporation by the name of Majestic Cruise Lines, Inc. Following receipt of your letter we contacted the Florida Secretary of State of State, Corporations Division and determined that a corporation by that name was incorporated on January 12, 1989 and dissolved on October 9, 1992.

We subsequently obtained a copy of the articles of incorporation which show no connection whatsoever with the Scientology religion.

The names of the incorporator, agent for service of process, director and corporate addresses shown in the state records are all completely unfamiliar to us. That Florida corporation's use of the name "Majestic Cruise Lines" is simply a coincidence.

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QUESTION 1-1

1. According to the information you provide, San Donato Properties ("SDP") is the registered owner of the M.V. Freewinds, and is in turn wholly owned by Transcorp Services, which is in turn wholly owned by Flag Ship Trust. However, the Service has information that SDP is owned by a Venezuelan company named Consolidada de Ferrys. Please provide any information that will enable us to clarify this issue.

* * * *

We were unaware of the existence of a Venezuelan company called Consolidada de Ferrys prior to receiving your letter.

In an effort to resolve this question, we contacted the American Embassy in Caracas, Venezuela and learned that Consolidada de Ferrys operates four car and passenger ferries between two ports of the Venezuelan mainland and Margarita Island, which is located off the Venezuelan coast. The company has been in operation for over thirty years which predates our existence in the Caribbean by a considerable period.

There is no connection between this company and any Church of Scientology or related organization.

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QUESTION 1-j

j. In Exhibit I-2, the directors of SDP, Transcorp Services, S.A. and Majestic Cruise Lines, Inc. are described as "compensated and unaffiliated Panamanian individuals." Please identify all directors of these corporations as of December 31, 1989, and as of the date of this letter. Please provide the same information for the director of MCL Services, N.V. who is described as an "unaffiliated Netherlands Antilles individual."

The corporation laws of Panama and the Netherlands Antilles, respectively, require that the directors of a corporation be nationals of those respective countries. The individual directors shown below are professionals in the respective countries who act as directors of the respective corporations.

The compensated and unaffiliated Panamanian individuals who serve as directors of SDP, Transcorp Services, S.A. and Majestic Cruise Lines, Inc. as of December 31, 1989 and as of the date of this letter, are as follows:

SAN DONATO PROPERTIES CORPORATION:

Ricardo A. Durling
Luis A. Durling
Orlando Lopez

TRANSCORP SERVICES S.A.

Ricardo A. Durling
Luis A. Durling
Orlando Lopez

MAJESTIC CRUISE LINES, INC.

Manuel Salerno Abad
Rudolph V. A. Van Der Wall Arnemann
Vielka Chiari Rivera

The sole director of MCL Services, N.V. described as an unaffiliated Netherlands Antilles individual in Exhibit I-2, as of December 31, 1989 and as of the date of this letter, is Reginald Antonio Emiliano Markes. Mr. Markes also is an employee of MCL Services, N.V., performing services on matters such as government and public affairs, labour relations and the like.

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Question 2

Previously, we asked about the statement that certain entities are organized and operated exclusively for charitable purposes despite the entity being formed under the laws of a foreign jurisdiction. As part of your response, you included bylaws and other corporate documents. Are all these documents currently in effect? More generally, may we assume that any documents provided to us in QWM are currently in effect and complete unless explicitly stated otherwise?

* * * *

As discussed in our meeting of 26 October 1992, you may generally assume that any documents provided to you are those which are currently in effect and complete unless explicitly stated otherwise.

With respect to Exhibit II-4-L, it was not explicitly stated that the management agreement contained in that exhibit was no longer in place. However, this document was provided in the context of providing information requested of a previous activity and was not intended to address any current relationship. A sample of the currently in force management agreement is attached as Exhibit III-4-D.

Unless explicitly stated otherwise, the other articles, bylaws, corporate and trust documents provided in the June submission are complete and currently in effect with the exception of the Articles of Association of New Era Publications International ApS, which had minor revisions adopted on 2 September 1992. A copy of the amended Articles is attached as Exhibit III-2-A with the changes highlighted.

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QUESTION 3-a

We have sought to identify individuals within the Church hierarchy with fiduciary responsibility to prevent asset diversions and who would be most likely to benefit if, in fact, inurement exists. Therefore, we are asking certain follow-up questions, particularly about certain individuals' compensation. For ease of reference, we have designated these compensation questions as Question 3A.

a. We have several follow-up questions which will allow us to better understand the Sea Organization's ("Sea Org's") role in the ecclesiastical management of the Church.

* * * *

As explained at our conference on October 26, 1992, the Service has a misconception of the Sea Organization. We have previously described the Sea Org as a religious commitment and as a religious order and those explanations have apparently not fully communicated the concept since you are asking further questions. The WORLD BOOK ENCYCLOPEDIA defines a religious order as: "groups of men or women who live by common religious, moral, and social regulation." As covered in earlier submissions and presentations and as further covered below, the Sea Org certainly fits that definition.

In fact the Sea Org is probably more purely a religious order than any of the other well known orders. That is because most of the Catholic and Eastern religious orders are formally incorporated or organized by articles of association. Although they operate similarly in that their members go about the world carrying out their religious missions in the employ of other Churches, other religious orders generally have property, assets, and considerable personnel whose full-time job has to do with administration of the order. The Sea Org has none of this.

You may also have trouble applying this comparative for another reason. Religious orders are sometimes stigmatized and thought of as retreats where reclusive monks avoid contact with the secular world and spend their time in quiet meditation. Sea Organization members are associated with action. This of course does not make the Sea Organization any less a religious order. One of the more famous religious orders, the Jesuits, had a similar reputation for action in earlier years prior to the Catholic Church's general decline in membership and vitality.

Perhaps it is the word "organization" in Sea Organization that creates difficulty in communicating what the Sea Org is. The word

"org" may connote to you a formal ecclesiastical Scientology organization with a 7 division organizing board withan executive structure and command lines. As we have shown you, even though called the Sea Org, it does not have an ecclesiastical organizing board or command channels chart or secular existence such as an incorporated or unincorporated association. In order to understand how the word "organization" or "org" originated in the term "Sea Org," and to understand the Sea Org at all, it is necessary to know something of its history.

In 1967, having retired from his position as Executive Director, Mr. Hubbard set to sea with a handful of dedicated Scientologists to conduct his researches. This group was called the "Sea Project". One research project was to test Mr. Hubbard's whole track recall by locating ancient ruins with which he was familiar from former lifetimes around the Mediterranean. This successful project was chronicled in a book, MISSION INTO TIME. Another project around that time was to establish a safe base where the newly researched and evolving upper bands of spiritual awareness, the OT (Operating Thetan) levels, could be delivered, and where Mr. Hubbard could research higher OT levels.

The term "Sea Project" was a temporary name given to the above activities and it became apparent that it was a misnomer because it was in fact an ongoing activity rather than a finite project. Another name was needed to identify this original group and they adopted the name "Sea Organization." At that same time the crew got together and wrote a staff contract for this new organization. Instead of using the 5-year contracts that were common to Scientology organizations around the world, they adopted one which is not a contract in any legal sense but is rather a religious pledge or commitment and set a term of one billion years. This term reflected both their dedication to the religion of Scientology and their awareness of themselves as immortal spiritual beings who have lived countless lives and who will live again and again.

At inception, the Sea Org was in fact an ecclesiastical organization. The Sea Org was the crew of the original two ships, the Diana and the Avon River - it had an organizing board and was housed in a corporation. It was an "entity" in the same sense that CMO INT today is an ecclesiastical organization, has an organizing board and is housed in CSI.

However, the Sea Org rapidly grew and soon was no longer a single ecclesiastical organization and evolved into a religious order. Within a short time of its inception, Sea Org members, who had each signed the billion year contract, were not only manning the original ships but several other ships, including the much larger Flagship Apollo and land bases as well, such

as the advanced organizations in Los Angeles and Denmark. By now the Sea Org not only spanned different ships and locations, but different corporations as well. Each ecclesiastical organization had its own organizing board and command structure.

The Executive Council Worldwide ("ECWW") in East Grinstead, England, to whom Mr. Hubbard had entrusted the management of the Church upon his retirement, failed in its duties and the Church experienced a decline in the late 60's. After several unsuccessful attempts to rectify this matter, ECWW was disbanded in 1971 and the management of the Church was fully taken over by the newly formed ecclesiastical management organization, Flag Bureaux, comprised of Sea Org members aboard the Flagship Apollo.

Also in the late 60's, with Mr. Hubbard conducting researches and no longer teaching courses in church organizations, the technology of Dianetics and Scientology experienced a decline. Left in other hands, vital scriptural materials were deleted from course checksheets or improperly labelled "background information" or "for historical interest only" and the effectiveness of auditing was diminished. In this same period the delivery of OT levels was kept pure and unaltered because they were only ministered by dedicated Sea Org members. For this reason, only Sea Org members are entrusted with the delivery of OT levels as well as with management of the Church as above.

The main thing that sets Sea Org members apart from other Scientology staff is the eternal commitment to the religion.

Although there is no such "organization" as the Sea Organization, the term Sea Org has a colloquial usage which implies that there is. There are general recruitment posters and literature for "The Sea Org" which implies that people will be employed by the Sea Org when in reality they will join, making the billion year commitment, at some church that is staffed by Sea Org members and become employees of that church corporation.

But the above is just a colloquial usage of the term "Sea Org" and does not alter the fact that the Sea Org is in fact a religious order, albeit different from those of other religions.

In the final analysis, one can look at all the indicia of the Sea Org and Sea Org members and say it is a this, or it isn't a that, but the essential difference is the billion year

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or essentially eternal commitment to the religion of Scientology and its goals and purposes. To fully understand the gravity of that pledge, one would have to have certainty of oneself as an immortal spiritual being who has inhabited countless bodies and will inhabit countless more - as did those first Sea Org members who wrote the Sea Org Contract and most who joined later. It is a deeply personal and intensely religious decision for a trained and audited Scientologist, who has a subjective and objective reality of himself as an immortal spirit, to commit himself to the Sea Org and its transcendent goals and purposes. One cannot really view the Sea Org in a temporal plane and gain any insight into its essence or dynamics. The Sea Org exists as a spiritual commitment that is factually beyond the full understanding of the Service or any other but a trained and audited Scientologist.

(i) Please describe the Sea Org's system of rank including a complete explanation of the promotional board system, and how (and by whom) one is appointed or removed from the board. Please list the 10 highest ranking individuals in the Sea Org, as of the date of this letter. Please include all relevant documents relating to the Sea Org's system of rank, organization and structure.

* * * *

Among the traditions of the Sea Org which were originally formed aboard ship and which are carried on to this day are the wearing of maritime uniforms and a maritime system of ratings and ranks.

There are two systems of rank and rating in the Sea Organization -- earned rank or rating and brevet rank. Earned rank or rating is awarded by Officer Selection Boards as covered below and brevet rank accompanies certain high ecclesiastical positions within church organizations and the person who holds that position automatically holds the brevet rank that goes with it. Both systems reflect a maritime tradition in terms of nomenclature and sequence. The Sea Organization's system of earned ratings range from Swamper, to Petty Officer 3rd Class, to Petty Officer 2nd Class, to Petty Officer 1st Class, to Chief Petty Officer. Its system of ranks (which are senior to ratings) range from Midshipman, to Warrant Officer, to Ensign, to Lieutenant Junior Grade, to Lieutenant, to Lieutenant Commander, to Commander, to Captain. Mr. Hubbard was the only Commodore and there will never be another as this rank is his alone.

3-4

Ranks and Ratings vary in one other respect - whether or not the person is trained and qualified to command a ship at sea. If so qualified, then his rating or rank will be modified as "right arm" and will have a slightly different insignia with a star included along with regular chevrons or bars and his rank or rating will have "RA" after it - standing for right arm. This is to acknowledge individual accomplishments in seamanship and is only applicable aboard ship where it is of course necessary to have a qualified seaman commanding a ship.

Brevet ranks are assigned to certain positions within the Church and have the purpose of equating rank and ecclesiastical authority. One holds a brevet rank so long as one holds the position to which the brevet rank applies.

The highest ranking officers in the Sea Organization are as follows:

<u>NAME</u>	<u>RANK</u>	<u>EARNED RANK</u>
David Miscavige	Captain	Captain
Marc Yager	Captain (Brevet)	Lt. Commander
Ray Mithoff	Captain (Brevet)	Lt. Commander
Mark Rathbun	Captain (Brevet)	Ensign
Mark Ingber	Captain (Brevet)	Ensign
Guillaum Leserve	Captain (Brevet)	Lt. Commander
Tom Ashworth	Commander (Brevet)	Petty Officer 1st Class Ken
Delderfield	Commander (Brevet)	Ensign
John Eastment	Commander (Brevet)	Lieutenant
Cherie Eves	Commander (Brevet)	Warrant Officer
Greg Hughes	Commander (Brevet)	Midshipman
Diana Hubbard	Commander (Brevet)	Midshipman
Katherine Lemmer	Commander (Brevet)	Petty Officer 3rd Class
William Lindstein	Commander (Brevet)	Warrant Officer
Pablo Lobato	Commander (Brevet)	Chief Petty Officer
Myles Mellor	Commander (Brevet)	Chief Petty Officer
Ron Miscavige	Commander (Brevet)	Midshipman
Amy Mortland	Commander (Brevet)	Midshipman
Sherry Murphy	Commander (Brevet)	Petty Officer 3rd Class
Ellen Prager	Commander (Brevet)	Chief Petty Officer
Cathy Rinder	Commander (Brevet)	Warrant Officer
Mike Rinder	Commander (Brevet)	Ensign
Norman Starkey	Commander RA	Commander RA
Barbara Tompkins	Commander (Brevet)	Ensign
Jens Urhskov	Commander (Brevet)	Warrant Officer
Kurt Weiland	Commander (Brevet)	Midshipman
Barbara Widmore	Commander (Brevet)	Petty Officer 3rd Class

While rank is an honor and is accorded prestige and respect within the Sea Organization, it is separate and distinct from the level of authority one has in the Church hierarchy. Relationships wherein a person of lower earned rank is in a senior capacity to one holding a higher earned rank are not uncommon in the Church hierarchy. For example, a member of the Sea Organization might work at the Advanced Organization in Denmark for a number of years and attain a very high rank and position. He might thereafter transfer to a more senior Church organization, such as the FSO, and hold a junior position there. He would retain the rank that he earned in Denmark and his senior at the FSO might hold a lower earned rank. His rank does not entitle him to a senior position in the ecclesiastical hierarchy. However, the fact that one has served in the Sea Org for a long time and has earned rank will result in deference and respect - no matter one's position in an organization.

Brevet ranks are designed in part to resolve the inconsistency between ecclesiastical position/authority and rank - at least for the uppermost positions in a Church organization.

Earned ranks and ratings are awarded to Sea Org members by Officer Selection Boards ("OSB"). OSBs are usually made up of senior officers in a location where there are one or more churches or organizations of Scientology which are staffed by Sea Org members. These officers have their own posts; the OSB is extra-curricular to their normal duties. They meet every few months to consider applications for promotion that have accumulated since their last meeting. The composition of a particular OSB may vary somewhat depending on who is available to fulfill this function at any given time.

Enclosed at exhibits III-3-A, III-3-B and III-3-C are the key issues that explain the OSB and promotion system and specify the composition of the OSBs at various locations. As can be seen from these issues, the composition of various OSBs is determined by whoever is holding certain posts at any given time. For example, if one is the Commanding Officer of a CLO, he is an ex-officio member of that Continental OSB; if one is the Qualifications Secretary of the International Training Org, one is an ex-officio member of the Flag OSB; if one is the Sea Org Image Officer in CMO INT, one is an ex-officio member of the INT OSB and so forth.

Typically, a member of the Sea Organization who feels deserving of promotion by reason of performance, advancement within the religion through training and auditing, and longevity, applies for such to his local continental OSB. These applications are also originated by church executives on behalf

of deserving juniors. Applications are then approved or rejected by the local OSB.

If an application is approved by the local OSB at a continental Sea Org location, it is forwarded to Flag in Los Angeles where it is considered by the Flag OSB. The Flag OSB also acts as the local OSB for any promotion applications within this middle management echelon.

Any approved promotion applications from the Flag OSB, for both continental areas and for Flag middle management level promotions, are then forwarded to the Int OSB at CMO INT for approval. The Int OSB also acts as the local OSB for international management. All decisions by the INT OSB are final and approved applications are sent back to the Flag OSB or the local OSB for the promotion to be effected.

RTC maintains its own OSB for its own staff. It is composed of the members of the RTC Executive Council.

Promotions are awarded at local quarterly Ranks and Ratings Ceremonies. At a Ranks and Ratings Ceremony promotions and other honors are awarded. This includes insignia in the form of ribbons which signify a Sea Org member's participation in some historic accomplishment. It also includes the awarding of ornamental throwing knives and naval dirks for extraordinary accomplishment. These are a sea tradition and are worn only with full dress uniforms thereafter, typically at similar such ceremonies.

One of the quarterly Ranks and Ratings Ceremonies falls on or close to August 12th, the anniversary date of the Sea Organization, and which is celebrated by its members as a religious holiday. On this occasion all of the Sea Org members in an area, regardless of which church corporation they are in, gather together for the ceremony and then spend the rest of the day engaging in sports and festivities.

The above explanation and accompanying issues concerning the ratings and ranks system and the OSB system of promotion provide a complete overview of whatever "structure" or "organization" might exist for the Sea Org itself. However, none of the above has any relationship whatsoever to the actual management of the Church. For that one has to look to the ecclesiastical hierarchy and the parallel corporate structure as described in several places in these submissions.

The only other thing that could be mentioned regarding the "structure" or "organization" of the Sea Org is that there are officers' and petty officers' councils at various church

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organizations which are staffed with Sea Org members. These councils concern themselves only with such things as Sea Org image, discipline, etiquette, events and so forth. They have nothing to do with the running of any church organization and, like the OSBs described above, are strictly extra-curricular activities for the staff members involved.

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(ii) Are there any "operating arms" of the Sea Org? By "operating arms" we mean organizations that carry out the actual operations of the Sea Org in a manner similar to the manner in which IAS Administration, ApS, and Theta Management carry on the operations of IAS. Does the Sea Org own any assets, either directly, through nominees or otherwise (e.g., the reference to the "Sea Org Building" in your prior response?

* * * *

As described in our prior response and as further discussed below, the Sea Organization is a religious order.

The Sea Organization is not incorporated, nor is it an unincorporated association, nor does it have a formal or informal ecclesiastical or other management structure. It does not maintain any books or records. The Sea Organization also has no income, disbursements, assets or liabilities. Since the Sea Organization has no assets or other property and has no secular identity, it does not have any need to "operate" as an entity. It therefore has no operating arms.

In addition, as we informed you during our October 26, 1992 conference, there is no "Sea Org Building" nor has there ever been a "Sea Org Building". The reference you cited:

"Scores of GO staff responded, locking CMO INT Missionaires out of their premises and were intending to hire armed guards to bar access to the Sea Org.",

is correctly interpreted as,

"Scores of GO staff responded, locking CMO INT Missionaires out of their premises and were intending to hire armed guards to bar access to Sea Org members."

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3-7a

QUESTION 3-b

b. The Service seeks to understand the method by which the Church hierarchy ensures that funds are not diverted to private interests in the lower level organizations. Towards this end, please assume that an FBO at a Class V Church embezzled funds. Please describe who would be likely to detect such embezzlement, by what means, and the likely subsequent course of events upon discovery of such embezzlement.

* * * *

The primary means of detection of whether the FBO of a Class V Church embezzles funds are at the level of the local Church. As a result of several very significant controls, Scientology administrative policy applies both with respect to the FBO's authority in particular and as to the receipt and disbursement of church funds in general, it is impossible for the FBO to embezzle funds without detection.

As an initial matter, the extent of an FBO's authority is significantly limited as to bank accounts, possible bank account balances, and the kinds of disbursements he or she may make. The FBO is primarily responsible and has custody of checks for only three bank accounts -- the Finance Office Number 1 Account, the Finance Office Number 2 Account, and the Finance Office Number 3 Account. Other church staff working in the church's Treasury Division, generally its Treasury Secretary, are responsible for and have custody of checks for all other of the church's bank accounts.

Each of the three accounts over which the FBO has primary responsibility serves the very limited function of a temporary depository for funds. One of the accounts never has more than a week's worth of receipts for the church and a minimum float; the other two accounts generally have zero or nominal balances.

For example, the Finance Office Number 1 Account is a temporary depository for the church's receipts for the week until its financial plan for the upcoming week is approved by the Advisory and Executive Councils. At that time, the FBO transfers funds in the account pursuant to approved allocations for the week. These transfers will be either to other churches, primarily CSI, or to other accounts the church maintains for specific purposes such as paying third-party vendors. All receipts for the week must be transferred from this account at the end of each week; at that time the only balance remaining in the account would be a limited "float" prescribed by Scientology administrative policy to guard against possible bounced checks from previous receipts.

The Finance Office Number 2 Account serves the even more limited purpose of holding funds for paying local expenses

incurred by a senior management church in managing the local church. This account ordinarily has a zero or nominal balance unless a management church (generally CSI) happens to have a mission at the local church. Disbursements from this account must be approved by the Treasury Bureau of the Flag Bureaux of CSI.

Scientology administrative policy requires that the Finance Office Number 3 Account be used only in the unusual event the local church receives a large donation or other payment that might have to be returned to the donor, such as a donation designated for training the staff of a church organization that has yet to be formed. Every disbursement from this account must be approved by the church's Executive and Advisory Councils in a weekly financial plan. This account in all likelihood will have a zero or nominal balance.

The FBO does not have unfettered control over these three accounts, and no one has exclusive signatory authority over them. Rather, as required by Scientology administrative policy, all checks drawn on the three FBO accounts must be jointly signed by the FBO and another senior staff member of the church, who is a participant in the Executive Council. The Executive Council approves the church's financial plan and therefore each co-signatory is familiar with every approved disbursement for the week.

It would be impossible for the FBO to embezzle the church's receipts to be deposited in the Finance Office accounts without immediate detection for the simple reason that the organization's Treasury Division collects and invoices all receipts before providing them to the FBO to deposit. In this process the Treasury Division totals all receipts and verifies that they equal the total balance of the invoices. Any embezzlement of funds prior to deposit would be immediately detected when the FBO prepares the FBO Allocation form for the week (see the sample form submitted in response to Question 4a) since copies of deposit slips for deposits to all three Finance Office accounts must be attached to the form and totals stated on the form itself, which is reviewed by the church's Treasury Secretary, Executive and Advisory Councils. Any discrepancy between receipts as recorded on the invoices by the Treasury Division and actual deposits as reflected by the deposit slips would be immediately detected and prompt an immediate investigation.

The only exception to this invoicing procedure relates to the collection of bounced checks, which is the FBO's responsibility. (The FBO is responsible for invoicing each bounced check that it collected and providing the invoices to the Treasury Division.)

However, any embezzlement of a bounced check would be detected when the parishioner in question asks to receive services at the church. Since the FBO would not have given Treasury an invoice, there would be no record that the parishioner is entitled to receive services.

The FBO also could not embezzle funds once they have been deposited without immediate detection. As noted above, the FBO never has exclusive signatory authority with respect to a bank account; he only has joint signatory authority. The other signatories on the FBO bank accounts are executives who share responsibility for monitoring administration of the church's weekly financial plan. Thus, the co-signatory always is very familiar with the church's authorized expenditures for the week and will be familiar with every disbursement to be made from the Finance Office accounts. When presenting a check for signature, the FBO is required by policy to provide the following information: (a) the total debts and bills owed by the church (b) the total cash in the bank; (c) total checks being signed from that account; (d) a tape giving the total of the checks presented for signature; and (e) an authorized purchase order for each expenditure other than a transfer to another local church bank account. The executive therefore can immediately verify that the check is drawn for an approved purpose and that funds exist in the bank to cover it.

Moreover, since the FBO accounts are not normally used for paying third party bills, the vast bulk of check payees would be to another bank account and not to individuals or outside vendors. The likelihood of there being a fictitious payee and this not being detected by a co-signatory executive is very unlikely.

The FBO also cannot embezzle funds from other church bank accounts not under his or her primary authority since other church staff located in the Treasury Division have authority over and custody of all checks for those accounts. They are responsible for preparing checks only for disbursements approved in the church's weekly financial plan. If the FBO attempted to draw money from other org bank accounts, he would have to manufacture fictitious reasons to pay out money, create phoney bills and then persuade another signatory to sign the check. However, any such attempt would be detected by the second signatory who would be aware of approved disbursements.

Any embezzlement would be detected through the normal reporting and auditing processes required by Scientology ecclesiastical policy. It could be detected in this way either locally or at any of the management echelons which receive copies of the reports.

For example, the FBO is required to prepare weekly financial reports, such as the FBO Allocation form and Financial Planning Executive Directive, for review by the Treasury Secretary and by the appropriate Continental and Flag Finance Offices. Failure to submit these reports would result in an investigation.

The reports include copies of bank statements against which check payments and income deposits are cross-checked; copies of accounts which are cross-checked against the Church's reported income and receipts for the corresponding week; details of disbursements made which are checked for regularity and consistency with the FBO's reported allocations to other bank accounts; the week's FBO Weekly Allocation form and the organization's Financial Planning Executive Directive for the week; all of which are cross-checked to each other and to the FBO's deposits and disbursements.

Inconsistencies in any of these reports would normally be detected by the Treasury Secretary and would result in alerts or written reports to other executives of the church and to the FBO's seniors at Continental and Flag Finance Offices, and to the International Finance Ethics Officer. Such reports would be investigated and followed up as covered in more detail below.

Every month an audit of all of the church's financial transactions is conducted by its Audits Officer, who is part of the Treasury Department. A monthly audit is described in detail in Question 4b of our prior response.

During the course of this audit, all of the original records for all of the org's bank accounts, including FBO accounts, are independently examined, verified and reconciled to the corresponding bank statements. This includes every invoice and disbursement voucher issued during the period under audit. Any missing income (not deposited) or falsified check payments would be detected and alerted upon by the Audit Officer to the executives of the church and confirmed by review of the audit by the Director of Special Affairs. Any inconsistencies which could indicate embezzlement would be immediately followed up and investigated.

When an inconsistency is noticed, an investigation would be commenced at the origination of the local church or by the Continental, Flag or International Finance Office. If the investigation showed the probability of embezzlement by the FBO, he would be suspended from post. If this was proven out and he was found guilty of such by an ecclesiastical justice proceeding he would be removed from post. Suspension from post

would deny him access to the checkbooks and other means by which he could control church financial transactions. Removal would result in his removal as a signatory and remove him completely from any involvement with Church finances.

The penalty imposed on the individual would depend on various factors including the magnitude of the offense, his willingness to rectify the situation and his demonstrated worth to the group. The penalty would certainly include restitution and may also include criminal prosecution, dismissal from staff and expulsion from the Church.

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QUESTION 3 c.

c. Who has the authority to select or remove members of the following committees or organisations: (i) WDC; (ii) International Management FBO; (iii) International Management Executive Committee; (iv) Flag Network Coordination Committee; (v) Commodore's Messenger Organisation; and (vi) Central Reserves Committee?

SELECTION

Selection of personnel in a Scientology church is the responsibility of both the Hubbard Communications Office ("HCO" - Division 1 in a Scientology organization which deals with personnel matters) and the executives over the area concerned. The normal procedure, when a vacancy exists, is for the HCO of the organization to review the qualifications of prospective candidates and make a proposal for the one best qualified to hold the position. The appropriate executive decides based on the information presented whether to accept or reject the proposal.

An executive over any area in an organization may request HCO to find a qualified person to fill a post. HCO then sets about locating such a person. The executive over the area may also suggest a candidate to HCO. HCO would then verify that the person met the necessary qualifications. In either event, once HCO determines someone is qualified for the post in question, they compile the individual's personnel information so that it can be fully reviewed and approved.

(i) WDC

The determination that a WDC member needs to be replaced or a vacancy be filled is made by the WDC Chairman. He directs HCO CMO INT to find a qualified candidate for the post. He may also give suggested names to look into as candidates. HCO would then locate the person most qualified for the position. They would prepare a personnel proposal for the candidate - listing all of his or her qualifications in terms of attainments in Scientology training and auditing, previous positions successfully held and so forth.

The proposal is then reviewed by the WDC Chairman and, based on the information contained in the proposal, the posting is either approved or disapproved by him.

(ii) International Management FBO:
(v) Commodore's Messenger Organisation:
and (vi) Central Reserves Committee?

The direction to fill vacancies in executive positions

within Commodore's Messenger Organization International ("CMO INT"), including the International Management FBO, and those remaining positions within CMO INT which serve on the Reserves Committee are originated by the Commanding Officer CMO INT, as the senior officer of the organization, or by HCO.

HCO CMO INT would then locate a staff member who qualifies for the position that needs to be filled. As described above, a personnel proposal is compiled by HCO CMO INT giving all of the information as to qualifications and it is approved or disapproved by the CO CMO INT.

A proposal to fill a non-executive position within CMO INT would follow the same path as above except that the suggestion for filling a position would come from the executive over the area which has the vacancy. For example, if CMO INT workload was such that it required a full time Folder Review In Charge in the Senior C/S Office, the Senior C/S Int (located in CMO INT) would alert HCO to the need. After verifying the need was valid, HCO would go about finding a qualified candidate, or verifying the availability and qualifications of anyone the Senior C/S Int may have suggested as a candidate. Once the most qualified available person was found a personnel proposal, as described above, would be compiled. The proposal would be ok'd by the Senior C/S Int, his direct senior, the Chief Officer, and the CO CMO INT for final approval.

(iii) International Management Executive Council

The direction for the locating and posting of personnel for the International Management Executive Committee ("IMEC") originate from the Executive Director International, as the senior officer of IMEC.

The direction is given to Deputy Executive Director for Establishment, the person holding the HCO functions for IMEC. She then locates the most qualified person available for the post. She does a personnel proposal similar to those described above. If the proposal is then approved by Executive Director International, it is forwarded to the WDC Chairman, the administrative senior of Executive Director International, for final approval.

(iv) Flag Network Coordination Committee

The Flag Network Coordination Committee ("FNCC") is

comprised of the different heads of management organizations and networks.

Suggestions to fill vacancies at this level come from an international management executive over that area. For example, the WDC member for Scientology Missions International ("SMI") would suggest a candidate to fill a vacancy for the position of Commanding Officer SMI.

The HCO of the organization concerned would then prepare a personnel proposal. If a candidate were not suggested, HCO would locate a qualified personnel.

The completed proposal would then be reviewed and approved or rejected by the WDC Member concerned with that area and the WDC Chairman.

An approved personnel proposal for any of the above described positions is finally forwarded to AVC INT in RTC. AVC cross checks the proposal against an exact set of requirements set forth in policy to verify the posting comports with Church policy. These would include exact ecclesiastical requirements, auditor training, auditing such as rundowns completed, as set forth in policy as for given positions.

REMOVAL

There are three ways by which a person holding such a position may be removed. The first of these is through the individual's own decision. In this instance, the staff member recognizes that he or she is failing at the position and voluntarily relinquishes the post.

The second means is through a Scientology justice proceeding known as a Committee of Evidence. A Committee of Evidence, consisting of four or five staff of comparable position, would review the person's performance and recommend whether or not he should be removed from post. A Committee of Evidence reviewing ones qualifications for remaining on post would be convened by HCO at the request of an executive over the area in question. For example, the Int Finance Director might request a Committee of Evidence be convened on the International Management FBO if the latter was repeatedly committing errors of some magnitude on post. Removal of a WDC member would require the ultimate approval of WDC Chairman. Removal of the International Management FBO, Central Reserves Committee member or other staff member in the Commodores Messenger Organization would require the approval of the CO CMO International. Removal of an International Management Executive Committee member would require the approval of the ED INT and the WDC Chairman.

Committees of Evidence are subject to review at the individual's request.

The third means by which one of the above individuals may be suspended is by order of a senior executive such as the WDC Chairman in the case of a WDC member or by Executive Director International in the case of an IMEC member. In this instance a Committee of Evidence would be convened to determine the actual truth of the matter and whether post removal is warranted.

In any event, if a person is failing on a post the idea is to replace him or her with someone who will succeed and to repost the removed person in some lower position that is within his or her capabilities and where success is assured.

RTC may become involved in either personnel selection or removal actions when its staff discover a serious violation of the ethics codes or gross misapplication of Scientology technology. If someone posted in CMO INT was found by an RTC executive to be sending out false interpretations and instructions on auditing technology application, a high crime per Scientology justice codes, that RTC executive would likely investigate the offender's entire post performance and review his qualifications for the post he is on. The investigation results might prompt directions to CMO INT HCO to handle the matter in accordance with justice policy, including possibly directing that a Committee of Evidence be convened to determine whether the offender should remain on post or not. CMO INT HCO would then convene the Committee of Evidence and its findings and recommendations would be reviewed by RTC prior to final approval. RTC might also require that CMO INT clear with RTC the person they choose to replace the person who was taken off post, so that RTC is assured the scriptures are being standardly administered in that particular area.

If someone who is unqualified to hold a position by reason of a poor ethics history is approved for posting and RTC finds out about it, RTC would step in to see that the scriptures were properly applied. Conversely, there are times when a post removal is unwarranted and is an injustice. In this instance RTC exists as a last recourse of Scientology justice to review such matters and see they are rectified in accordance with the Scientology scriptures.

CORPORATE POSITIONS

Although the Service did not enquire about the power to appoint or remove directors of CSI, we feel it is important to comment on this point as it is with the Board of Directors of CSI that the ultimate responsibility for its secular affairs lies.

The bylaws of CSI, which follow the model bylaws for any Class V church or above in the United States, provide that there will be Trustees who meet annually (or more often in the event of vacancies) to appoint directors of the corporation or to confirm incumbents for the new year. The Trustees are not involved in the day to day affairs of the corporation.

Typically, the Trustees of a Scientology church corporation are either from the next highest echelon or chosen from the most trusted Sea Org members. They exist as insurance to replace board members or an entire board in the event that it departs from the ethical standards and goals of the religion. On only one occasion in the history of the Church have Trustees of a Church corporation had to invoke this failsafe power - which was the removal of Vicki Aznaran and her cohorts from the Board of Directors of RTC in March 1967.

In the case of CSI, a majority of the Trustees are trusted staff members of RTC along with two very senior executives of CSI. The current Trustees are as follows: Mark Rathbun, Marc Yager, Michael Sutter, John Eastment and Mark Ingber.

The current Directors of CSI are: Guillaume Lesevre (Chairman), Michael Rinder, Kurt Weiland, Stephanie Horwich and Catherine Rinder.

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QUESTION 3-d

d. In your prior response you state that "...as a routine matter, the full [Central Reserves] Committee meets only when there is a need for everyone's input and participation." Please describe the process by which funds are approved for disbursement (including any transfer of funds to other organizations) when no meeting is held. In your response, please indicate on whose authority a disbursement may be made and provide actual representative examples of any such authorization after December 31, 1989.

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The statement "as a routine matter, the full [Central Reserves] Committee meets only when there is a need for everyone's input and participation" has been misconstrued to imply that there are times when no meeting is held.

There is a full Reserves Committee meeting at least once a week, sometimes more often. Each week the Committee considers the CSI financial planning for the coming week and also considers any new major proposals for such things as dissemination campaigns, renovations projects, financing for new technical films, property acquisitions, and the like.

At times it is necessary to have less formal meetings to implement something that has been previously approved by the full Reserves Committee. This might be authorizing a purchase order against a previously approved funding for a film or renovations project. It might involve the transfer of funds between reserves accounts (i.e. from a CSI Luxembourg account to Los Angeles) so that the funds are in place to disburse to a vendor when needed.

In these instances, when they are acting on previously authorized matters, only a skeleton Reserves Committee meets - which consists of the WDC Member for Reserves, the International Finance Director, the Sea Org Reserves Chief and the International Management FBO.

Question 3.e

e. We appreciate your efforts to address the Service's concerns about the Guardian's Office and the activities of the persons associated with that Office. Have any of those persons who have at any time been barred from serving with/for any Scientology-related organization by reason of their service or actions on behalf of the Guardian's Office at any time since being barred, become re-affiliated with any Scientology-related organization, including for purposes of this question, any Mission or Class V Church, either as a staff member or in any other capacity? Your prior response refers to the deposition of a government prosecutor. Please provide a complete copy of the testimony.

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The Church has provided a detailed description of the actions taken within the Church to investigate and ultimately disband the Guardian's Office, including the removal from Church staff of any members of the Guardian's Office who were found to have been involved in any illegal activities.

You have now asked if any of these individuals have become "re-affiliated with any Scientology-related organization, including for purposes of this question, any Mission or Class V Church, either as a staff member or in any other capacity?"

None of the individuals involved in the criminal activities of the Guardian's Office are serving on the staff of any organization within the Church hierarchy at the level of Class V Church or above.

During the reform and disbandment of the G.O. in the years 1981 through 1983, we kept a record of the names of individuals we found to have been involved in illegal activities, who condoned them, or who were in a position where they should have known and done something to stop them. Any individuals who were found at that time to be on staff were dismissed and informed never to apply for re-employment.

By the mid 80s all but one of these ex-GO staff had been dismissed. Ironically, the lone exception was created by Vicki Aznaran. During her tenure in RTC, Aznaran retained an individual who had been directly involved in criminal acts while working in the GO in the early 70s. She knew that he did not qualify for staff, but kept him anyway and kept his background a secret from others. Aznaran admitted in deposition that she was severely rebuked by RTC Trustee David Miscavige when he discovered her violation of this policy in late 1986. She also testified that this incident was the starting point of an

investigation that ultimately led to her resignation from RTC in March, 1987. Aznaran also admitted that she knew of the policy prohibiting ex-GO criminal employment and that she disagreed with it. The staff member in question is no longer on staff and will not be allowed to return. Despite Aznaran's avowed loyalty to the GO, or perhaps because of it, IRS CID agent Al Lipkin and LA EO agents Mel Young and Carl Corsi embraced Aznaran as an informant for the IRS against Scientology.

A list of names of ex-GO members either involved in, condoning, or being in a position to stop criminal acts is maintained by the International Justice Chief (IJC) at Flag Bureaux. Church organizations are required to check with IJC prior to hiring any ex-Guardian's Office staff member; that means anybody who was ever employed by the GO, whether he was involved in or cognizant of any criminal acts or not. The IJC then checks the names against the list of those banned from staff and informs the local Church organization whether they can hire the individual or not.

We are aware of just one instance where one such person was very briefly hired and employed at a Class V Church until the fact of his background was discovered by checking with IJC - at which time he was removed.

Missions do not inform Church management of the names of every staff member they hire. However, they do provide the names of the Mission Holders and the members of the boards of directors. Those names are checked with IJC against the list of ex-GO criminals. If a name of one of the ex-GO criminals shows up as being on mission staff through this cross-check, or if the matter comes to the attention of the IJC by any other means, the person is removed from mission staff.

The Church has no control over the staff of the Social Betterment Groups - such as Narconons and the schools licensed by Applied Scholastics. Many employees of these groups are not Scientologists. We have no way of determining whether some of these individuals are on staff of these organizations. Neither the Church nor the Service has any reason for concern because employees of such groups are not in any position to influence the policies or activities of the Church. Indeed, such employment could be regarded as community service.

The relevant section of the deposition testimony of Raymond Banoun, who was an Assistant U.S. Attorney involved in the prosecution of the criminal cases against Guardian's Office staff is included at Exhibit III-3-D.

QUESTION 3-f

f. As required on Part II of the Schedule A, Form 990, please name the 5 highest paid service providers and list the amounts paid to them by Scientology-related organizations, in calendar years 1989, 1990 and 1991. "Service Providers," for purposes of this Question 3-f, excludes all Scientology-related organizations and individuals (including but not limited to individuals listed in response to Question 3A-c (i)-(iii) below). To identify the service providers to be listed, please aggregate all payments from all Scientology-related organizations. Please explain the services and purposes for which payment was made and separately list each payor and the amount it paid.

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Following is the list of the 5 highest paid service providers for each of the calendar years 1989, 1990 and 1991.

This information was gathered from all major Scientology-related organizations including US Class V Churches and the larger US missions. While the Church does not maintain service provider compensation information in centrally located files, we believe that we have compiled materially complete aggregate payment figures.

YEAR 1989

INTERNATIONAL COMMUNICATIONS GROUP

\$ 2,841,062.00	FSO
322,281.64	WISE
211,086.02	CSWUS
174,464.00	CSI

\$ 3,484,950.66	

International Communications Group is a media booking agency that was paid by various Scientology-related organizations to book media time to air various productions concerning Scientology and Dianetics for the proselytization of the religion. Their services encompassed acquiring time or space in print media (newspapers and national news and feature magazines); on radio (national radio networks, city-wide radio stations); and on television (national and local cable TV, syndicated TV and national network television). The productions were designed to interest the public in books about Scientology and Dianetics or invited the people to attend lectures and seminars about the religion. These payments cover the actual time and space purchased.

WILLIAM KANAYAN CONSTRUCTION

\$ 2,592,750.31 CST

William Kanayan Contruction built several buildings at CST's central repository and archival production facility in Southern California. CST is engaged on an enormous project to preserve the Scientology scriptures for all time. To date CST has spent over \$52,000,000 on these projects and expects to spend another \$114,000,000 in the next 5 years to complete the current phase of its program. Many of the archival scriptures are produced, assembled, packaged and staged at the Mile High facility in buildings especially constructed by William Kanayan Construction. One of them is a 4 story production building. (Exhibit binder, III-3-E, Photos A1 - A9). Preservation activities conducted in this building include preserving the scriptures on etched stainless steel plates. Scriptures are also reproduced and protected in such media as archival laser disks and copper records protected by a nickel coating. The archival scriptures are then placed in capsules made of pure, indefinite-life titanium. (These were shown to you during our October 1991 presentation of CST's activities and the wherewithal and materials it uses for preservation and storage.) (Photos A10 - A17).

The vault at Mile High is an underground facility that protects the original scriptures from any conceivable environmental hazard or act of war. It consists of two 100 foot long heavy gauge steel underground structures which provide maximum protection against earthquakes and which are fully conditioned for both temperature and humidity so as to maintain perfect storage conditions for the priceless originals stored in the vault. (Photos A18 - A31)

DENMAN & ASSOC., INC.

\$ 2,509,692.57 CST

During the 1980's CST constructed a 700 foot tunnel vault in New Mexico. The vault is designed and built to last a minimum of 1,000 years. It is a rock tunnel, constructed by drilling and blasting, which has high strength concrete floors and walls made of high durability and water resistant materials. The tunnel finish is gunnite followed by troweled lime for long

term durability, followed by a spray applied layer of acrylic/marble dust mixture for extreme hardness and water resistance, followed by three coats of polyurethane paint. Several complete sets of the archival scriptures will be stored in this vault. In order to maintain the facility and to properly protect and service the vault and its contents, it was necessary for Denman & Associates, Inc. to construct ancillary facilities to support the vault, such as miles of roads, irrigation lines, utility lines, gatekeeper/material receiving building and maintenance structures. (Exhibit B1 - B27)

NIELSEN CONSTRUCTION

\$ 2,344,415.98 CSI

In 1989 Nielsen Construction was involved in major construction and renovations projects at Gilman Hot Springs related to Golden Era Productions. These included a large building for Golden Era Productions which includes manufacturing facilities for the reproduction of Mr. Hubbard's taped lectures on Dianetics and Scientology and for the Hubbard Electrometer. (See Photos C1 through C8.) The communal dining hall and kitchen facilities for the 700 Sea Org members based at Gilman Hot Springs also underwent extensive renovations. (See Photos C9 through C15.)

IGSS, INC.

\$ 2,106,725.03 CST

In order to better guarantee the preservation of the Scientology scriptures against large-scale disasters, a variety of vault sites have to be established. Therefore, in Northern California a horizontal underground vault has been constructed in addition to the Mile High and the New Mexico facilities. This additional vault consists of two levels, each 372 feet long, which are covered with up to 30 feet of earth. This facility, too, is designed to remain safe and accessible for 1000 years without maintenance. The uniquely segmented structure can withstand earthquakes of a 8.5 Richter magnitude without rupture. Each of the 540 segments was individually constructed of 8 inch thick high-strength concrete completely encased with a 1/4 inch thick, continuously welded steel plate. When assembled, the vault segments formed over 5.8 linear miles of joints which were bolted together and sealed with material allowing for utmost flexibility. This construction, which took one year to design, was created by IGSS, Inc. (Exhibits D1 - D15) Like the New Mexico facility mentioned above, this vault will contain several complete sets of scriptures preserved on

the most durable and longest lasting materials known to man at this time. (Exhibit C16)

YEAR 1990

INTERNATIONAL COMMUNICATIONS GROUP

\$ 4,916,841.68	FSO
3,495,507.37	CSWUS
9,213.11	CSI

\$ 8,421,562.16	

As discussed above, International Communications Group is paid by various Scientology-related organizations to book media time Scientology and Dianetics productions. These payments cover the actual time and space purchased.

IGSS, INC.

\$ 7,289,036.39 CST

The aforementioned Sunset View vault construction in Northern California continued in 1990 when over half of the cost was incurred. The vault was equipped with seven concrete and steel blast resistant doors custom designed for CST utilizing stainless and other corrosion resistant steels. The larger doors in the facility weigh up to 10,000 lbs each. The vault is now capable of absorbing the shock of the most severe earthquake and to withstand a near direct nuclear blast. (Photos D14 - D16)

TAIWAN DANPORT CO.

\$ 4,188,250.00 CST

As described above, CST's archival preservation program includes storage of the Scientology scriptures in specially designed and engineered pure, indefinite-life titanium capsules. Written scriptures are first etched into stainless steel plates and are then placed in titanium time capsules which are filled with an inert gas and hermetically sealed. These time capsules cost over \$2,000 apiece and CST projects that it will need at least and additional 10,500 units for which it will have to spend over \$21,000,000. The Taiwan Danport company is the manufacturer of these capsules. CST's current program will utilize over 15,000 of these capsules. (Photos A16 - A17)

DENMAN & ASSOC INC.

\$ 3,531,218.30 CST

These funds were paid to Denman & Associates, Inc. to complete the work performed at the New Mexico vault site as described under the payment to this company in 1989.

BOWLES AND MOXON

\$ 1,681,806.20	CSI
311,579.24	CSWUS
47,450.00	ORANGE COUNTY CHURCH
33,946.22	FSO
19,454.50	CST
17,199.20	BPI
14,374.75	ASI
10,783.16	SAN FRANCISCO CHURCH
6,842.64	AUTHOR'S FAMILY TRUST
4,944.75	SACRAMENTO CHURCH
4,671.64	NARCONON
4,068.53	CSC
3,715.00	LOS ANGELES CHURCH
3,450.00	STEVENS CREEK CHURCH
1,800.23	CC INT CHURCH
1,617.50	TWIN CITIES CHURCH
1,457.00	AUSTIN CHURCH
1,000.00	ABLE
1.70	LONG ISLAND CHURCH
2.00	IHELP
3.50	CC LAS VEGAS CHURCH
4.00	NEPI
5.00	APPLIED SCHOLASTICS

\$ 2,172,515.76	

Bowles & Moxon is the law firm which does the majority of the day to day legal work of Church of Scientology International (CSI) and other Churches of Scientology in the United States. CSI retained the firm at its formation in 1987 in an effort to save money on legal expenses and increase the efficiency of its legal representation by consolidating as much of its legal work as possible in one firm.

Since its formation, Bowles & Moxon has expanded its resources and facilities to take on increasing portions of the legal work of CSI and other Churches of Scientology. In 1989, Bowles & Moxon consisted of six attorneys, including partners, associates and attorneys of counsel to the firm. At this

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writing, Bowles & Moxon has grown to 14 attorneys, including partners, associates and attorneys of counsel to the firm. There is also secretarial and other support personnel working for the law firm. The highest paid attorney in the firm in 1990 was Kendrick Moxon who received \$110,270 in compensation.

Bowles & Moxon contains specialized departments which deal with corporate and transactional matters, litigation prevention, civil and government litigation, including litigation brought under the Freedom of Information Act. The above figures include fees and costs.

YEAR 1991

LUCKY CITY ENTERPRISES, LTD. - NEW NAME FOR TAIWAN DANPORT CO.

\$ 7,615,504.80 CST

Lucky City Enterprises Ltd., formerly Taiwan Danport Co., manufactures the titanium time capsules for CST's archival preservation program which were fully described above. (They were also shown to you as part of CST's presentation in Washington in October 1991.)

JAN GILDERSLEEVE, formerly with INT'L COMMUNICATIONS GROUP

\$ 4,281,951.59 CSI
8,734.57 BPI
3,036.00 CSWUS

\$ 4,293,722.16

Jan Gildersleeve worked for International Communications Group ("ICG") until 1991 when she left to start her own firm. She handled Church accounts while at ICG, and continues to perform media purchasing and placement services for the Church. These payments cover the actual time and space purchased.

BOWLES AND MOXON

\$ 3,199,232.53	CSI
162,191.45	WUS
61,442.54	AUTHOR SERVICES INC.
48,210.86	CST
43,265.37	CC INT CHURCH
42,018.11	NARCONON
37,814.74	FSO
17,244.58	SAN FRANCISCO CHURCH
13,358.00	ORANGE COUNTY CHURCH
12,762.50	WISE
11,600.00	SMI
8,690.00	BPI
8,574.60	BOSTON CHURCH
8,414.20	STEVENS CREEK CHURCH
1,388.70	COLUMBUS CHURCH
6.00	VALLEY CHURCH
7.00	ANN ARBOR CHURCH
8.00	LOS ANGELES CHURCH
9.00	APPLIED SCHOLASTICS
10.00	ILLINOIS CHURCH
11.00	AUSTIN CHURCH

\$ 3,678,259.18	

The specific role and functions of Bowles & Moxon was explained above. The increase in funds paid to the firm is due to more legal work being assigned to Bowles & Moxon; the firm increased the number of its attorneys accordingly.

The highest paid attorney in the firm in 1991 was Marcello di Mauro who received \$ 123,027 in compensation.

IGSS, Inc.

\$ 3,607,845.75 CST

IGSS, Inc. constructed the vault at CST's Sunset View site in Northern California. The character and purpose of this archival preservation and storage site is fully explained above in the descriptions of the payments to this company in 1989 and 1990.

ARCATA

\$	475,701.70	AUTHOR'S FAMILY TRUST
	2,986,735.61	BPI

\$	3,462,437.31	

Arcata is a large printing firm which was used by both BPI and Author's Family Trust to print books authored by L. Ron Hubbard. Bridge Publications, Inc. publishes and sells books by L. Ron Hubbard and utilizes Arcata for printing and binding. Author's Family Trust contracted Arcata to print, bind and store leatherbound books by L. Ron Hubbard for the purpose of making especially aesthetic editions of these books available for collectors of L. Ron Hubbard's written works.

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Question 3A-a

Please describe all forms of compensation that are designated staff welfare under the Church's system of accounting. In addition, please describe the method of reporting all such staff welfare to the employee (or independent contractor) and to the Service. If such compensation is not reported to the Service, please provide the rationale for such practice.

* * * *

Members of the Sea Organization traditionally receive a living allowance and have necessities provided to them by the Church. The purpose of this is so that they can devote their attention to performance of their duties and spiritual progress without distraction. The furnishing of these types of necessities are what is classified as staff welfare. It should be noted that for Class V Churches and Missions there is no staff welfare system, and staff in these churches receive only monetary compensation. Following is a summary of staff welfare items provided to Sea Organization members.

Room & Board - All Sea Organization members receive lodging and meals on church premises and at the church's convenience. They are on call 7 days a week, 24 hours a day. Sea Organization members are specifically forbidden to live elsewhere except with special permission.

Typically, married couples are provided with a single bedroom. In England Sea Org berthing is in large houses that have been acquired for this purpose. At the FSO, the corporation purchased a large multi-building apartment complex consisting mainly of one and two bedroom apartments. The apartments have been reconfigured so that the living rooms are now private bedrooms. Each bedroom is either assigned to a married couple or used as a male or female dormitory. At Gilman Hot Springs some of the staff live in converted motel units on the Church owned property and others live in rented apartments in town. Two married couples share each two bedroom apartment. These apartments, since they are rented, have not been modified to utilize the living rooms as bedrooms. A few such apartments are used as male dormitories and others are used as female dormitories for unmarried staff. Plans exist to build staff housing on the Church property and the use of rented apartments exists due to the lack of currently owned facilities. On the Freewinds, each married couple has a cabin in portions of the ship designated for crew berthing and other cabins are utilized as dormitories for unmarried staff.

All Sea Org members are provided, breakfast lunch and dinner, in communal dining halls on pre-set schedules. This arrangement

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dates back to the days when the Sea Org was mainly aboard ships, but has proven the most efficient in terms of cost and especially in terms of time. There are Sea Org members who specialize in the purchase and preparation of food. Consolidating this activity with a small portion of the staff frees the time and attention of the rest of the staff to concentrate on their duties.

The church directly pays all expenses connected with feeding and housing members of the Sea Organization. Because such is provided on church premises and for the church's convenience, they are not reportable to the staff member or the Service.

Child Care & Schooling - The Church maintains on-site child care & educational facilities for the children of Sea Organization members. The essence of the program is that the Church will provide a parochial education and provide necessary care to children of Sea Org members to allow the children to grow up as Scientologists and future members of the Sea Org while allowing their parents to fulfill their commitment to the future of mankind. Children under school age attend a day care center and their nights at home with their parents. The day care center is open to all children of Sea Org members and is non-discriminatory. The annual cost per child for day care is significantly less than \$5,000.

Children six and above attend a church-run school, all costs of which are paid by the Church. There are boarding schools at several locations - Gilman Hot Springs, North of Los Angeles near Saugus, and in Clearwater. They are especially chosen and designed so that children may be nurtured in a safe and friendly environment where they can reach their full potential. They generally visit their parents on weekends. As with all benefits for Sea Organization members, this practice applies to all members of the Sea Organization. Costs of this schooling are therefore a qualified tuition reduction and thus excluded from income.

Clothing - Members of the Sea Organization are furnished with standard uniforms for different environments and seasons, at the expense of the local church corporation which employs them. The uniforms remain the property of the employer. From time to time the Church will provide a Sea Organization member with business clothes when required for his or her work. When on church premises a Sea Org member wears a uniform but this is often not appropriate attire when interfacing with society off church premises. Staff members who deal with public relations or legal matters are particularly required to have suitable clothing. Such clothing purchases are reported on Form W-2.

Medical and Dental - The Church directly pays medical expenses of members of the Sea Organization subject to its own plan. In summary, the plan is that each organization has a Medical Liaison Officer who has the job of seeing that staff medical costs are properly financed and that staff do receive needed medical treatment. The Medical Liaison Officer also ensures that staff rapidly complete their medical programs and return to full health. This individual may also provide basic first aide. Over the years, this has proven to be the most cost-effective means of keeping staff healthy. Access to medical care is based on need and is non-discriminatory. Payments to medical providers for staff medical care are therefore not reported to the staff member as income.

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Question 3A-b

Please describe the class or classes of individuals who receive a parsonage or rental allowance from any Scientology-related organization, what elements of compensation or staff welfare constitute a parsonage or rental allowance, and the process for designating any amounts as rental allowance. Please provide a copy of a representative sample of any designations (in effect during 1990) of amounts as rental allowances.

* * * *

Ministers of the Church of Scientology who serve full time on the staff of a church or mission and who pay for their own housing are eligible to receive parsonage allowance as are ministers of other faiths. For ministers who are also members of the Sea Organization, parsonage allowance is not applicable as the Church directly provides the housing for its staff.

The procedure with respect to parsonage allowance is determined by the local churches and missions who decide whether or not they will do so and, if so, how much they will provide. A survey of 21 US Class V churches and 25 of the largest US missions found that 9 churches and 14 missions are currently paying parsonage allowance. Although these churches and missions do not follow the same procedures with respect to designation of parsonage allowances, our survey confirmed that each church and mission allocates a fixed sum for this purpose and that each allowance is within the fair rental value of the housing facility and utilities.

Copies of two designations are attached: a Board of Directors minute designating allowances for qualified staff of the Church of Scientology of San Francisco and disbursement vouchers designating a portion of the weekly compensation paid to staff members of Church of Scientology of the Valley as an allowance. (Exhibit III-3-F).

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QUESTION 3A-C

c. For the purposes of this Question 3A, the term "compensation" includes anything of value provided (directly or otherwise) by, or attributable to, any Scientology-related organization. Whether an item is considered "compensation" under this question is determined without regard to whether that item of value is includible in the individual's gross income for purposes of reporting or taxation. "Compensation" includes, but is not limited to, the following: (i) wages or salary (including any bonus or overtime pay); (ii) other payments (as an independent contractor or otherwise), including any interest, dividend or other corporate distribution; (iii) gross commissions; (iv) the value of any deferred compensation (qualified or nonqualified and valued without regard to any risk of forfeiture, vesting or other restriction); (v) the value of any beneficial interest in any trust attributable in any fashion to contributions made by or on behalf of any Scientology-related organization (valued without regard to any risk of forfeiture, vesting or other restriction); (vi) any fringe benefit (other than de minimus fringes excludible under sections 132 (a) (4) and 132 (e) of the Internal Revenue Code); (vii) the highest balance of any loan or loans outstanding from any Scientology related organization to the individual at any time during the year in question; (viii) any parsonage or rental allowance; and, (ix) the amount of any reimbursed expenses (business or otherwise). For the purposes of (ix), you may ignore compensation from this source if the individual received in the aggregate less than \$10,000 for all reimbursements in the year.

To the extent compensation is provided in a form other than wages or salary, please list such compensation separately with a short description of which category it falls within. We recognize the potential difficulty in valuing certain items included within this definition. If a fair market value is not available, please merely list the type of compensation with any explanation that will be helpful to understand its nature and possible worth.

For purposes of this Question 3A, the term Scientology-related organization is expanded to include all Class V Churches and Missions, all WISE sublicensees, and IAS (including its "operating arms") and the other membership organizations.

In addition, the compensation of an individual includes amounts received by the spouse of that individual. Where a spouse has compensation, please separately list the spouse's name and the nature and amount of the compensation. Finally, if compensation is received from more than one Scientology-related organization, compensation should be listed separately for each such entity.

The information requested in this section has been gathered from all major Scientology-related organizations including Class V Churches and the larger missions. We also have included information obtained from IAS and the other membership organizations through the cooperation of their accounting personnel.

Compensation information is not centrally maintained. We have made every effort to compile materially complete and accurate compensation figures for the various individuals. While we cannot guarantee the figures with respect to the schedules provided in response to subpart 3-c(i) below, we have no reason to believe they are not reasonably accurate.

It is not possible to obtain information from WISE non-sublicensees, and we therefore have excluded them from this response. Nonetheless, we have checked with every individual listed in response to this question 3A, including those listed in the question, and have been informed that none of them received any payment from any WISE sublicensee.

In addition, none of the individuals received any interest, dividends, corporate distributions, deferred compensation or reimbursements of expenses in excess of \$10,000 from any Scientology-related organization (or IAS and the other membership organizations). Nor do any of these individuals have any beneficial interest in any trust of any kind.

Members of the Sea Organization receive room and board, medical and dental care, uniforms and child care and schooling for their children in addition to wages, bonuses and commissions. While no effort was made to value these items for each individual, a reasonable estimate is that they cumulatively average \$5,000 to \$6,000 per year per member, exclusive of child care and schooling.

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QUESTION 3A-c (i)

(i) Please name the twenty natural persons with the highest level of compensation in each of the last 3 years (i.e., in calendar years 1989, 1990, and 1991). To determine those individuals for whom this question requires disclosure, please aggregate all compensation from all Scientology-related organizations. Please treat a husband and wife as a single entry on this list (separately listing the name of each spouse and the compensation of each).

* * * *

The data on the compensation of the twenty natural persons with the highest level of compensation from Scientology-related organizations in each of the last 3 years (i.e., in calendar years 1989, 1990 and 1991) is included on the attached Exhibit III-3-G.

This list includes compensation from Scientology-related organizations to any of the specifically named individuals from Questions 3A-c (ii) and 3A-c (iii), aggregated with any compensation to their spouses, where their combined compensation falls within the twenty highest paid natural persons or "husband and wife units".

There are several terms denoting positions that appear on this list that are defined below:

1. Field Staff Member ("FSM"): As covered in more detail in the responses to Question 4A-a in this submission, FSMs are not employees of any Church but earn commissions based on donations raised from parishioners who enroll for services. They bear their own expenses with respect to this activity. The FSMs included in the schedule for 3A-c (i) do this as a full time occupation. A few FSMs included on this list have formed personal corporations and therefore do not receive Form 1099.

2. Field Disseminators: IAS refers to their fundraisers as "Field Disseminators". These are individuals who raise funds for the IAS on a full or part time basis and who receive commissions equalling 10% of funds raised and who bear their own expenses from those commissions. These are not employees of the IAS or any particular Church organization.

3. Membership Tour I/C: A Membership Tour I/C is an individual who operates as a self-employed independent contractor. The Tour I/C receives fundraising commissions on a sliding scale depending on funds raised for the IAS and pays the expenses of his or her respective Tour from these commissions. Generally these commissions are calculated at 2% of donations

raised. A Tour typically has a number of staff members who are employees of the Tour I/C. The Tour I/C receives the gross commissions on all donations raised by himself and by members of his Tour and from which he pays all salaries and other expenses. Therefore, while paid to a natural person, the sums reported under this category actually include compensation to a number of individuals.

4. Fundraiser: Association for Better Living and Education ("ABLE") has people who raise funds for it and the ABLE sublicensees on a full or part time basis. They are not employees and receive commissions of 10% of any funds raised from which they pay all expenses incurred in this activity.

5. Registrar: This is a person within a Scientology church whose function is to raise donations and to assist parishioners to enroll on their next service. The person over this function is the Director of Registration. Registrars and Directors of Registration typically receive fundraising commissions in addition to regular wages or allowances.

6. Bookstore Officer: This is a person within a Church organization who is in charge of selling books out of the Church bookstore. The Bookstore Officer, as well as other Church staff can receive commissions based on sales of bookstore items in addition to their regular wages or allowances.

7. Mission Holder: A Mission Holder is one who holds the highest corporate and ecclesiastical position in a mission. Typically, a mission holder is a pioneer who started and built one or more missions in areas that were new to Scientology providing the premises, materials, initial funding and personnel.

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QUESTION 3A(c)(ii)

(ii) Please provide the compensation from all Scientology-related organizations in each of the last 3 years (i.e., in calendar years 1989, 1990 and 1991) for David Miscavige and Norman Starkey. In addition, please include the compensation of each individual's spouse, siblings (including compensation of each sibling's spouse), parents and children (separately listing the name of the family member and the compensation of each).

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All compensation from Scientology-related organizations to each member of the Starkey family and Miscavige family follows.

Question 3A(c)(ii)

Norman and Maria Starkey are compensated by Author's Family Trust-B in their full time capacities as Trustee and Secretary and Assistant to the Trustee respectively. The trust instrument for Author's Family Trust - B provides for compensation of \$150,000 per year, although Mr. Starkey draws considerably less than that as shown below. They have no children.

1989 compensation for Norman and Maria Starkey:

<u>NORMAN STARKEY</u> (Listed Individual)	<u>TRUSTEE</u>
61,438.78 Trustee fees	Author's Family Trust
<u>MARIA STARKEY</u> (Spouse)	<u>SECRETARY AND ASSISTANT TO</u>
21,970.81 Wages	<u>THE TRUSTEE</u>
-----	Author's Family Trust
83,409.59	

1990 compensation for Norman and Maria Starkey:

<u>NORMAN STARKEY</u> (Listed Individual)	<u>TRUSTEE</u>
91,308.53 Trustee Fees	Author's Family Trust
<u>MARIA STARKEY</u> (Spouse)	<u>SECRETARY AND ASSISTANT</u>
37,891.16 Wages	<u>TO THE TRUSTEE</u>
-----	Author's Family Trust
129,199.69	

1991 compensation for Norman and Maria Starkey:

<u>NORMAN STARKEY</u> (Listed Individual)	<u>TRUSTEE</u>
72,664.18 Trustee Fees	Author's Family Trust
<u>MARIA STARKEY</u> (Spouse)	<u>SECRETARY AND ASSISTANT</u>
26,977.70 Wages	<u>TO THE TRUSTEE</u>
-----	Author's Family Trust
99,641.88	

STARKEY FAMILY

Norman Starkey's brother - Owen, and sister-in-law - Nan, are both members of the Sea Organization and are provided with room, board, medical, dental and the other benefits thereof.

No other Starkey siblings are Scientologists and therefore had no connection with nor received any compensation from Scientology-related organizations.

1989 compensation for Owen and Nan Starkey:

<u>OWEN STARKEY</u> (Sibling)	<u>AUDITOR</u>
2,010.00 Wages	CSFSSO
<u>NAN STARKEY</u> (Sibling Spouse)	<u>DIRECTOR OF PERSONAL</u>
2,010.00 Wages	<u>ENHANCEMENT</u>
-----	CSFSSO
4,020.00	

1990 compensation for Owen and Nan Starkey:

<u>OWEN STARKEY</u> (Sibling)	<u>AUDITOR</u>
2,075.00 Wages	CSFSSO
<u>NAN STARKEY</u> (Sibling Spouse)	<u>DIRECTOR OF PERSONAL</u>
2,078.66 Wages	<u>ENHANCEMENT</u>
-----	CSFSSO
4,153.66	

1991 compensation for Owen and Nan Starkey:

<u>OWEN STARKEY</u> (Sibling)	<u>AUDITOR</u>
240.00 Wages	CSFSSO
<u>NAN STARKEY</u> (Sibling Spouse)	<u>DIRECTOR OF PERSONAL</u>
240.00 Wages	<u>ENHANCEMENT</u>
-----	CSFSSO
480.00	

In addition, in 1991, CSI provided Owen Starkey \$585 and Nan Starkey \$435 as an expense allowance while receiving training at CSI.

David Miscavige is Chairman of the Board of the Religious Technology Center. He holds the highest ecclesiastical position within the Scientology religion. In this capacity he is a public figure and is frequently required to attend functions and events representing the religion. Unlike CSI, RTC requires its executives and staff to purchase clothing for such functions as a personal expense.

Michelle Miscavige serves as executive assistant to the Chairman of the Board of the Religious Technology Center.

1989 compensation for David and Michelle Miscavige:

<u>DAVID MISCAVIGE</u> (Listed Individual)	<u>CHAIRMAN OF THE BOARD</u>
60,064.50 Wages	<u>RTC</u>
	RTC
<u>MICHELE D. MISCAVIGE</u> (Spouse)	<u>CHAIRMAN OF BOARD'S</u>
31,921.25 Wages	<u>ASSISTANT RTC</u>
-----	RTC
91,985.75	

1990 compensation* for David and Michelle Miscavige:

<u>DAVID MISCAVIGE</u> (Listed Individual)	<u>CHAIRMAN OF THE BOARD</u>
74,070.00 Wages	<u>RTC</u>
	RTC
<u>MICHELE D. MISCAVIGE</u> (Spouse)	<u>CHAIRMAN OF BOARD'S</u>
47,023.00 Wages	<u>ASSISTANT RTC</u>
-----	RTC
121,093.00	

1991 compensation for David and Michelle Miscavige:

<u>DAVID MISCAVIGE</u> (Listed Individual)	<u>CHAIRMAN OF THE BOARD</u>
62,683.50 Wages	<u>RTC</u>
	RTC
<u>MICHELE D. MISCAVIGE</u> (Spouse)	<u>CHAIRMAN OF BOARD'S</u>
31,359.25 Wages	<u>ASSISTANT RTC</u>
-----	RTC
94,042.75	

* 1990 compensation is somewhat higher than other years because RTC paid its 1989 and 1990 year-end bonuses in 1990.

MISCAVIGE FAMILY

David Miscavige's father, Ronald Miscavige Sr., his Stepmother Becky Bea Bigelow Miscavige, his brother Ronald Miscavige Jr., and his sister-in-law Elizabeth, are all members of the Sea Organization and are employed by Church of Scientology International.

For 1989, their compensation was:

<u>RONALD (JR) MISCAVIGE</u> (Sibling)	<u>IMEC MEMBER</u>
9,502.01 Wages	CSI
<u>ELIZABETH MISCAVIGE</u> (Sibling Spouse)	<u>WDC MEMBER</u>
2,282.14 Wages	CSI
<u>RONALD (SR) MISCAVIGE</u> (Parent)	<u>MUSICIAN, GOLDEN</u>
1,452.17 Wages CSI	<u>ERA PRODUCTIONS</u>
371.48 Book Commissions	CSWUS

1,823.65	

For 1990, their compensation was:

<u>RONALD (JR) MISCAVIGE</u> (Sibling)	<u>IMEC MEMBER</u>
4,185.03 Wages	CSI
<u>ELIZABETH MISCAVIGE</u> (Sibling Spouse)	<u>WDC MEMBER</u>
4,826.58 Wages	CSI
<u>RONALD (SR) MISCAVIGE</u> (Parent)	<u>MUSICIAN, GOLDEN</u>
1,289.50 Wages	<u>ERA PRODUCTIONS</u>
899.25 Book Commissions	CSI
-----	CSWUS
2,188.75	
<u>BECKY BEA BIGELOW MISCAVIGE</u>	<u>PLANETARY</u>
	<u>DISSEMINATION</u>
	<u>UNIT INTRODUCTORY</u>
	<u>SERVICES DISSEMINATION</u>
	<u>ASSISTANT</u>
1,665.00 Wages	CSI

For 1991 their compensation was:

RONALD (JR) MISCAVIGE (Sibling)
2,050.00 Wages

IMEC MEMBER
CSI

ELIZABETH MISCAVIGE (Sibling Spouse)
3,155.00 Wages

WDC MEMBER
CSI

RONALD (SR) MISCAVIGE (Parent)

3,737.76 Wages
300.00 Book Commissions

MUSICIAN, GOLDEN
ERA PRODUCTIONS
CSI
FSO

4,037.76

BECKY BEA BIGELOW MISCAVIGE

PLANETARY
DISSEMINATION
UNIT INTRODUCTORY
SERVICES DISSEMINATION
ASSISTANT

1,840.00 Wages

CSI

David Miscavige's mother Loretta Miscavige, his brothers-in-law Sam Licciardi and Ed Vernuelle, and his sisters Denise Licciardi and Lori Vernuelle, are Scientologists but are not members of the Sea Organization and are not employees of any Church of Scientology. They do serve as Field Staff Members and from time to time receive commissions for their services as such, as would any individual Scientologist.

In the years in question they received the following such payments:

1989

<u>DENISE MISCAVIGE LICCIARDI</u> (Sibling)	
2,762.29	FSO
<u>SAM LICCIARDI</u> (Sibling Spouse)	
1,416.00	FSO
<u>LORETTA MISCAVIGE</u> (Parent)	
56.40	FSO

1990

<u>DENISE MISCAVIGE LICCIARDI</u> (Sibling)	
4,420.59	FSO
2,585.25	CSFSSO

7,005.84	
<u>SAM LICCIARDI</u> (Sibling Spouse)	
252.37	FSO
<u>LORETTA MISCAVIGE</u> (Parent)	
1,120.00	FSO

1991

<u>DENISE MISCAVIGE LICCIARDI</u> (Sibling)	
1,509.45	CSFSSO
922.00	FSO
769.55	MCL
21.00	Concord Mission

3,222.00	

SAM LICCIARDI (Sibling Spouse)

1,240.66

341.36

1,582.02

FSO
WISE

LORETTA MISCAVIGE (Parent)

1,000.00

332.45

1,332.45

FSO
WISE

LORI MISCAVIGE VERNUELLE (Sibling)

21.50

CONCORD MISSION

QUESTION 3A-c (iii)

(iii) Unless the individual or his or her spouse appears on the list provided in (i) above, please provide the compensation from all Scientology-related organizations in each of the last 3 years (i.e., in calendar years 1989, 1990 and 1991) for the following individuals: (a) Maureen Brigatti; (b) Pauline Chatterton; (c) Jonathan Epstein; (d) Terri Gamboa; (e) Carl Heldt; (f) Diana Hubbard; (g) Mark Ingber; (h) Guillaume Lesevre; (i) Janet Light; (j) Warren McShane; (k) Ray Mithoff; (l) Sabine Peshkin; (m) Mark (Marty) Rathbun; (n) Michael Rinder; (o) Lyman Spurlock; (p) Mary Story; (q) Helen Wehl; (r) Kurt Weiland; (s) Greg Wilhere; and, (t) Marc Yager.

* * * *

Information on the cash compensation to the above-named individuals and their spouses is included in the attached Exhibit III-3-H.

. . . .

(iv) To the extent that this question has not already been answered, does any individual (or spouse) listed in (i)-(iii) above have any relationship to any vendor that does business with any Scientology-related organization? If so please describe the nature of this relationship and the vendor involved.

* * * *

None of the individuals (or spouse) listed in (i)-(iii) above have any relationship to any vendor that does business with any Scientology-related organization with the exception of Jeff Pomerantz, a professional actor, who occasionally performs in that capacity for Golden Era Productions.

. . . .

QUESTION 4-a

a. Please provide all directives (including HCO Policy Letters, Executive Directives and similar items) that set forth the amount and method by which the following entities' income is allocated to expenses (i.e. retained for its own uses) or is paid/contributed to CSI or other Scientology-related organization: (i) CSFSSO; (ii) CSFSO; (iii) CSWUS; (iv) CSREC; (v) all celebrity centers not included in (i) - (iv) above; (vi) IPT; (vii) NEP; (viii) BPI; and (ix) any Advanced or Saint Hill organization not already included in a category described above. Please include all ecclesiastical organizations within the above entities. Where you have provided a directive in response to another question a citation thereto is sufficient response.

* * * *

Attached are copies of the directives that give the amount and method by which income is allocated to expenses for each of the listed corporate entities. (Exhibit III-4-A).

The directive in each case is an International Finance Executive Directive entitled "FBO ALLOCATION FORM - _____ [org name]". Each directive applies to a particular ecclesiastical organization. Since higher level church corporations often house two or more ecclesiastical organizations, two or more directives may apply to a particular church corporation.

For your information, attached to each directive is a model of the actual form that is completed by the ecclesiastical organization's Flag Banking Officer each week.

The ecclesiastical organizations within each of the above entities and the directive that is applicable to each, are as follows:

(i) CSFSSO:

Int Finance ED 384
FBO ALLOCATION FORM - FLAG SHIP SERVICE ORG

(ii) CSFSO:

- a. Int Finance ED 381R
FBO ALLOCATION FORM - FLAG SERVICE ORG
- b. Int Finance ED 382
FBO ALLOCATION FORM - FLAG CREW ORG

(iii) CSWUS:

- a. Int Finance ED 378 FBO ALLOCATION FORM - AOLA
(for Advanced Organization Los Angeles)
- b. Int Finance ED 379
FBO ALLOCATION FORM - ASHOS
(for American Saint Hill Organization Day and
Foundation orgs)
- c. Int Finance ED 383
FBO ALLOCATION FORM - CLASS V ORGS
(for San Diego Class V org)
- d. FBO CLO ALLOCATION FORM
(for Continental Liaison Office Western US)

(iv) CSREC:

- a. Int Finance ED 386
FBO ALLOCATION FORM - NON-US SEA ORG ORGS
, (for Advanced Organization Saint Hill UK)
- b. Int Finance ED 380
FBO ALLOCATION FORM - SAINT HILL FDN
(for Saint Hill Foundation org)
- c. For UK Class V orgs - see Int Fin ED 383, above.

(v) all Celebrity Centers not included in (i) - (iv) above:

- a. Int Finance ED 385
FBO ALLOCATION FORM - CC INT
- b. For other Celebrity Centre orgs - see Int Finance ED
383, FBO ALLOCATION FORM - CLASS V ORGS, above.

(vi) IPT:

IPT's only source of income is advances from Scientology International Religious Trust to cover its de minimis annual expenses. It does not allocate or otherwise pay funds to CSI or any Scientology-related entity, and there is no directive pertaining to any such allocation or payment.

(vii) NEP:

- a. Int Finance ED 389
NEW ERA PUBLICATIONS - FBO ALLOCATION FORM

(viii) BPI:

- a. Int Finance ED 388
BRIDGE PUBLICATIONS - FBO ALLOCATION FORM

(ix) any Advanced or Saint Hill organization not already included in a category described above.

See Int Finance ED 386, FBO ALLOCATION FORM - NON-US SEA ORG ORGS, above. The same form applies to both Advanced Organization Saint Hill Europe & Africa (AOSH EU), and to Advanced Organization Saint Hill Australia, New Zealand & Oceania (AOSH ANZO), which are the only two other AOSHs not included above.

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QUESTION 4-b

b. You have described how income is recorded on invoices and immediately deposited. Please describe any circumstance where a Scientology-related organization's receipts are handled in any other manner.

* * * *

Church financial policy forbids a church organization to invoice and count income as received until it is on church premises in bankable form or in a church Finance Office Number 1 bank account. Some donations are received at a location distant from the church organization. Substantially all such donations are by check or credit card and are physically transported to the church by overnight express. In some cases, however, such donations are wired directly to the church's bank account. Bankwires normally would be sent by the parishioners themselves, or by the church representative in the rare case of a cash donation at a location physically remote from the church. The thrust of Scientology banking policies and practices is to promptly deposit or forward for deposit all monies belonging to the church organization involved.

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QUESTION 4-c

4c. Please provide a list and explanation of the income and expense categories, as well as balance sheet accounts.

* * * *

Attached as Exhibit III-4-B are the lists and explanations of the income categories and the expense categories. These income and disbursement categories are in general use throughout Scientology. These categories cover the most common sources of income and most common types of disbursements found in most Scientology churches ministering religious services. Additional categories are generally created locally as needed for other types of activities found within different types of Scientology organizations, such as Management organizations, Publications organizations, etc.

There is no single chart of balance sheet accounts issued for all Scientology organizations across the world to use for all their balance sheets. However, there are standard balance sheet groupings of assets and liabilities. In church organizations that prepare their balance sheets using a local computer program, local charts are developed tailor-made to their needs assigning specific numbers to the general and specific asset and liability accounts. Attached as Exhibit III-4-C is a chart of the different balance sheet accounts used by many United States Scientology churches. Not every individual organization necessarily will use all or even most of the listed accounts; the chart also does not list balance sheet accounts that are unique to individual church organizations.

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Question 4-d

Please explain the following terms: (i) Ad Council; (ii) Department 21; (iii) Data Bureau Flag; (iv) Div 3; (v) Div 6; (vi) ITO; (vii) PPU stats; (ix) Allocation to CMO CW; (x) Flag External Expenses; (xi) FSC; and, (xiii) management expenses incurred locally.

* * * *

Below is an explanation of what is meant by each of the above terms:

(i) **Ad Council** - This term is short for Advisory Council. The Advisory Council of a Scientology organization is a committee composed of the heads of the divisions of Church organization (which are called bureaux in a management organization). They meet regularly to coordinate the direction and activities of the organization and advise the Executive Director and his Executive Secretaries on recommendations to expand the organization.

(ii) **Department 21** - Each division is normally divided into 3 departments. The basic organizing board and pattern for a Scientology church provides for 7 divisions and 21 departments, both of which are often referred to by number, i.e. Divisions 1 through 7 and Departments 1 through 21. Department 21 is the Office of L. Ron Hubbard and includes the representatives of various ecclesiastical networks: the LRH Communicator, Keeper of Tech and Policy Knowledge, the Flag Representative and Flag Banking Officer.

(iii) **Data Bureau Flag** - This is a bureau of the Flag Bureaux. It has the function of collecting and providing information to others in the Flag Bureaux to help guide them in their ecclesiastical management duties.

The Data Bureau is the information center for the Flag Bureaux. It gathers and makes available general information of interest and use to those who manage Scientology Churches. One can go to the Data Bureau to get updated on anything from world news as it affects Scientology, to the statistics of organizations, to general reports on the health and condition of any Church.

The Data Bureau also maintains display charts and boards on which copies of the latest despatches and reports from individual churches are posted so CSI staff can get quickly updated on events and activities around the world.

(iv) Div 3 - This is short for Division 3 which is one of the 7 divisions of a Scientology organizing board. It is called the Treasury Division and responsible for collection and recording of contributions, payment of operating expenses, ensuring that proper records are kept of all transactions and that all required financial statements and tax or other filings are prepared and filed.

(v) Div 6 - This is short for Division 6 which is one of the 7 divisions of a Scientology organizing board. This Division is responsible for attracting new Scientologists. Due to the scope of this activity, it is now divided into three divisions. Division 6A, called Public Contacting Division, is concerned with broad public promotion. Division 6B, Public Servicing Division, provides introductory services to prospective members to give them an understanding of Scientology. Division 6C, Field Control Division, encourages Scientologists to be active in attracting new members.

(vi) ITO - This is an abbreviation for the International Training Organization. It is located within CSI in the Hollywood Guaranty building and trains executives from Scientology church organizations around the world.

The ITO has highly trained and experienced staff devoted to supervising these executive trainees. The most extensive and advanced administrative training courses for church staff are conducted at the ITO. Graduates of these courses return to their local churches as experts in Scientology administrative procedures and policy application. By applying what they have learned, they are able to direct the expansion of their local church to serve more and more parishioners.

(vii) PPU stat - This is an abbreviation for "prepayments used statistic." Prepayments are donations made for services in advance of taking the service. Prepayments are used when the parishioner applies them to a service. Each church keeps track of prepayments used and prepayments received (PPR) on statistical graphs as a means of ensuring that it is providing religious services commensurate with the amount of donations it is receiving. In the case of the FSO and its allocation form, these statistics are necessary to determine how much is owed to or receivable from the advance payment trusts. This also applies to CSWUS and its allocation form. Note that the terms "prepayments received" ("PPR") and "prepayments used" ("PPU") are interchangeable with the terms "advance payments received" ("APR") and "advance payments used" ("APU").

(ix) **Allocation to CMO CW** - This is the nominal sum which the Commodore's Messenger Org in Clearwater receives for its expenses for the week. CMO CW is a separate ecclesiastical organization from the Flag Service Organization, and therefore is not included within the FSO weekly financial planning, but is shown as a separate allocation. CMO CW does their own internal weekly financial planning based on the operating expenses received from the FSO. CMO CW is corporately part of the Church of Scientology Flag Service Org.

(x) **Flag External Expenses** - Due to the international scope of its activities, including the sending of missions to many parts of the world, CSI sometimes has the need to have funds disbursed on its behalf by local churches, including the FSO. Typically these disbursements are operating or travel expenses for missions which have been sent from the Flag Bureaux (hence the name "Flag") to the local church to provide on the spot guidance or instruction.

(xi) **FSC** - This is short for Flag Service Consultants. There are Flag Service Consultants located in every Flag Operations Liaison Office ("FOLO"). Their function is to inform individual Scientologists in their areas as to services available at the FSO and to assist them as needed so that they participate in religious services at the FSO. The Flag Service Consultants are staff of the FOLO to which they are attached and are paid and supported by it similarly to any other staff in the FOLO. The FSO pays a commission of 5% of the donations generated by the FSCs to the FOLO, which uses this income to cover the expenses of the FSCs and any surplus is used for the general operating expenses of the FOLO.

(xii) **International Management Expenses** - This refers to the responsibility of the FSO for supporting CSI management. This is in accordance with church doctrine that a management entity must be supported by its nearest major service organization, since the success of that church is a measure of the effectiveness of management. Each week, the FSO transfers to CSI the amount needed to cover the costs of its management activities.

(xiii) **Management expense incurred locally** - This term is synonymous with the term "Flag External Expenses" described in (x) above.

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QUESTION 4-e

e. Please provide an executed copy of a representative contract now in force between CSI and a Class V Church.

* * * *

Enclosed as Exhibit III-4-D is an executed copy of a representative contract between CSI and Church of Scientology of Hawaii.

. . . .

Question 4-f

f. The Service has seen references to "6-week trend reports" and "12-week trend reports." Please identify and describe these documents and provide representative samples of such documents for any period after December 31, 1989, including any supporting information that may be useful in interpreting these reports.

* * * *

The short answer to your question is that there are no such "6 week trend reports" or "12 week trend reports" and therefore it is impossible to provide such to you. In an effort to explain what trends are in Scientology, an explanation follows. However, this is such a broad subject, that when you ask us to "provide any supporting information that may be useful in interpreting these reports", you in fact are asking for a full training on the technical and administrative philosophy and technology of Scientology.

The Service states that it has seen references to such reports. From where? This is another example of the Service apparently having concerns about some subject based on information obtained from an ex-parte source. If the Service would tell us exactly what it is they have been told, or give us what they have been given - then we probably could more easily answer the question. It is one thing to ask how FSM commissions are paid and quite another to ask about statistical trends which encompass the entire scope of Scientology. However, we want it known at the outset that no 6 week, 12 or any other number of weekly trend reports are generated.

There is a subject called statistic analysis. The key policies on these are included as Exhibits III-4-E and III-4-F. It is the subject of analyzing a number of statistics for an individual, group, section or full organization. It's purpose is to either locate why things are improving or why they are worsening. Unlike the impression one may have of just looking and seeing what stats are up and what stats are down - our subject is one that takes into account many statistics to find out WHY things are the way they are and to locate which statistic or statistics that if handled would improve the overall situation. To handle such a situation, one must know what the statistic is composed of and have an understanding of the actions that make up that statistic so that he can take the actions to improve such. This is not like the Service's method of setting quotas. Just pointing to stats and saying "get them up" is called "stat pushing" in Scientology and is forbidden.

Management by statistics is a key component of Scientology administrative technology, which was developed by Mr. Hubbard for use in managing churches of Scientology. In a Scientology organization, the organization itself, every division, department, section and unit, every post is assigned one or more statistics which measure its performance over time. A statistic is simply a numerical measure of a quantity of something as compared with the quantity of those same somethings in earlier periods of time. These are plotted on graphs against time so that one can see if performance is increasing or decreasing or staying level. These increases or decreases over time are known as stat trends.

Some statistics are embrative of a number of sub-statistics. For example in a Scientology Academy, the study actions taken by students are each assigned a numerical value - each page read, each word cleared, each clay demonstration, each practical drill, each essay, etc.. is worth a certain number of points. Each student keeps track of his own student points each study period and keeps his own personal graph of these points and turns them in to the Course Supervisor each day. The Course Supervisor then totals these student points and plots them on graphs and this total then becomes an important statistical measure of the performance of the entire Academy. Another statistic, Auditors Made, is embrative of student points, as well as another statistic, number of students on course, which is in turn influenced by another statistic reflecting the number of new student enrollments and so forth. Some statistics are made up of sub-statistics and some statistics follow other statistics in time - e.g. an increase in numbers of courses completed should be preceded in time by an increase in the number of new students enrolled.

If one understands the functions of a Scientology organization and the interrelationships between the various divisions, departments, sections, units and posts - and if one has the performance of each of these correctly reflected on statistics - one can tell a great deal about that organization.

What one does about rising or falling statistics is covered in a subject called the "conditions of existence". These conditions stem from another area of Scientology philosophy and technology, the technology of ethics. Ethics in Scientology is not a moral code system of do this and don't do that; it is based on reason and the rationality for the highest level of survival for self, the family, the group, mankind and so forth across the eight dynamics. Using these conditions formulas one can attain higher conditions of existence and thus increase survival in all spheres of life. Conditions apply to any entity, individual or group. At any point in time an individual, a post, unit, section, department, division, organization, a sector and the entire religion is in a certain condition relative to survival. If there is improvement this means increased survival and a high condition and if things are getting worse this is worsened survival and a lower condition.

Mr. Hubbard isolated 12 such conditions of existence which are gradients of survival. At one end of the spectrum is the condition of Confusion in which one or a group is in such a bad state that it is unable to do much of anything, literally a state of being confused. At the other end of the spectrum is the condition of Power which is such an abundance that survival is guaranteed. In addition to isolating these conditions of existence, Mr. Hubbard discovered the exact formula or steps to take when in a certain condition in order to improve and reach the next higher condition. These conditions formulas for the higher conditions of Normal or above (which means that performance and survival are increasing) generally relate to isolating and reinforcing those things or actions which cause the high conditions. If performance is level or slightly decreasing, it is a condition of Emergency. The reason it is an Emergency is that conditions never stay the same for long, they either get better or they get worse. If the Emergency formula is not applied, they will get worse. The formula for the lower conditions of Danger through Confusion, generally relate to isolating and correcting whatever is causing the decline in performance and survival.

If one has performance statistics plotted on graphs over time one can tell which condition to apply and use its formula to improve performance statistics to the next higher condition on up to Power. A steadily rising statistic is a condition of Normal, a sharply rising statistic is a condition of Affluence and a statistic that is in a Normal trend but is in a very high range is a condition of Power. Conversely, a statistic that drops sharply is a condition of Danger and a statistic that is either a steeper or more pronounced drop or so low as to be totally unviable is in a condition of Non-Existence.

Statistics can be read and interpreted for any length of time. In a Scientology church or organization, the week's performance is plotted on stat graphs on a weekly basis. Each Division has one or more Gross Divisional Statistics which measure the performance for that Division as a whole and which are comprised of the many sub-statistics measuring the performance of various posts in that division.

An individual or someone over a small portion of an organization such as a unit or section can operate on daily statistics in order to attain a high condition by the end of the week. For example, if an auditor took a day off, he would know that he had a zero statistic of Well Done Auditing Hours for that day and might try to audit extra hours the rest of the week to make up for it.

Determining a weekly trend is fairly simple. A statistic is level or it is up or it is down. As covered above, if the stat is level or slightly decreasing the Emergency condition and formula applies in order to get the stat up in Normal the following week. If the stat is up over the last week but not significantly, then it is a condition of Normal and that formula applies. If the stat is sharply up then the condition and formula to apply is Affluence in order to keep the performance increasing the next week. If there is a sharp drop, then the condition and formula to apply is Danger. However, if the stat takes a serious dive, then the condition and formula to apply could be Non-Existence.

For longer trends the process is a bit more involved. For example, the scale of the graph must be correctly established. Too large a scale will flatten the plotting of the weekly statistics to the point where they are almost unreadable. A scale that is too small will exaggerate the peaks and valleys and likewise obscure trends. A properly scaled graph is generally one in which the minimum anticipated performance is the bottom of the graph and the highest possible performance is the top of the graph. The top and bottom of a particular graph will change over time as an organization grows.

On any stat graph in Scientology, an statistic which is up is an improvement and a higher condition and a statistic which is down is a deterioration and a lower condition for the period in question.

There is no mechanical system for determining a stat trend. One cannot average each week or simply concentrate on the peaks and valleys for each period as this will sometimes result in a wrong condition assignment. One has to view a graph for a period of time and use judgment to determine if overall performance is level or increasing or decreasing and by what degree. A skilled interpretation of a graph will result in a proper condition assignment and formula application to improve the overall scene. The period selected is also important. An extreme example would be selecting several years as the period for a particular church organization or a sector comprised of several organizations. During that period the organization or sector may have increased severalfold and, viewed over that period, any condition assignment would perforce be a very high condition since the graphs would overall be uptrending. Yet the existing organizations, operating at their current capacities, may be down trending in present time and the application of a lower condition would be appropriate to arrest the decline and get them headed in the direction of increased performance, expansion, survival and higher conditions.

Conditions and the formulas to apply are determined by stat

trends. Each condition formula flows one into the next and must be fully completed in order to arrive at the next higher condition. For example, if a church organization was staying the same size or declining slightly, with substantially the same statistics for a period of time, it would apply the Emergency formula in order to move it to the next higher condition of Normal.

Utilizing stat trends to assign proper conditions and utilizing the proper condition formula is a skilled activity and requires knowledge of the subjects of statistics, trends and conditions formulas. It also requires knowledge of Scientology ethics and administrative technology to know what to do to apply each step of a condition formula.

There is another, more sophisticated use of stat trends which is the subject of stat analysis. In this instance a skilled Scientology manager looks through the stat graphs of an entire organization or sector and finds the one area which, if handled, will result in an overall improvement in the health and well being of that organization or sector.

For example, assume an organization or sector containing a number of organizations is in a general slump. Almost any stat one looks at is in a decline. A simplistic view would be to simply assume that the staff of that organization are not doing much and to assign and apply the formula for the appropriate lower condition depending on the severity of the decline. This handling could miss the whole point because an actual analysis of the statistics could reveal that the staff were working harder than ever but getting less done.

A proper stat analysis might reveal that the organization recruited many new staff members just prior to the slump as evidenced by a statistic called New Staff Hired. Another statistic, Staff Training Completions, is found to be at zero for several weeks immediately following the big influx of new staff. A skilled manager reading these statistics concludes that instead of putting new staff through a proper training and apprenticeship regimen, they were simply put on post without such preparation. As a result, these new staff members are generally making mistakes and consuming the time of the veteran staff members and getting in the way of their performance. This situation would be revealed by the statistics alone. The proper actions to take would then be to get these new staff members on to training and apprenticeship programs for a good portion of the day, while allowing the veteran staff to get on with performance.

In addition, as another example of how the conditions of existence are applied, each of the new staff once they were through their training and apprenticeship and newly posted within the organization would apply the Expanded Non-Existence formula, which is as follows:

1. Find and get yourself on every comm (communication) line you will need in order to give and obtain information relating to your duties and materiel.
2. Make yourself known, along with your post title and duties, to every terminal you will need for the obtaining of information and the giving of data.
3. Discover from your seniors and fellow staff members and any public your duties may require you to contact, what is needed and wanted from each.
4. Do, produce and present what each needs and wants that is in conformation with policy.
5. Maintain your comm lines that you have and expand them to obtain other information you now find that you need on a routine basis.
6. Maintain your origination lines to inform others what you are doing exactly, but only those who actually need the information.
7. Streamline what you are doing, producing and presenting so that it is more closely what is really needed and wanted.
8. With full information being given and received concerning your products, do, produce and present a greatly improved product routinely on your post.

Too often, a staff member goes onto a new post and relies strictly on his own ideas of what he should be doing and this is out of step with the rest of the organization. His fellow staff members will not even know he is there to the degree he fails to follow the Expanded Non-Existence formula. In the example given above concerning the new staff members who were not trained and apprenticed before being put on post, they also did not follow the Expanded Non-Existence formula or they would not have disrupted the performance of veteran staff members so severely. Properly applied, the Expanded Non-Existence formula will result in a smooth transition onto a post where one rapidly becomes a contributing member of the team and moves on up to higher conditions.

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An organization or even a sector could also apply the Non-Existence formula. Surveys are often done to find out what is needed and wanted by society. In this wise the Church learns how to make the most effective contributions. For example, in Los Angeles it was found that the community most wanted help with the drug problem and with illiteracy. The churches there responded with the "Lead the Way to a Drug Free LA" campaign and has launched a tutorial program utilizing volunteer Scientologists near Los Angeles in the city of Compton. This has resulted in the churches coming out of non-existence with major portions of the community and being recognized as a solution to social problems.

Trends also have another use which is to trace back to changes which had either a beneficial or harmful effect on the overall health and well being of a church or sector. For example, if the church organizations in the western United States were experiencing a slump for the last several months one could take their combined statistics and trace back to where the slump began. Date coincident with the start of that slump there will be some change which broadly and adversely affected the statistics of organizations in that geographic region thereafter. It might be found that there was a program of weekly Dianetics seminars being held by each church and that these were dropped out just prior to the slump. It might be that there was some successful television or radio dissemination campaign that ended just before the slump. It is always something and it can be detected by analyzing the statistics for the period in question.

Trends also provide prediction due to the interplay between statistics. For example, uptrending sales of Dianetics and Scientology books always precedes a similar uptrend in new parishioners coming into churches for training and auditing. This is true of an individual church, it is true of a region which contains a number of church organizations. This prediction enables management to take additional actions to deal with the anticipated activity - hiring more staff and getting them trained as course supervisors and auditors for example.

All of the above uses of stat trends, assignment and applying the formulas for the proper condition, stat analysis, prediction, evaluations and so forth are part of management by statistics.

Generally, the closer one is to the site of activity, the shorter time span one uses to manage by statistics. A staff member can and does manage his own statistic on a daily basis in order to get his performance higher for the week. An Executive Director will generally manage his church organization on week to week statistics. An Executive Director is in a position to

detect, investigate and apply the appropriate condition formula and other handlings to an area of his organization and he is expected to take primary responsibility for management of his area.

Lower middle management bodies are not in a position to react quickly to a one week slump, nor are they expected to. For one thing, by the time they determined the condition to be applied and the steps to be taken, the situation may already be under control by the local church executives. For another, they want the local church executives to deal with situations on the ground as much as possible as they have the immediate responsibility for the affairs of their own organization. So they generally manage by longer three week trends and also tend to address their attention to the combined organizations of their continental area rather than just individual organizations.

Remote management units such as the Flag Bureaux or international management utilize longer 6 week trends for similar reasons and also broadly manage toward the increased health and well being of entire sectors. Management is looking at the big picture so it can plan for the expansion of the religion as a whole. A review of one year's statistics may reveal that efforts need to be placed on increasing the number of student C/Ses to see to future expansion. That may be true in general but does not result in a report or even necessarily a communication to an individual church. The church in Philadelphia may not have that problem whereas the one in Germany has. So whenever management views statistics they are more broad.

Trends can be viewed for longer periods than 6 weeks. Virtually any length of time can be viewed - 6 weeks, 12 weeks, 52 weeks or whatever time span is needed to get to the bottom of the situation. One could also go back several years to find a particularly successful period and find out what application of the conditions formulas created that upsurge.

Thus used, statistical trends are an invaluable tool for the objective management of church organizations. They take the guesswork out of the process.

Trends of any sort are associated with conditions assignments, stat analysis or with evaluations. But to analyze, one looks and thinks and as you well know this does not print out. 6 week trends are in common use for stat analysis at middle and upper management levels. 12 week trends could be used but are generally not used unless that period is picked for or coincides with a particular purpose of a statistical analysis

or evaluation. We are not aware of any common use of the term "6-week trend report" or "12-week trend report". This does not rule out that someone may have used these terms before, we are just not aware of any nor are any called for in policy.

To ask about the use of conditions in Scientology and to give a full explanation of how they are used would be like asking, "describe how alive you are and how much you are surviving and give me some references that are useful in facilitating my understanding."

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RESPONSE TO THIRD SERIES OF QUESTIONS (November 23, 1992)

VOLUME 2

QUESTION 4-g

g. To understand the accounting system of the Church, the Service needs a complete set of the given Church's records and reports for the given time period. Accordingly, to the extent not already provided, please provide for the month indicated all FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts for the following organizations. In addition, please identify the name of the organization where the name is unclear. The months and entities requested are as follows: (i) for October of 1989, the Boston organization referenced in the FBO AC3 Weekly Report of October 1989; (ii) for November of 1990, the "SNC" org referenced in the FBO AC3 Weekly Report of 1/11/90; (iii) for November of 1991, the organization referenced in the FBO AC3 Weekly Report of 7/11/91; (iv) for October of 1991, the organization referenced in the financial planning for the week of 10/31/91; and, (v) for October of 1991, the Church of Scientology of Colorado, Inc.

* * * *

In response to your request, we provide the following:

(i) for October of 1989, the Boston ("BSN") organization's FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts.

(ii) for November of 1990, Stevens Creek ("SNC") organization's FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts.

(iii) for November of 1991, the organization referenced in the FBO AC3 Weekly Report of 7/11/91; note: this organization is Denver (DVR). The relevant data for the month of November is attached.

(iv) for October of 1991, the organization referenced in the financial planning for the week of 10/31/91; note: this organization is Denver (DVR), which is the same org as in (v) below. Therefore only one copy of the requested documents is supplied.

(v) for October of 1991, the Church of Scientology of Colorado (Denver or DVR) organization's FBO AC3 Weekly Reports; Income Sources Summaries; Financial Plannings; and the monthly bank statement(s) for all bank accounts.

. . . .

QUESTION 4-h

h. On certain of your submissions, payments have been made to the "main" accounts. Please describe this account.

* * * *

An organization's "main" account is the account used to pay an organization's operating expenses, e.g. rent utilities, insurance, payroll, administrative supplies, etc..

Income is not deposited in the main account but rather into the Finance Office No. 1 Account as described in response to Question 3-b here. Each week the FBO transfers funds from the Finance Office No. 1 Account to the main account in accordance with the approved financial planning for the week as described in response to Question 3-b here. Checks are then drawn on the main account to pay the organization's operating expenses as covered above.

The main account requires two signatories as with any other church or other Scientology organization bank account. The signatories are senior executives of the organization who are familiar with the all approved disbursements for the week.

. . . .

QUESTION 4-1

1. Please state where credit card payments and checks drawn on United States Banks are first deposited.

* * * *

Any payments in the form of checks or credit cards which are received by United States churches or other United States Scientology organizations are first deposited into a local United States bank of the respective organization, not an overseas bank. In the case of credit card payments to a United States Scientology church or organization, these would be deposited to the United States bank which provides the credit card facility to the organization and which administers the account.

Credit card payments and checks drawn on United States banks to Scientology churches or other Scientology organizations outside of the United States are first deposited into their local accounts outside of the United States. For example, credit card payments and checks drawn on United States banks received on board M.V. Freewinds by Church of Scientology Flag Ship Service Organization and Majestic Cruise Lines, Inc., are first deposited into the respective organization's local bank accounts in Curacao, Netherlands Antilles.

. . . .

QUESTION 4-j

j. Please answer the following questions on the advance payment trusts:

(i) Has any individual or entity other than CSFSO and CSWUS ever deposited/contributed money to either trust?

*** * * ***

Although the respective trust instruments contemplate that the advance payment trusts might accept advance donations directly from individual parishioners, no individual or entity other than CSFSO or CSWUS has ever deposited/contributed money representing parishioner advance payments to either advance payment trust. Church management does not intend to implement procedures whereby individuals in the future may make advance donations directly to either of the advance payment trusts.

The advance payment trusts have received income in the form of bank interest from commercial banks and loan interest from Scientology-related entities. The latter includes bond interest received by U.S. Parishioners Trust from Church of Scientology Flag Service Organization and Building Management Services, and loan interest received by Trust for Scientologists from Transcorp Services S.A.

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(ii) The revised financial statements provided for TFS and USPT reflect the transfer of advance payments to and from both trusts and CSFSO and/or CSWUS. You describe the netting process by which those payments are periodically made to and from the trusts. Are the amounts included in the revised financial statements the net payments made to and from the trusts? If so, please provide for 1989 and 1990 the gross amounts that would have been received by the trusts and the gross amounts that would have been paid by the trusts but for the netting process.

The amounts reflect the net payments made to and from the respective advance payment trusts, Trust for Scientologists ("TFS") and U.S. Parishioners Trust ("USPT"). The gross amounts of advance payments received ("APR") which would have been received by the trusts and the gross amounts of advance payments used ("APU") that would have

been paid by the trusts but for the netting process are shown below:

USPT 1989	GROSS APR	69,060,428.19
	GROSS APU	59,944,691.69
USPT 1990	GROSS APR	49,833,066.92
	GROSS APU	59,117,507.66
TFS 1989	GROSS APR	30,783,190.62
	GROSS APU	29,716,550.96
TFS 1990	GROSS APR	23,756,400.79
	GROSS APU	24,671,650.67

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(iii) Do the amounts in Exhibit I-9 and Exhibit I-17, include for CSFSO and CSWUS the following:

(i) the gross amount of advance donations received from individuals and other entities (including the gross amounts that would be paid to the advance payment trusts but for the netting process);

The Exhibits I-9 and I-17 amounts for CS FSO and CS WUS do not include the gross amount of advance donations received in connection with religious services because these amounts must be transferred to the appropriate advance payment trust. The Exhibit 9 amounts do include the value of advance donations with respect to religious services actually ministered by the respective churches during the period; these are the amounts due from the trusts to the respective churches.

(ii) the gross amount of all other amounts received;

Yes, the Exhibits I-9 and I-17 amounts do include the gross amount of all other donations received by CSFSO and CSWUS, which are not advance payments.

(iii) the net amounts of advance donation payments paid periodically from the trusts to the Churches;

The Exhibits I-9 and I-17 amounts for CSFSO and CSWUS do not separately state the net amount of advance donations paid by the

trusts to the Churches. The Exhibits I-9 and I-17 amounts, however, do account for the net amount of advance donations paid by the trusts to the Churches as part of the total donations received in connection with religious services.

and (iv) the net amounts of advance donation payments paid periodically from the Churches to the trusts?

The Exhibits I-9 and I-17 amounts for CSFSO and CSWUS do not separately state the net amount of advance donations paid by the Churches to the trusts. The Exhibits I-9 and I-17 amounts for CSFSO and CSWUS, however, do account for the net amounts of advance donations paid by the Churches to the trusts to derive the total donations received in connection with religious services.

If any of these amounts are not included, please provide revised financial information, including dollar amounts (i.e. the Exhibits I-9 and I-17 information) for CSWUS and CSFSO for 1989 and 1990 that include these amounts and separately state all these amounts.

Parishioners' advance payments received ("APRs") for religious services are not receipts or income of the respective service org, because they must be transferred to the advance payment trust(s). Conversely parishioners' advance payments used ("APUs"), which represent the value of religious services delivered, are income of the respective service org because they must be delivered to it from the advance payment trust(s).

The difference between the gross amount of APRs and gross amount of APUs for CSFSO and CSWUS, represents the net amount due to or from each advance payment trust, i.e. the "netting" effect. However, to revise the financial information so as to include both the gross APRs and APUs and the net APRs and APUs, would not be meaningful since the same amounts would be included twice. The following summary provides the gross and net figures for each year:

SUMMARY OF GROSS AND NET FIGURES

		GROSS APR	GROSS APU	NET APR/APU
FSO	1989	72,396,104.50	65,245,282.07	7,150,822.43
	1990	54,991,800.37	57,832,161.08	(2,840,360.71)
CSWUS	1989	27,447,514.31	24,415,960.58	3,031.553.73
	1990	18,597,667.34	25,956,997.25	(7,359,329.91)

. . . .

QUESTION 4-j (iv)

(iv) It is our preliminary view that if the various entities comprising the Church are to be recognized as tax-exempt, we must similarly ensure that the advance payment trust are organized and operated in a manner consistent with the requirements of section 501(c)(3). To meet these requirements, however, it appears that the trust instruments would need to be modified to conform to the organizational requirements of section 501(c)(3), (e.g., appropriate dissolution clause for TFS). Please indicate whether the Church would be willing to make such modifications.

* * * *

We believe that the respective trust instruments already conform to the organizational requirements of section 501(c)(3). For example, in the case of TFS, the relevant provisions of the original trust instrument state as follows:

20. All assets of the Trust net of the aggregate amount of the Advance Payments as shown upon the Schedules (after deducting therefrom all amounts paid out by the Trustees at the request of Beneficiaries in accordance with the foregoing provisions of this Declaration), and net of general liabilities of the Trust (if any), shall be dedicated exclusively and irrevocably to religious purposes. No part of the income or net asset of the Trust shall inure to or be used for the private benefit of any person. The Trust shall not engage in any political activity.

Upon winding up of the Trust, and after adequate provision for all of its liabilities, the assets of the Trust shall be distributed to one or more of the non-profit organizations of the religion of Scientology which are organized and operated exclusively for religious purposes, of which no part of the net earnings of which inure to or may be used for the private benefit of any person, and which do not engage in political activity.

* * *

28. The Church and the Trustees agree that this trust shall terminate on the tenth (10th) anniversary of the death of the last survivor of the Beneficiaries who are living on the date of this Declaration. However, the Church and the Trustees may terminate this trust by mutual agreement at any time after the fifth anniversary of the date of this Declaration. Upon termination of this trust, the Trustees shall pay the aggregate amount of the Advance Payments then held by the Trustees for the benefit of the Beneficiaries to

any organization described in paragraph 20 of this Declaration, impressed with a trust for the continued benefit of the Beneficiaries as provided in this Declaration.

These provisions are repeated in substantially identical terms in the 1988 Amended trust instrument.

Nevertheless, if the Service believes that provisions such as these are defective, we have no objection to modifying the trust instrument of TFS, or any other Scientology trust, in order to fully comply with the provisions of section 501(c)(3). Please provide us with the changes you note as necessary or desirable, or information on what you consider undesirable so that the appropriate modifications can be made by the applicable trust.

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QUESTION 4 (k):

k. There is variance between the disbursements reflected on the Author's Family Trust B information provided in your prior response (showing \$1,800,000 in management fees paid to Author Services) and the receipts information for ASI (showing all of ASI's receipts as consisting of \$2,000,015 in management fees from Author's Family Trust B). The same information for ASI also appears to vary from the disbursement information for CSI, which shows royalties of \$468,000 paid by CSI to ASI. . . . Please explain. A similar (if smaller) variance occurs with respect to contributions in 1990 by USPT to CSRT. Please explain.

* * * *

As noted in your question, there is a discrepancy (equal to \$158,813) between the amounts of management fees disbursed by Author's Family Trust B (the "Trust") for 1989 (\$1,841,202) and the amount of management fees received by Author Services, Inc. ("ASI") for 1989 (\$2,000,015). The amounts for management fees disbursed was taken from Schedule C of the Trust's 1989 Form 1041A and the amount for management fees received was taken from line 3 (gross profit) of ASI's 1989 Form 1120. The \$158,813 discrepancy consists of the following items:

Management fees that were reported properly in Schedule E of the Trust's 1989 Form 1041 A as an expense related to the production for royalty income. These expenses were overlooked in preparing the June 1992 submission, since we took only management fees reported on Schedule C. \$75,243

An end-of-year timing overlap of management fees disbursed by the Trust at the end of 1988 but not received by ASI until 1989. (ASI was a cash-basis taxpayer in 1988; it changed to the accrual basis in 1989.) \$70,000

A 1989 payment of management fees by the Trust was miscategorized as an internal transfer of funds between the Trust's own bank accounts and therefore not claimed as an expense on its 1989 Form 1041. \$10,938

A 1989 beginning account balance discrepancy between the balance of the Trust's account for management fees payable as of January 1, 1989 and ASI's account for management fees receivable as of January 1, 1989. \$1,700

Miscellaneous income ASI received that it reported in the lump-sum total of its gross receipts on line 1 of its 1989 Form 1120 and therefore was erroneously included with management fees in preparing the summary financial statements for the June 1992 submission. \$1,432

A payment by the Trust directly to a third-party consultant hired by ASI with respect to the Trust's affairs that the Trust accounted for and reported as a disbursed management fee; ASI did not report the item as management fee income because it neither received the payment nor was aware that it had been made. (\$500)
\$158,813

The noted variance of \$468,000 with respect to royalty payments paid by CSI to ASI is due to several factors.

As an initial matter, you apparently computed the \$468,000 amount by multiplying the 1% figure given for CSI's royalty disbursements for 1989 in Exhibit I-9 against the \$46,823,985 figure given for CSI's total disbursements for 1989 in our prior response. However, the percentages given in Exhibit I-9 are approximate percentage values. In fact, the precise percentage value for CSI's royalty disbursements for 1989 is 1.13502 percent, or a dollar value of \$531,463.99.

In Exhibit I-9 we erroneously indicated that the recipient of CSI's royalty payments was ASI. However, since ASI functions only as agent for the owner of the copyright or patent, the royalty payments are properly reported by the owner, not ASI. Thus, these payments do not appear on ASI's financial data for 1989.

Rather, CSI's royalty disbursements for 1989 actually were paid to the copyright or patent owners, which reported the disbursements as income on their own tax returns. It paid \$9,998.07 to Mr. Hubbard's Estate until it made its final distribution on January 3, 1989 and thereafter it paid \$521,021.76 to Author's Family Trust A. (We did not prepare summary financial statements for Mr. Hubbard's Estate for 1989 since it was active only for three days of that year.) CSI paid the remaining \$444.16 in royalty disbursements (or 0.08 percent of CSI's total disbursements) to BPI as royalties on E-Meter accessories.

Corrected financial summaries for CSI and Author's Family Trust B and for ASI for 1989 are attached as Exhibits III-4-G, III-4-H and III-4-I.

QUESTION 4-1

1. Please explain the scope of organizations within the Finance Network. For example, are there any entities within the network with no FBO. Are the social betterment organizations or publishing organizations part of the Finance Network?

* * * *

The following Scientology church or other Scientology organizations have an FBO or a Finance Director, who serves the same functions as an FBO, and which participate in the International Finance Network are:

1. Bridge Publications, Inc..
2. New Era Publications, Aps.
3. Association for Better Living and Education International ("ABLE INT").
4. World Institute of Scientology Enterprises International ("WISE INT").
5. Scientology Missions International.
6. International Hubbard Ecclesiastical League of Pastors ("IHELP").
7. All churches of Scientology at the level of Class V church or above. This includes FSO, FSSO, Advanced Organizations, Saint Hills and Celebrity Centre churches.

The following, whether or not included in the definition of Scientology-related organizations, do not participate in Central Reserves either directly or indirectly, do not participate in the International Finance Network and do not have FBOs or Finance Directors (except in that circumstance where the title has been locally adopted and does not signify participation in the International Finance Network):

1. Church of Spiritual Technology ("CST").
2. Religious Technology Center ("RTC").
3. Author Services, Inc. ("ASI").
4. Author's Family Trust-B.
5. International Association of Scientologists and its operating arms and related membership organizations.

6. Missions.

7. WISE sublicensees.

8. ABLE licensees (Social Betterment Groups, including Narconon International, The Way to Happiness Foundation, Applied Scholastics International, etc. and their licensees).

9. Social Reform Groups (Citizens' Commission on Human Rights, Citizens for an Alternative Tax System, etc..).

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QUESTION 4-m

m. Under the new system of allocations described at page 4-15, the Class V Churches pay 12.5 percent of corrected gross income to CSI. How is this amount reflected on CSI's books (i.e., what income category includes these amounts)? Are all amounts forwarded to CSI received and processed by Flag Command Bureaux? If this is not the case, please clarify.

* * * *

The contributions received by CSI from Class V Churches under the new system of allocations are included under income audit category 15: Contributions from Other Orgs.

All amounts forwarded to CSI are received and processed by the Flag Finance Office which is at the Flag Command Bureaux echelon.

The only exceptions are any sums that cannot be remitted to CSI, for example due to local exchange control regulations or other legal reasons. In those cases, the amounts are accumulated in local accounts until remittance can be effected. Also, money remitted to CSI by bankwire, for example direct to CSI's Finance Office Number 1 account at Kredietbank Luxembourg, is not received physically at the Flag Finance Office. Nevertheless, the invoicing of such amounts, based on confirmation from the bank of funds received, is done at the Flag Finance Office.

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QUESTION 4-n

4.n. Please provide information (including dollar amounts), as provided for other entities in Exhibits I-9 and I-17, for 1989 and 1990 for: Church of Scientology Religious Education College; Church of Scientology Advanced Organisation Saint Hill Europe and Africa; and Church of Scientology, Inc.

* * * *

As requested, we attach Exhibit 9 information including dollar values for:

- Church of Scientology Religious Education College;
 - Church of Scientology Advanced Organization Saint Hill Europe and Africa;
 - Church of Scientology, Inc.,
- for the years 1989 and 1990. (Exhibit III-4-J).

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QUESTION 4A-a & b

a. Do tour or fundraising commissions differ from FSM commissions? If so, please explain.

b. Please describe how Church fundraisers, FSMs and "tours" operate. In this regard, please provide documentation containing all Church policies on FSMs, tours, and fundraising activities (e.g., how individual FSMs and fundraisers handle cash contributed to a Scientology-related organization through such individuals' efforts). Who is responsible for expenses of the tours or other individual FSMs and fundraisers? Specifically, is commingling of the organization's funds and the individual's funds permitted?

* * * *

Fundraising commissions is a general term used to describe any form of commission paid out in connection with fundraising. It therefore includes commissions that Church organizations pay to Field Staff Members ("FSM"), and for tours.

The short answers to each of your specific questions are as follows:

- Commingling of an organization's funds and those of any individual is prohibited and as you will see below virtually impossible.

- FSM commissions are calculated at 10 and 15% of donations raised and tours commissions are 5% of donations raised.

- FSMs are responsible for all of their own expenses.

- Tour expenses are covered by the Flag Operations Liaison Office (FOLO) that each Tour is a part of.

The following narrative describes how FSMs and tours operate.

NOTE: The tours described here are not to be confused with a Membership Tour which is described in the response to Question 3A-c (i) above. In addition, Field Disseminators for the IAS and Fundraisers for ABLE INT are described in the response to Question 3A-c (i) and are not covered below.

FSM COMMISSIONS

FSM commissions are paid at the rate of 15 percent of a parishioner's donation for training, and 10 percent for a parishioner's donation for auditing, in both cases only when the

parishioner actually commences the service. Donations for training receive a higher commission in order to encourage that activity, because a trained Scientology auditor is more valuable to the religion and to mankind since an auditor can help others.

FSM commissions are paid to those who assist a church in contacting and interesting an existing or potential parishioner in taking religious services for which he or she donates funds to the particular church. This practice defrays the cost of prosyletization and obtains new members for a church. It extends the influence of the Church into society by encouraging individual prosyletization. Often an FSM will provide someone who is unfamiliar with Dianetics or Scientology a book and then follow up to answer any questions and to enlighten him or her on the services available at the local church of Scientology - to the result of a new contributing member of the church.

Some FSMs arrange and give lectures, hold Dianetics seminars, play Mr. Hubbard's taped lectures at meetings, set up booths and sell Dianetics and Scientology books at fairs and malls, disseminate Dianetics and Scientology on radio and television and do other actions to interest people in the religion. Many others do this on a more casual basis with friends and acquaintances. In either event, their schedules and activities are not controlled or monitored by any church. They can do as much or as little prosyletizing as they choose. They can act as an FSM for one church of Scientology or for several churches of Scientology at their discretion. FSM commissions are only paid by the church which received the donation and only when the parishioner actually commences the religious service. FSMs bear all costs and expenses of prosyletization themselves.

Other Scientology organizations or groups can also act as FSMs for purposes of receiving FSM commissions from a particular church. For example, missions deliver introductory services to new Scientologists. Once complete with the services available in the mission, they are sent by the mission to a Class V church for more advanced religious services. The mission can receive an FSM commission from the Class V church. Similarly, Class V churches can receive FSM commissions from a Saint Hill or Advanced Organization when their parishioners move on to more advanced levels of training and auditing available at those higher church organizations. The FSO and FSSO also pay FSM commissions to lower echelon churches on a similar basis. Again, the FSM commission is paid only when the parishioner actually commences the service for which the donation was made as the intention of the FSM system is to increase the ministry of religious services as well as to raise funds for churches of Scientology.

FSM commissions are only paid once, either to an individual FSM or to an organization. There is no reimbursement of costs or expenses to either an individual or an organization acting as an FSM. When an FSM selects a parishioner for services, he fills out a selection slip and sends a copy to the church organization and also gives a copy to the parishioner. When the parishioner enrolls for a Church service, he or she brings a copy of the selection slip from the FSM and confirms that the individual or organization actually assisted in the capacity of an FSM to get him or her onto the next Church service. Church policy forbids immediate family members from being nominated as an individual's FSM, as the purpose of these commissions is to encourage new people to move up the Bridge. If there is no FSM, then there is no commission paid.

The FSM and FSM commission system has been found to be a workable and valuable fundraising practice since the mid-sixties. More importantly, FSMs extend the influence of a Scientology church into society; attracting new members and helping to keep existing members on the path to spiritual salvation.

TOURS

Flag Operations Liaison Offices ("FOLO"), which are located at the Continental Liaison Office echelon send out tours to assist Church organizations in their continental areas. Their function is to assist local Scientology churches in contacting parishioners, enlightening and interesting them in taking services at and raising donations for a local church. FOLO tours consist of leading Scientologists who are well respected and command the attention of parishioners. They hold events where parishioners gather to listen to speeches on the latest accomplishments of Scientology and why it is important that they keep progressing on the Bridge and how they fit into the bigger picture. They also give talks on specific religious services that are available and testimonials from those who have participated in them. Thus inspired, many parishioners enroll for auditing and training and make donations for such to the local church. Tours get the congregations of local Churches revitalized and more actively involved in Scientology in their areas.

The FOLO that sponsors the tour earns a commission calculated at 5% of donations which are paid by the local church which benefits from the donations. The commissions are paid from the local church directly to the FOLO. The FOLO bears any expenses with respect to tours activities.

The above FSM and Tours Commission arrangements are covered in the key policies on the subject at Exhibits III-4-K and III-4-L. Additional policies can be found in Volume 6 of the Organization Executive Course in the section entitled "Field Staff Member Program." However the two attached policies contain a complete explanation of these arrangements. Exhibit III-4-L also refers to Flag Service Consultants or FSCs. FSC commissions are described in the response to Question 4-d below.

OTHER TOURS

Certain organizations are national or international in scope. The FSO and FSSO each provide upper level religious services which are not available at any other church of Scientology to parishioners from around the world. Advanced Organizations and Saint Hill Organizations draw their parishioners from broad geographic areas for upper level services which are not available at a Class V church.

These organizations may send out tours to hold events and to enlighten and interest parishioners in taking services at their church organization. They too, hold events and gather the local parishioners to give briefings on their organizations and to give reality on the spiritual benefits that can be obtained from the higher level religious services - as evidenced by success stories from those who have received such services.

In this instance, the tours are employee representatives of their respective churches and there are no "tours commissions" paid to the tours or to any outside entity or individual.

FINANCE FLOWS WITH RESPECT TO DONATIONS

As covered above, FSM and tours commissions are based on donations raised for particular churches of Scientology. Both FSMs and tours bear their own expenses and are not reimbursed for such.

Church policy and practice is that all donations from parishioners are paid directly to the church which is intended to receive them and are not commingled in any way. Neither FSMs nor tours deposit church donations in their own accounts. The full amount of the donation is remitted directly to the intended church organization and then the commissions are paid when owing. Donations are made to the churches who provide the service, not to the FSMs or tours.

The same banking practice is true of tours that are sent out from the FSSO, FSO, an Advanced Organization or a Saint Hill organization as described earlier. In this instance, the tours representatives are simply employees of the organization sponsoring the tour and they collect donations on its behalf for deposit in the organization's Finance Office Number 1 account.

EXCHANGE CONTROL COUNTRIES

In countries which have exchange control regulations (e.g. South Africa), the Continental Finance Office maintains a trust account as a temporary depository for parishioner donations pending permission to remit the sums abroad.

With the exception of special trust account arrangements to accommodate exchange control regulations where they exist, Church policy and practice is that gross donations are always remitted to the recipient church or to one of its Finance Office Number 1 accounts. Both FSM and tour commissions are then paid back to the FSM or to the FOLO which sponsors the tour as the case may be. Donations raised by Flag Ship Service Consultants or Flag Service Consultants are similarly transmitted to the respective church organization and commissions are then paid back to the relevant FOLO.

Donations to church organizations are not commingled with FSM, FOLO or tour funds. It may have happened at one time or another but such would be contrary to Church policy and practice. In any event, we are not aware of any instances of commingling.

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QUESTION 4A-c

c. Do any individual FSMs or fundraisers receive funds from one Scientology-related organization for payment to another such organization? If so, please explain the reasons for such transfers and how it is ensured that such transferred amounts are received by the recipient organization.

* * * *

We are not aware of any practice whereby individual FSMs or fundraisers receive funds from one Scientology-related organization for payment to another such organization, and Church policy does not permit this.

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QUESTION 4A-d

d. Please describe the method by which Scientology-related organizations report commissions paid to fundraisers or FSMs to both those individuals and to the Service. To the extent difficulties have existed in the past, please describe these difficulties. To the extent difficulties continue, is the Church willing to adopt alternative procedures as part of any closing agreement?

* * * *

The only method by which U.S. Scientology-related organizations report commissions paid to fundraisers, as well as other non-employee compensation, to the individuals and to the Service is through IRS Forms 1099. Church policy requires that Forms 1099 be issued to all non-corporate recipients of \$600 or more in any calendar year from any U.S. Scientology-related organizations, in accordance with the relevant provisions of the Internal Revenue Code. Non-U.S. Scientology-related organizations do not provide Forms 1099 to the recipients or the Service because none of these organizations is engaged in a trade or business in the United States.

Church management believes that Scientology-related organizations in the United States have substantially complied with Form 1099 requirements. Nevertheless, Church management also recognizes that compliance has not been 100 percent. At present, there is no central disbursing facility for local organizations' bills and tax reporting obligations. In accordance with Church policy, each individual Scientology-related organization disburses its own funds, which is an important component in maintaining local financial responsibility. Likewise, each individual organization is responsible for preparing and filing its annual Forms 1099.

At times, U.S. Scientology-related organizations have experienced difficulties in obtaining social security numbers and/or employer identification numbers from their fundraisers and other independent contractors. Provisions such as backup withholding and the 60-day grace-period for obtaining a TIN do not address the actual problems faced by U.S. Scientology-related organizations:

- * individuals or other payees sometimes move from their last known address and leave no forwarding address or phone number.
- * some independent contractors provide services only sporadically, thus generating no subsequent compensation against which to enforce back-up withholding.

- * local procedures have not always been in place to obtain Tax ID numbers at the time of payment, with the result that individuals sometimes have been paid without furnishing a TIN.

In the past, Church management has addressed problems in Form 1099 compliance with timely reminders to subordinate organizations of the applicable requirements and on occasion with instruction and technical assistance in preparing and filing Forms 1099.

CSI is presently developing a computerized treasury system that complies with Scientology finance policy as well as local filing and reporting requirements. When completed, it will be implemented in all United States Scientology organizations to assist each organization to improve the timeliness and efficiency of their reporting. To implement this new system Church management will issue directives that forbid the payment of any non-employee compensation until the recipient has furnished a TIN.

In summary, the Church has worked and is working diligently to solve past and existing difficulties with Form 1099 compliance. We also are amenable to any alternatives or suggestions the Service might have and would consider including any improvements as part of a closing agreement.

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QUESTION 5-a

a. The Church uses the "modified cash" method of accounting. Please define this method of accounting and describe all adjustments necessary to change from the cash method to the modified cash method of accounting.

* * * *

Modified cash basis means that the annual summaries of cash receipts and disbursements, as recorded in the Church's routine monthly audits, are modified or adjusted as follows:

- acquisitions of fixed assets are capitalized as balance sheet items (not written off to Revenue); any surplus/deficit on disposals is adjusted through the Income and Expenditure account;

- annual depreciation is reflected as a expenditure (a charge against income) on the annual income and expenditure statements. In addition, the depreciation charge is also reflected in a balance sheet account for accumulated depreciation.

- assets not placed in service at year-end are identified and excluded from depreciable assets;

- bookstore inventories are adjusted to reflect the end of year physical inventory at lower of cost or market and the cost of goods sold account on the Income and Expense summary is adjusted accordingly;

- parishioners' unused advance donations are adjusted by excluding them from cash Revenue and including them as liabilities or deferred receipts, whichever is appropriate;

- any amounts due on contracts, loans, or time payment purchases are adjusted to show the end of year liability in the balance sheet;

- where applicable, inter-corporate loans from or to another Scientology organization are adjusted to ensure they are reflected in the appropriate balance sheets.

Most non-US Churches prepare annual balance sheets on the full accrual basis; thus it is US Church organizations to whom the modified cash method of accounting mainly applies.

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QUESTION 5-b

b. The submissions contain numerous references to HCO Policy Letters and other portions of the Scriptures relating to the Church's financial activities. To facilitate our understanding of the Church's accounting and financial systems, please provide a current and complete set of the Organization Executive Course volumes, excluding the HCO Technical Bulletin volumes.

* * * *

Based on the Service's assurances that the sole purpose for requesting these volumes is for reference purposes to better understand the Church's internal workings and finances, we are including one full set of the Organizational Executive Course ("OEC") with this submission. Nevertheless, these materials must be viewed in their context.

The full materials of Scientology are contained in over forty million spoken and written words by Mr. Hubbard. This includes over 3,000 taped lectures (which when fully transcribed will fill 100 encyclopedia sized books), 13 volumes of technical writings on the procedures and philosophy of auditing (red volumes), and dozens of individual books on a variety of Scientology subjects. The OEC volumes are but a small portion of the philosophy and technology of the Scientology religion. The currently published Scientology materials and reproduced taped lectures on cassette - excluding the confidential advanced course materials - are shown in the attached photograph. The OEC consists of the 12 green volumes in the center of the photograph. Please also refer to pages 705 through 781 of the book What is Scientology?. Those 76 pages of text give a complete listing of Dianetics and Scientology books, technical and administrative issues, articles, films, recorded lectures, cassettes, and special publications all in the chronological order in which they were created.

Each OEC volume corresponds to a division on the organizing board; each volume is meant to be a training or "hatting" manual for the head of that numbered division. For example, Division 4, the Technical Division, is responsible for teaching auditor training courses and for the ministry of auditing services. Volume 4 of the OEC contains the materials relevant to operating Division 4 and performing its functions, including how courses are supervised and how auditing is scheduled. (Volume 4 does not cover what is taught in the courses or what actions are performed in an auditing session; that is the subject of the Technical (Red) volumes.) The other volumes correspond to the

relevant divisions as follows:

Volume 1:	Division 1 -- Hubbard Communications Office (HCO)
Volume 2:	Division 2 -- Dissemination
Volume 3:	Division 3 -- Treasury
Volume 4:	Division 4 -- Technical
Volume 5:	Division 5 -- Qualifications
Volume 6:	Division 6 -- Public Divisions
Volume 7:	Division 7 -- Executive Division

Volume zero does not represent any division on a Scientology org board. Rather, this volume is the Basic Staff Hat, which contains general information on church organizational principles that all staff members should know regardless of their specific posts.

The OEC volumes do not represent one copy of each different issue. Some data is relevant to more than one division head, in which case the relevant issue will be contained in the volume applicable to each division. Furthermore, each volume is categorized by org board department within each division. So that department heads may study their responsibilities from these books, the materials for their department are individually categorized. Individual sections and units within each department are individually categorized. Additionally, within these categorizations, the materials appear in chronological order to provide the church staff member with the history and evolution of the relevant function within Scientology. In this way, instead of simply gaining rote understanding of what actions are to be performed or of what the structure is, the staff member instead learns why it is that way.

Management Series volumes 1, 2 and 3 similarly do not correspond to any division but instead contain material relevant to higher level management of such organizations, such as by the Exec Council. Their sequence has no relevance and in fact each volume contains self contained series of issues on different subjects. For instance, volume 1 contains the Data Series, which covers the subject of logic and how to evaluate. This is followed by the Organizing Series which is relevant material for an Organizing Officer and covers such topics as hatting and the theory of organization.

As explained in our meeting of 26 October 1992, we were reluctant to furnish the Service with the OEC volumes. Our consistent experience has been that the IRS and its attorneys have used small parts of policies, or single policies, out of context as a method of attacking Scientology. In fact, during the last round of negotiations, a full set of OEC Volumes,

Technical Volumes, books and the then existing taped lectures were provided to the Service. As we expected and predicted, the Service used these materials to quote the EXACT SAME OUT OF CONTEXT PASSAGES as the Service had advanced in the CSC case.

For example, in one policy letter in Management Volume 2, which contains the Finance Series, Mr. Hubbard instructs an FBO that, among other things, a governing policy of finance is to "make money". Taken in its entirety, however, this policy letter is simply common sense managerial direction for any organization that wants to survive and expand. Indeed, the principal function of the finance officer of any organization, profit or not for profit, taxable or exempt, is to "make money" to assure that the organization remains financially viable. This policy appears only in the Finance Series, which would not be the case if it were applicable to other Church functions. Yet, the Service has routinely cited these few simple lines as "proof" that the overriding purpose of all of Scientology is "commercial." In truth, barely one percent of Scientology Scripture has anything at all to do with finance.

Further, nowhere in that policy letter does Mr. Hubbard cite money as a motivation. In fact the only policy that does contain information on motivation is HCOPL 11 November 1969 which states:

" MONEY MOTIVATION

The weakest motivation is money. People and businesses that are motivated only by money are wobbly people.

. . .

The scale of motivation from the highest to the lowest is:

**Duty -- highest
Personal Conviction
Personal Gain
Money -- lowest**

Money is important in the world. But it is the grease on the machinery, not the motors. In a society which has lost its patriotism and pride, money will be found as a primary motivation. True, one is in trouble without money and it is a crime in the eyes of the society to be without money. But one also needs dirt to stand on and yet dirt cannot be said to be the primary motivation for living."

Yet somehow the IRS and other detractors never quote the above policy, which is the definitive Church policy on the subject of motivation and purposes as related to money. Instead we are vilified with out-of-context quotes that are further interpreted falsely by the Service passing their interpretations off on courts. The result is so-called facts stated by a court allegedly communicating our beliefs; but which are totally false and abhorrent to us.

In another policy, Mr. Hubbard advises church staff in handling tax people to "never volunteer anything." The Service has used this statement to argue that the Church is "theologically hostile" to taxes. Yet that same paragraph states that one must not give tax people false data and must always be able to back up data one gives. The rest of that policy stresses recording and reporting the exact truth of all transactions. While it is true that Mr. Hubbard makes an unflattering reference to the government's "bloodsucking appetite," that is hardly a novel view.

Entire policies can also be taken out of context. For example, Scientology refund policies have been criticized as being commercial. Yet, taken in the full philosophical context of our religion, this is an extremely ethical practice. Refunds are also a very important cross-check, because a refund request from a parishioner alerts the Church that the religious technologies of Dianetics and Scientology have not been applied properly.

Despite our concerns, we are producing these materials so that there can be no question that we are fully cooperating with your requests and are making full disclosure. It is impossible, however, simply to study these materials and then understand them in context. To begin with, they were written not for the IRS, but for Scientologists who have a basic understanding of the philosophy and practice of Dianetics and Scientology. Our attorneys and accountants have prepared a detailed audio-visual presentation that thoroughly explains our finance system, which we believe is a more productive way for the Service to more fully understand our system.

One of Mr. Hubbard's observations, which forms the basis of the secular application of Scientology principles in the field of education, is that no reader should continue past any word or concept he or she does not understand. Please come back to us for any explanation or clarification you may need. The Service would not (nor would a court permit it to) make a tax

determination based on its own interpretation of Catholic, Jewish or Mormon doctrine; because it is new and comparatively unknown, there is even less reason for the Service to do so with Scientology.

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RESPONSE TO THIRD SERIES OF QUESTIONS (November 23, 1992)

VOLUME 3

QUESTION 6-a

a. It appears that the central reserves system controls, directly or otherwise, the accounts of certain for-profit entities, (e.g., BPI, BMS, FSO OIC, SDP). If so, please explain such control, including how control is exercised, how disbursements from such accounts are approved, and any internal controls or reporting. In particular, please explain whether the funds of the for-profit entities are segregated to avoid problems inherent in commingling and any possible diversion of funds to or from the for-profit entities. In this regard, we note that the entries indicate loans to BPI from CSWUS. Please explain the purpose, amount and terms of these loans.

* * * *

Each of the corporations identified by the Service above is owned directly or indirectly by a non-profit Church or a Church reserves trust, which is itself a participant in the central reserves system.

For example: BPI is wholly owned by International Publications Trust; Building Management Services is an integrated auxiliary of Church of Scientology International, its sole trustee; FSO OIC is wholly owned by Church of Scientology Flag Service Organization; and San Donato Properties Corporation is a subsidiary of Transcorp Services S.A. which is wholly owned by Flag Ship Trust. The same is true of all other corporations that participate in the central reserves system.

The procedure for approving disbursements from central reserves and the subsequent disbursement of authorized funds was covered in detail in our prior response to question 6-2(c). Proposals from the corporations identified above are treated in the same manner.

As with any disbursements from accounts that are included in central reserves, International Reserves Committee requires that they are first approved by the Committee. Once the Committee has given its approval, it is the corporation's responsibility to execute the approved transaction.

The funds of each of the listed corporations are held in bank accounts in its own name and are thus completely segregated from one another. There is no commingling of funds.

The entry referred to shows a loan from Church of Scientology Western US to Bridge Publications Inc of \$400,000 on 18 April 1990. This loan was made following a request from Bridge Publications, Inc. for financial assistance towards the cost of printing the course materials for major releases of Church courses, namely Hubbard Key to Life Course (released on May 9, 1990), Life Orientation Course (released later in 1990), and Purification Rundown course book, materials, supervisor course (also released in 1990).

The total cost of producing these publications and materials was over \$2,870,000 and the Church considered it vital to assist BPI so that these releases could go ahead on schedule. On the page following the entry, BPI is shown repaying \$200,000 of the loan to CS WUS on 28 May, and two pages later it is shown repaying another \$120,000 on 19 July. The balance of \$80,000, was still owing by BPI to CS WUS at 31 December 1990. The loan was an open account.

. . . .

QUESTION 6-b

b. Please explain the difference between primary contributors and entities that participate in the central reserves through CSI. Is the difference that primary contributors maintain an account in their own name in the central reserves system?

* * * *

The Service is correct, primary contributors maintain one or more accounts in their own name in the central reserves system.

. . . .

QUESTION 6-c (i)

(i) In reviewing Exhibit II-6-A, it appears that some DVs within a given series break numerical sequence and that gaps occur in the numerical sequence (i.e. intervening DVs in a sequence are not listed). Please explain this in the context of the function of DVs in the Church's accounting system and the process for central reserves financial planning.

* * * *

Our response to your prior Question 6-2(a) addressed your request for a list of all expenditures from central reserves.

There are other transactions on reserves accounts that are not expenditures but merely transfers between bank accounts within the same corporation and within reserve accounts that are self-cancelling items within that accounting entity. While each of these transactions are recorded on disbursement vouchers, they do not represent expenditures of funds as they do not leave the corporation or central reserves. Examples of such transactions are:

(a) simple transfers of funds in the same currency from one bank account to another within a corporation's own reserves, such as for consolidation or better investment of funds;

(b) conversion from one currency to another, each of which is held in a separate bank account in the corporation's reserves. For example: CSI converting Deutschmarks received from German orgs into US Dollars (a disbursement from the Deutschmark account) and having the equivalent US Dollars from the conversion received into the US Dollar bank account. This is another form of inter-account transfer;

(c) contras - which are transactions where funds come in and go out and are neither income nor expense but are often bank errors. For example, the bank may make an error on a bank statement; when they correct it both the original entry and its correcting entry will be recorded as contras and they will cancel out in the internal audits as they are not the organization's income or expense;

(d) bounced checks - generally the financial institutions where the church holds its reserve accounts will credit a payment when received and if it later bounces they will debit it on the bank statement. These transactions are in fact reductions to income and not expenses for central reserves.

None of the above types of transactions are expenditures out of central reserves but all of them will be recorded on a disbursement voucher as required by church accounting policy.

Per the church's audit procedures, every credit on a bank statement must be recorded on an invoice and included in the reconciliation of the credit side of the bank statement. Likewise, every debit on a bank statement must be recorded on a disbursement voucher and included in the reconciliation of the debit side of the bank statement. Thus all the above types of transactions are included in the internally prepared audits of church reserves accounts and in their financial statements. Please see also Exhibit III-4-B, List of Disbursement Categories, pages 4 and 5, categories 24 Bounced Checks, 31 Contrasts and 32 Inter-Account Transfers.

Thus there are apparent gaps in the disbursement voucher series in the listings provided in Exhibit II-6-A because that list only included actual expenditures out of central reserves or between entities within reserves. The above accounts for all but a few of the gaps in disbursement voucher series numbers.

There were also a few instances where there was a computer malfunction resulting in a gap in the disbursement voucher series when the computer was brought back on line. This did not result in any missing transactions because the disbursements included in Exhibit II-6-A were reconciled with the audits and with the bank reconciliations for those periods.

. . . .

QUESTION 6-c (ii)

(ii) An entry indicates that CSRT expended \$900,000 for "operating expenses". Please describe how this expenditure is reflected on Exhibit II-4-H.

* * * *

The entry was reviewed and found to have been mis-categorized in preparing the exhibit. The disbursement was in fact a transfer from one CSRT bank account to another and should have been categorized and described as an "interaccount transfer" rather than "operating expenses." A copy of the actual disbursement voucher evidencing this is attached as Exhibit III-6-A.

Exhibit II-4-H reflects transactions with third parties only, not internal transfers, so this disbursement is correctly excluded from the figures presented therein.

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QUESTION 6-c (iii)

(iii) A transfer from CSFSSO to FST for parishioners' bounced checks is shown. Please explain this transaction and, more generally, the flow of money between these entities.

* * * *

Prior to May 1988, Flag Ship Trust collected donations from parishioners to support the cost of purchasing and refurbishing the religious retreat vessel, M.V. Freewinds and for donations for the new advanced level - New OT VIII.

Over the years, some donors' checks bounced and they were not all collected by May 1988. After that date, any collection of these bounced checks was performed by Church of Scientology Flag Ship Service Organization ("CSFSSO") on behalf of Flag Ship Trust.

From time to time, CSFSSO relayed any sums collected on the pre-May 1988 donors' bounced checks to Flag Ship Trust. Other than the transfers that appear in our prior response, there were no other payments between the two entities in 1990.

In May 1988 donations for New OT VIII collected by FST were turned over to the CSFSSO so that it would have the funds to deliver these services.

The above were extraordinary transactions or arrangements. There is no routine or recurring transfers of funds between these entities.

. . . .

QUESTION 7

7. As part of the response regarding expenditures from central reserves, the term "ecclesiastical guidance" is used. Please define this term, and describe the activities performed that come within this definition. Please provide a copy of written agreements regarding the provision of such services, and state how the charges for such services are determined. In this regard, please describe the ecclesiastical guidance provided to BPI by CSI.

* * * *

In general, the term "ecclesiastical guidance" means providing the necessary assistance to local churches to ensure that they provide religious services exactly in accordance with the scriptures and that the church is administered in accordance with ecclesiastical policy with the result that the local church is ministering to the spiritual needs of its religious community as well as assisting society through various social betterment activities.

Ecclesiastical guidance with respect to standard delivery of religious services and ministering to the spiritual needs of a church's religious community are numerous and practically endless. The following represent but a small sampling:

- preclear is still manifesting false purposes but has voiced something close to the clear cognition but has no attention on it. Should he be put on FPRD or Expanded Dianetics?
- A student on a Method 1 co-audit goes exterior and thereafter has headaches and high TA. Should he get End of Endless Int or a full Dianetics Int Rundown as he appears able to run track.
- A student on Clay Table processing has come very close to voicing the end phenomena and is now complaining of boredom and no change. Should he continue the processing or get a rehab.
- A group processing intensive is going to be delivered over six weeks. There are several parishioners who won't be able to attend until the second week - should they be allowed to participate or should they study Intro, Demo & Assists?

- A student just finished a life orientation course and wants to route onto his Academy Levels - should he first do the HQS course, the Student Hat or Method One Co-Audit Course?

- A preclear has evidence of last lifetime auditing. Should he continue on the grades processes or should he be bridged over to a CCRD?

- A preclear has an irrational fear of flying. Should he be run on reach and withdraw from airplanes or recalls and then R3RA?

- A preclear has been run on Op Pro By Dup for 26 hours and the comm lag is flattened. Should he be put on something else or continued till he goes exterior?

- A student keeps getting stuck in word chains and is making little progress on course but is winning on looking up the words. Should he be bridged over to Method 1 Word Clearing or a Student Rescue Intensive, Student Booster Rundown, Primary Correction Rundown or Key To Life?

- An individual makes it to OT III, yet his grades are out. Does one return him to his grades or get him through OT III. Does he retread OT I and II?

- A Clear still has pictures. How do you handle?

The above are examples of ecclesiastical guidance of a technical nature. The following are some administrative examples of ecclesiastical guidance.

- There is a 3 to 1 tech admin ratio in an org. Should some personnel be transferred onto admin posts or should they continue to audit, wordclear and supervise and handle admin on an all hands basis.

- The flow lines of an org are set up to have public see the Ethics Officer to see if they have a PTS situation before they see the Registrar. Should they see the Registrar first or should the org post more ethics officers to unjam the lines?

- The Student Completions stat went into Affluence but the resign line went into Danger. Should the Registrar or the Course Supervisor be checked out for any out tech?

- The Bulk Mail Out statistic is the parallel graph to New Starts, which are both in Non-Existence. Should the org send a mailing to its CF or should it reinforce its body routing for PE lectures and testing lines? Is the BMO the situation and how can one test this?

- Call-in in Affluence but Value of Service Delivered is in Danger. Should the org post a new registrar to reinforce the Affluence or should it implement all hands auditing to handle the backlog. How does one resolve the call-in and VSD discrepancy and is there a D/CO D & E penalty?

- There are a number of students who cannot keep the proper course schedule due to job conflicts. Should they only study on weekends or can a special schedule be implemented without violating HCOPL WHAT IS A COURSE?

- The interns are taking overlong to get in the chair. Should they be sent to cramming or back to the Academy to retread the materials?

- Interns must audit intensively, but the HGC already has more than enough auditors for pc delivery. How can the interns meet their requirements?

- The organization is rollercoastering between Danger and Affluence. How does one find the incomplete condition formula? And which condition should be applied - the incomplete one or the one currently indicated by stats? And is there a specific formula for the third dynamic as opposed to the first?

- The organization is in a condition of Emergency and yet has no resources to promote. How is this solved?

- The HGC has hit 600 Well Done Auditing Hours and seems to be stuck in that range. Should the org add more C/Ses and auditors or should it open a new HGC? If a new HGC opens, what are the divisions of duties - grade chart actions versus special rundowns?

- The Div 6 Courseroom is overcrowded and is overflowing into the Academy. Should the org move the Academy or open up a City Office to deliver introductory services?

- Ethnic surveys are provided to inform the local church how they can best contribute to their communities. As a result the churches provide what is most needed by their town or city. In Seattle the local church is spearheading the "plant Seattle green" campaign. In Boston the local church sponsors the "Boston rocks against drugs" campaign and similarly our Los Angeles churches sponsor the "lead the way to a drug free LA" and church volunteers provide tutorial services to illiterate children and adults in Compton.

- Performing Stat analysis resulting in an analysis of what formula should be applied to raise the overall condition and well being of individual church organizations and of areas.

- Providing demographic surveys which inform the local church where to focus their dissemination efforts and advising churches about services on the Grade Chart Introductory Routes would best serve the needs of their community.

- Providing computerized routing forms which give precise direction to both parishioners and staff as to how to optimumly assist parishioners to enroll on and complete religious services.

- Providing a review procedure for church justice proceedings where needed.

- Providing new church policies, bulletins or directives as issued. Often these, like a Senior C/S International Bulletin will address specific areas of the technology that a large number of churches are having difficulty with and provides the relevant guidance

- Providing shooting boards of church fliers, posters, brochures, information packs, and other dissemination materials.

- Providing printed promotional materials;

- Providing general hatting packs of issues for specific functions within a church so that they will be successfully and standardly carried out.
- Compiling and providing hatting packs for each post on a church organizing board so that the staff members have all the information needed to successfully hold their posts at their disposal.
- Providing "FSM Kits" which assist field staff members of the local church to disseminate.
- Providing defense in the form of materials to correct false reports or media attacks where and when they occur.
- Providing and maintaining a communications network that keeps the various churches of Scientology in communication with one another.
- Providing formal evaluations which isolate the one area that needs handling in order to improve the health and prosperity of a church organization and a program to effect the needed changes.
- Providing executive training and specialist technical training at the International Training Org.
- Providing missions composed of specially trained staff to render on the ground assistance to correct some deficiency in a local church organization.
- Providing the names and addresses of non-Scientologists who have expressed interest after reading a book on Dianetics and Scientology.
- Providing video or satellite telecast presentations of international events which inform the staff and parishioners of the accomplishments of Scientology internationally. These events occur 5 to 6 times per year.
- Providing video briefings from international executives on some aspect of church operations.

The lists could be endless, both for technical and administrative ecclesiastical guidance. Management exists to provide this guidance to churches so that they adhere to the Scientology scriptures and minister the best possible Scientology services to their religious communities and expand to accomplish the goal of creating a new civilization.

Exhibit II-4-M (as modified by Exhibit II-4-O) is a representative sample of the agreement between CSI and its subordinate church organizations that was in force during the periods in question. As provided in that agreement, the amounts billed were determined necessary to cover CSI's costs of operation and to support the religious programs of the hierarchical Church. CSI requested amounts for various types of services commensurate with CSI's medium and long term financial planning to fund its various religious programs and to build reserves against future expenditures. Under this system, services provided by CSI to the broad religious movement and not identified with any particular church were not billed or compensated. Many of the routine ecclesiastical guidance actions above were not billed or compensated. Only those services which could be identified with a particular church were billed and collections were strictly based on ability to pay.

In 1992, a new ecclesiastical support agreement between CSI and other churches in the ecclesiastical hierarchy was formulated and generally adopted. (See sample agreement at Exhibit III-4-D.) This agreement provides that each church will contribute 12.5% of its Corrected Gross Income to CSI in exchange for the ecclesiastical guidance provided by CSI and to support CSI's expenses and broad religious programs. Corrected Gross Income is a term which reflects the remaining income after certain items have been deducted from Gross Income (i.e. Gross Receipts of all kinds) including gross income from sales of bookstore items, FSM Commissions and the like. Typically, 12.5% of Corrected Gross Income equates to around 8% of Gross Income.

12.5% of Corrected Gross Income was established as an apportionment of CSI's annual expected costs and expenses in the dissemination, expansion and defense of the religion as well as the support of its various social betterment and social reform activities, as divided by the anticipated annual contributions the subordinate churches would receive. Under this formula, each local church is expected to bear its fair share of CSI's expenses and thus support the worldwide Scientology religious movement. This system is considered as equitable as the earlier system but easier to administer.

In addition to the 12.5% each church is separately requested to compensate CSI for extraordinary services rendered to that particular church. These services include such things as special missions sent from CSI to render on-the-spot assistance to a local church and also provision of administrative training and special technical training to executive and technical staff members respectively at the International Training Org.

With respect to BPI, the term "ecclesiastical guidance" includes a number of the above types of services but in particular services which are unique to the publishing of Scientology religious materials. CSI provides guidance to BPI in the form of Scientology artwork for the covers and dustjackets of religious publications, compilations of Dianetics and Scientology books and course packs, broad dissemination campaigns for Scientology religious literature, illustrations for Scientology texts, promotional materials, evaluations and programs designed to increase BPI's efficiency and so forth. BPI continues to be billed for CSI services and does not have an ecclesiastical support agreement based on a percentage of income or corrected gross income as do the daughter churches as described earlier. BPI's payments for such services are balanced against its need to finance religious works at any point in time and payments will either be deferred or caught up depending on such needs. The payments for ecclesiastical guidance from BPI to CSI listed in our prior response were against accumulated billings requested for such services.

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QUESTION 8

Who owned IMU Admin., ApS, while that organisation was still in existence?

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The Danish Association of Scientologists was the sole shareholder of IMU Admin., ApS. throughout its existence.

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QUESTION 9-a

In our prior Question 9 we asked a number of questions to help us better understand the relationship between IAS and the church hierarchy. We are still reviewing that information. While we understand that the church may have reservations about the inclusion of IAS and its operating arms in this process, it is our view that we need the following information to help complete our consideration.

a. One of the benefits of IAS membership you described is the right to keep certificates in force. We assume that the right to keep certificates in force means, at least as a practical matter, the right to receive services at Churches of Scientology. Please state whether or not this is correct. If incorrect, please explain and provide all relevant documentation.

* * * *

At our October 26 meeting, we distinguished between the "right to keep certificates in force," which is a specific benefit of membership in the International Association of Scientologists ("IAS"), and the ability to participate in religious services at churches of Scientology, which is not contingent upon IAS membership. This response confirms and amplifies our October 26 discussions.

You also asked us to explain a membership advertisement for the IAS found in SOURCE magazine. This response also addresses that advertisement.

Keeping Certificates in Force

Churches of Scientology award certificates to their parishioners upon completion of an auditing grade or level or upon completion of an auditor training course. Certificates for having achieved higher levels of spiritual awareness and ability as a pre-clear (one who has completed a particular level of auditing) signify the individual's spiritual accomplishment but have no more greater meaning or effect. Certificates for completion of auditor training, however, are another matter.

When an individual successfully completes a level of auditor training, he or she receives a provisional certificate for that class of auditor training. Unless that individual serves an internship (a period of intense practical experience under expert supervision) within one year of the training, however, the certificate expires and that individual no longer can validly audit others at that level or hold himself or herself out to be that particular class of auditor. The reason

for this internship system is to maintain the highest possible assurance that the religious service of auditing is at all times ministered precisely in accordance with the Scriptures.

Under an earlier membership system, the Hubbard Association of Scientologists International ("HASI"), an individual's certificates as an auditor would not remain in force unless he or she were a HASI member. HASI had a number of purposes -- to disseminate Scientology, to advance and protect its membership, to maintain the orthodoxy of Scientology religious services, and to enlighten humankind toward Scientology's goal of an ethical, peaceful, tolerant and prosperous human civilization.

HASI served many functions that now are carried on by RTC and CSI and their ecclesiastical subordinates. The International Hubbard Ecclesiastical League of Pastors ("IHELP") oversees auditors ministering religious services in the field (i.e., who are not on the staff of any Scientology Church or Mission) to use the religious marks of Dianetics and Scientology. This oversight supplants the earlier ecclesiastical mechanism of requiring HASI membership in order to keep certificates in force. Additionally, when HASI was formed in the 1950's, the technologies of Dianetics and Scientology were rapidly evolving. HASI membership provided an effective mechanism by which publications describing new technical developments and breakthroughs could be distributed efficiently among field ministers.

The membership benefit of the "right to keep one's certificates in force" was carried over from the old HASI membership system when the IAS was formed in 1984 and was recognized by CSI as the official membership system. Thus, old HASI policies sometimes were copied and restated without carefully reviewing the changed circumstances: RTC now is monitoring the quality of technical delivery in the field through CSI and IHELP, auditors now are required to complete internships to keep their certificates in force beyond one year, and the religious technology of Scientology and Dianetics are substantially complete.

The Church believes that this former HASI membership benefit is now obsolete. Where HASI once stood as field ministers' ecclesiastical superior and could enforce ecclesiastical discipline by having their HASI memberships (hence certificates) suspended or revoked, IHELP, CSI, and RTC now fully fill those roles. There is not one single instance of someone's auditing certificates being revoked by reason of not being a member of the IAS, and it would be inappropriate for the IAS to do so.

Participation In Religious Services

A parishioners' participation in the religious services of Scientology is wholly separate and distinct from an auditor's right to keep his or her certificates in force. More to the point, this right of participation is not in any way contingent on or conditioned upon a parishioner becoming or remaining a member of the IAS. We are unaware of any instance in which a Church of Scientology refused to allow an individual to participate in religious services because he or she did not maintain a current IAS membership. Your Question 9 asked what the Church's policy is with respect to membership in IAS. We responded with the Church's internal Policy Directive (Exhibit II-9-D) that directly addresses that question. That was and remains the Church's policy regarding IAS membership.

You have called our attention to an advertisement in issue 75 of SOURCE magazine containing statements to the effect that IAS membership is required in order for a parishioner to participate in religious services. These statements are erroneous. There is no Church policy or directive which sets forth such a requirement, nor has there ever been such a Church policy or directive. The relevant Church policies approving IAS as the official membership organization, previously furnished to you, contain no such requirement. Neither HASI nor any other membership system in the United States has ever required membership as a condition of participating in religious services at a Scientology church.

Following your letter, we investigated to determine how this advertisement came to appear in the issue of SOURCE magazine you cited. We believe the error was caused by the misunderstanding of a SOURCE magazine editor newly appointed early in 1991. She mistakenly used from issue 74 of SOURCE an old, rejected advertisement that contained the misstatement, apparently not realizing that it had been expressly rejected for publication. We have attached copies of the two editions of SOURCE immediately preceding issue 74, where you can see the authorized (and correct) IAS membership advertisements (at pages 20 and 21 of issue 73, and at page 18 of issue 72), which do not state or suggest that IAS membership is a prerequisite for participation in religious services. The error in the IAS membership advertisement in SOURCE has now been corrected, as you can see at page 23 of the attached latest edition of SOURCE magazine, issue 84.

The official IAS membership magazine, IMPACT, does not state or imply that membership is a requirement for participation in religious services. We are enclosing a number of copies of the cover and relevant pages of IMPACT citing the benefits of

membership. These pages include the present right to keep certificates in force, but do not state or suggest that IAS membership is required to participate in religious services. The current edition of the IAS MEMBERSHIP BOOKLET, enclosed as Exhibit III-9-D, lists the benefits on page 10 and does not have any such statement.

We are taking steps to ensure that all future advertisement and other statements regarding IAS membership made by Church organizations correctly state the facts of the matter as described above. Keeping certificates in force was and continues to be a benefit of IAS membership; requiring membership in the IAS in order to participate in religious services never has been valid and membership in the IAS was and remains wholly voluntary.

Finally, we would appreciate being informed of how you received issue 75 of SOURCE and why you did not simply bring it to our attention in the first instance. The wording and tone of this and other questions here, as well as in earlier questions, is disconcerting. The simplest, most straight-forward method for the Service to address legitimate concerns is to inform us of the precise character and source of your concerns as they arise, or at least to bring them up in person when we meet. Instead, we receive what appear to be trick questions that assume the truth of information the Service has received from third parties.

Questions that directly or implicitly assume untruthfulness are contrary to the general spirit of cooperation and candor that we have developed over the past eighteen months. Much of the disinformation about Scientology is spread by individuals and groups who have personal and financial disputes with Scientology. The credibility of information from such sources is at best suspect, but if we do not know where the Service is getting its information, we cannot give the Service context within which to evaluate the credibility of such sources, who certainly do not willingly divulge their motivations to the Service. It is particularly troublesome to us that significant elements within the Service will automatically assume that heretics and apostates are truthful while Scientologists and Scientology organizations are not.

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Question 9.b.

b. Please list those individuals who hold the position of Chairman and Secretary of IAS as of the date of this letter.

* * * *

No specific individuals hold the positions of Chairman and Secretary of IAS, as those positions do not exist in the IAS. The current members of the board are those listed at (9-8) of the June submission.

Article 7 of the IAS Constitution, a copy of which was provided with the June submission, provides for the election of a president and a secretary to conduct and record the minutes of the Association's annual convention. These individuals are elected at the annual convention of delegates and serve only for purposes of that convention. These positions are not permanent and the president and secretary have no authority to act for the Association.

. . . .

QUESTION 9-c

In Question 9 of the May letter, we asked a number of questions to help us better understand the relationship between IAS and the church hierarchy. We are still reviewing that information. While we understand that the church may have reservations about the inclusion of IAS and its operating arms in this process, it is our view that we need the following information to help complete our consideration.

* * * *

c. Please provide a copy of the "Welcome to the Association" pack described in Exhibit 9-A."

A copy of the "Welcome to the Association" pack is attached as Exhibit III-9-D. See also the response to Question 9-a.

. . . .

QUESTION 9-d

d. It is our preliminary view that if the various entities comprising the Church are to be recognized as tax-exempt, it may be necessary that IAS be organized and operating in a manner consistent with the requirements, however, it appears that minor modifications may be necessary to IAS' governing instrument to conform to the organization requirements of section 501 (c)(3) (e.g., revised statement of limitations). Please indicate whether such modifications could be worked out with IAS and the Church.

* * * *

While the IAS believes (and we believe) that the IAS Constitution already conforms to section 501(c)(3), the Association has informed us that it would have no particular objection to any other technical advice that you might wish to offer. The requirements of section 501(c)(3) in no way restrict the actual intended activities of the Association: the IAS operates exclusively for the benefit of the religion, not for any private interest.

. . . .

Question 10

INTRODUCTION

In the responses that follow, the Church is providing all of the information the Service has requested in the various subparts to Question 10. It is only fair, however, that the following responses be considered in their proper context, and for that reason we submit the following additional information by way of introduction.

Question 10 relates exclusively to public policy questions, focusing on civil litigation involving the Church. There is no escaping the irony of being asked to catalogue the unsubstantiated allegations of civil litigation adversaries when those allegations often have been manufactured, promoted, disseminated, and even subsidized by a cadre of anti-Scientology individuals within the Service itself. The Church does not believe that the Service as an institution, hates Scientology. We believe there are and have been, however, a core of dedicated "Scientology-bashers" within the Service who have allied themselves with encouraged, and even fixed the tax problems of the principal sources of the tired civil allegations we are now being asked to chronicle.

Question 10.e.i and 10.e.ii request a list of all of the tort allegations that have been made against any Church of Scientology in more than a score of cases arising within the last twelve years and for copies of all verdicts, decisions or findings made by any court that any of those allegations were true. As may be seen in the following responses, two of the only four cases where any such decision has been issued, and a majority of the other cases were instigated or heavily influenced by the Cult Awareness Network ("CAN").

CAN and its influence on the litigation in question was described in passing at page 10-20 of our response to Question 10 of your second series of questions. There is no escaping the fact that CAN has been able to survive financially and has drawn much of its false veneer of credibility from the Service's recognition of it as exempt under section 501(c)(3).

CAN was formed in 1975, under its original name, Citizen's Freedom Foundation. CAN's activities, from its inception until today, have consisted of negative propaganda campaigns against nontraditional religious organizations and promoting and perpetrating "deprogrammings," a euphemism for kidnapping people and using force and coercion to dissuade individuals from maintaining their voluntarily held religious beliefs.

CAN applied for tax exemption in March of 1976 as an educational organization. Literature provided with its

application, however, clearly evidenced CAN's biased views and its involvement in deprogramming. Indeed this material shows CAN's close association with Ted Patrick (one of its founders), who has been convicted on numerous occasions for kidnapping, assault and related charges arising from his violent deprogramming activities. It was Patrick who touched off the premier tort case against Scientology when he deprogrammed Julie Christofferson in 1977. (This is further described at pages 10-15 and 10-16 of our response to Question 10 of your second series of questions and infra.)

The IRS denied CAN'S initial application for exemption because "after reviewing your publications, we concluded that a significant portion of your viewpoints were not supported by relevant facts." CAN reapplied in 1977 but the application and CAN's accompanying literature showed that CAN had not reformed. Consequently, the Service again informed CAN that its application was being denied because "Your revised application for exemption contains disparaging statements about organizations which are not supported by facts. Your revised application indicates that the reasons for our denial of your previous application are still present." (Exhibit III-10-A).

CAN did not give up. In July 1978, CAN submitted additional information to the IRS including a "Statement of Purpose, Functions and Activities" which included the claim that one of CAN's functions was to recommend personnel and facilities for deprogramming. CAN furnished the Service with an example of how CAN would handle a contact from a caller who intended to join the Church of Scientology: referral of the person to ex-members for negative information on Scientology and to an attorney in his or her area, as well as providing the person with a list of "Dos and Don'ts" which included advising the person to file complaints with the government. (Exhibit III-10-B). CAN identified the Church of Scientology as one of its principal targets and the Service granted CAN tax exempt status. (Exhibit III-10-C).

From that point forward until the present, CAN has followed the precise modus operandi concerning Scientology that it described to the Service in 1978. CAN refers individuals to ex-members for negative information about the Church and to attorneys who then create causes of action against the Church that almost always recite the same boilerplate tort claims. As will be seen in the response to Question 1.e.i, a large number of the cases listed in that section have been filed by attorney Toby L. Plevin. Plevin is a CAN member who gets all of her client referrals from CAN in exactly the manner CAN described in its 1978 application supplement.

CAN also continues to be involved in the felonious practice CAN calls deprogramming, which is as flagrant a violation of public policy as can be imagined. While CAN enjoys exempt status

its deprogrammers are being arrested and jailed by local police agencies and the FBI. Recently, CAN deprogrammers Galen Kelly and Bob Moore, and CAN attorney Robert ("Biker Bob") Point, were arrested by the FBI and charged with conspiring to kidnap Lewis DuPont Smith, heir to the DuPont fortune, and to "deprogram" him from his support of Lyndon LaRouche's political organization. (Exhibit III-10-D). At this writing there are several other CAN deprogrammers under indictment as a result of their deprogramming activities, including Joe Szimhart, Mary Alice Chrnaloger, Karen Reinhardt and Randall Burkey. (Exhibit III-10-E). It is troubling that in the face of this kind of evidence individuals in the Service like Jacksonville District EO agent Melvin Blough, continue to use CAN as an investigative arm to drum up false charges against the Church of Scientology. (Exhibit III-10-F).

There are individuals in the Los Angeles IRS Criminal Investigation Division ("CID") who harbor sentiments about Scientology very much akin to those espoused by CAN, who have directly brought about or have had a major influence on Scientology-related civil litigation. Much of this information has been covered before or is covered in more detail in the responses to specific subparts of Question 10 that follow. Consider the following:

* The decision in Gerry Armstrong's case is one of those described in detail in response to Question 10.e.ii. Armstrong's fanatical hatred of Scientology ingratiated him with the LA CID and earned him the status of IRS operative in an unlawful scheme to infiltrate and destroy the Church through, among other things, the seeding of Church files with forged or manufactured documents. Armstrong was a link between the CID and Michael Flynn, whose multi-jurisdictional litigation campaign against Scientology was encouraged and assisted by the CID. (See pages 10-8 to 10-16 of our response to Question 10 of your second series of questions). The allegations, first manufactured by Armstrong and Flynn, have been adopted and parroted by many of the other tort litigants whose cases are described in the response to Question 10.e(i). In exchange, Gerry Armstrong has been insulated from liability for his theft of Church documents and encouraged to continue and to expand his nefarious efforts.

*The Aznarans, whose case was described at pages 10-18 and 10-19 of our response to Question 10 of your second series of questions, left the Church and filed suit for \$70,000,000,

resulting almost immediately in their being embraced by the IRS CID. The CID agents then passed the Aznarans on to like-minded EO agents in Los Angeles who interviewed them, encouraged them to continue their attacks on Scientology, treated their claims as fact and used their allegations as a basis to throw five years of cooperation from the Church down the drain. A tax debt that the Aznarans had been unable to handle with the IRS for ten years disappeared when they became civil litigants against the Church and CID informants.

*Question 10.e.iii asks for a description of the criminal case involving the Church in Canada, which is described in the answer to Question 10-e-(iii) and in a memo from counsel for the Church of Scientology of Toronto attached as Exhibit III-10-U. As that memo details, LA IRS CID agents fed information, allegations and witnesses to the Ontario Provincial Police ("OPP") and plotted with Armstrong, Flynn and OPP officers to bring about the "collapse" of the Church. CID agents traveled to Canada where they encouraged the OPP to bring indictments, offering to help locate L. Ron Hubbard and others in the Church if OPP moved forward with their case. The CID and OPP also utilized apostate David Mayo and his cronies to recruit ex-GO criminals as government witnesses to testify against the church and their former subordinates about crimes that they themselves had perpetrated. Mayo is further described below.

* As early as 1969, a CID operative named Gene Allard was allowed to get off scot-free with the out-right theft of Church records. (See response to Question 10.d.1, infra.)

* Laurel Sullivan, who left and became disaffected with the Church after she was removed from her Church post for being a Guardian's Office sympathizer, was embraced as an informant by the CID, and was represented by a government attorney when the Church sued her personally for improperly disclosing attorney-client information to the IRS. (See page 3-40 of our response to Question 10 of your second series of questions).

* As described below apostate David Mayo gained favor with the IRS as an informant and IRS reciprocated by granting exempt status to his group in support of his anti-Scientology stance.

This list could go on with example after example of times when some person or organization has manifested an anti-Scientology sentiment and has suddenly emerged as an IRS ally, operative or beneficiary. At that moment such a person or group is transformed into a fountainhead of unassailable virtue whose claims are gospel, whose protection is guaranteed and who is given unwarranted, improper encouragement and assistance. As described in detail below, while Churches of Scientology receive unprecedented scrutiny when they apply for tax exemption, apostates who sue the Church and attack the religion have been aided by IRS tax exemption subsidies.

An anti-Scientology sentiment has existed in the IRS National Office Exempt Organizations Technical Division, dating at least back to CAN's 1978 exemption. Certain EO Technical Division officials appear to have directly colluded with the CID in 1984 and 1985, using information gathered by the CID, including the statements and allegations of their informants, to sabotage the Church's exemption proceedings at that time. Evidence of their bigotry is best seen in their treatment of anti-Scientists.

David Mayo:

David Mayo was removed from a senior Church position for moral turpitude. He was using his position for economic advantage. Even more serious from a Scientology perspective, he was the source of serious alteration and denigration of the technical scriptures of Scientology. Rather than atone for his misdeeds, he left the Church in 1982.

Upon leaving, Mayo and a few others established an organization he called the Advanced Ability Center ("AAC"), which utilized a badly altered version of Dianetics and Scientology technology in an effort to lure parishioners away from the Church for economic advantage. For example, Mayo dropped the use of Scientology ethics technology altogether, eschewing ethics as an applicable concept. Solely for the tax advantages it would afford, he incorporated the AAC under the name "Church of the New Civilization" ("CNC"), but it operated solely as the Advanced Ability Center. Mayo's prime objective was to obtain copies of the confidential upper level scriptures so that he could represent that CNC/AAC could deliver the entire Bridge as it existed in the early 80's and thus attract a larger following. Mayo conspired with like-minded apostates in Europe and effected the theft of these scriptures on December 9, 1983 from AOSH EU & AF in Denmark. These events prompted the suit by RTC and the Church as described on pages 10-17 and 10-18 of our response to Question 10 of your second series of questions. Mayo also actively endeavored to lure Scientists away from Scientology, including putting out a publication of negative propaganda on the Church.

In 1984 CNC filed for tax exemption. The original application identified CNC's source of financial support to be "Fees received from parishioners for counseling." CNC's statement of activities stated that "The program of activities of [CNC] are limited to personal counseling and spiritual studies" and responded affirmatively to questions on whether or not recipients would be required to pay for counseling. Subsequently, Mayo gave an opposite answer to the question. Eventually, the 1023 application was forwarded to National Office for processing by Rick Darling who inquired further into CNC's fundraising methods. Mayo responded that "Parishioners receive spiritual enhancement and guidance from the Church in a program of services for which monies are given and received" to a question asking why parishioners would donate to CNC.

During the same time period Darling and Friedlander were considering the CNC application, they were using "commercialism" as a reason to deny tax exemption to various church of Scientology applicants. Their purported reason was that the Church charged fixed donations for services giving them a "commercial hue and purpose." Shortly after issuing adverse determination letters to the Scientology applicants, EO granted CNC's application on substantially identical information as to funding practices.

Mayo had become a CID informant (Exhibit III-10-G) and Darling/Friedlander were now aware that Mayo was an enemy of the Church of Scientology. (Exhibit III-10-H). On March 27, 1986, David Mayo himself responded for CNC to a set of questions from Darling. In response to a question whether CNC charged fixed amounts for their services, Mayo provided information which contradicted CNC's 1023 record and was flatly impossible stating that CNC had "no predetermined price." (Exhibit III-10-H).

Frank Gerbode:

Psychiatrist Frank Gerbode is an heir to the Alexander Baldwin sugar fortune. He left psychiatry for Scientology in the 1970s and for several years was the mission holder of the Palo Alto mission. He ran afoul of Church management in the early 1980s when the Church tried to reform his financial misdealings. In March 1984, Gerbode left the Church to join up with David Mayo. He set up a parallel operation he also called Advanced Ability Center in Palo Alto which, for tax purposes, he named the Church of the Universal Truth ("CUT"). Gerbode's 1023 application, along with those of CNC and various Church applicants also went to Darling and Friedlander.

The exemption applications for the churches of Scientology were denied; the applications for CNC and CUT were granted. While Darling and Friedlander asked endless intrusive questions of the Scientology applicants, they chose not to find out about CNC and CUT. For example, by the time they recognized CNC's exempt status, CNC had long since ceased operations. Mayo had cashed in its assets and deposited them in his personal Liechtenstein bank account and had gone to work for Gerbode at CUT. He essentially liquidated the corporation into his own pocket, even though it was a non-profit organization purportedly dedicated to section 501(c)(3) purposes.

More specifically, the last known letter from Mayo to the IRS on the CNC exemption application is the one mentioned above, dated March 27, 1986. (Exhibit III-10-H). According to the deposition testimony of his wife, Julie Mayo, CNC closed its doors one month later, on April 30, 1986, at which time David and Julie Mayo both resigned their respective director and officer positions. They also sold the house in which they were living that had been purchased in their name by CNC as a "parsonage," and using other

rsed to them from CNC as "severance pay," "travel expenses" and "vacation pay accrued," they traveled for the next several months to Europe, Australia and Florida with Gerbode and his wife. While on this trip they stopped over in Liechtenstein where Gerbode introduced Mayo to his banker who opened an account for him with the \$80,000 received from the sale of their "parsonage." CNC's exempt status was granted subsequent to these events. In fact the only ongoing activity of CNC at the time it was granted exemption was ongoing litigation with the Church of Scientology.

Gerbode obtained tax exemption for CUT ostensibly based on representations that the organization was a church and conducted exclusively religious activities. (Exhibit III-10-I). In fact, once tax exempt status was obtained, CUT ceased carrying out any religious activities and began dispensing a novel brand of psychology under the name Center for Applied Metapsychology ("CAM"), and promoting Gerbode's personal books and literature, co-authored by Mayo, much of which are plagiarized from the works of L. Ron Hubbard. In 1986, Gerbode also established the Institute for Research in Metapsychology ("IRM"), another tax exempt organization which operates at the same address using the same personnel as CAM, and which produces the literature and materials that CAM promotes and distributes. IRM characterizes metapsychology in scientific terms, making it clear it is not a religion and followed no belief system. Yet metapsychology is what Gerbode's church, CUT operating as CAM, dispenses.

Compare the representations made by CUT in Exhibit III-10-I, a letter to the IRS in support of their exemption application in December 1985, to the representations made by Gerbode concerning the same organization on November 2, 1992 in Exhibit III-10-J. In the December 5, 1985 letter in support of its exemption application, CUT discussed its purported "religious doctrine" and "religious history" and submitted copies of their baptismal, funeral and marriage ceremonies, representing that it was a Church conducting exclusively religious activities. (Exhibit III-10-I). On November 2, 1992, Gerbode wrote to the City of Menlo Park, California in response to a "complaint that a church is being operated at the premises" to set the record straight so that they would not lose their zoning permit:

CAM [really CUT] is classified under the IRS code as a church However CAM does not hold worship services, perform baptisms, or carry out other such activities typical of churches.

* * * *

"'Church' means a structure intended as a meeting place for organized religious worship and related activities." We feel that this does not apply to the building or the activities occurring therein.

10-7

This is the "church" that passed muster with Friedlander and Darling as soon as it was apparent to them that, like Mayo, Gerbode was no longer associated with and was opposed to L. Ron Hubbard and the Church of Scientology. Gerbode has made substantial "contributions" to both CAM and IRM, which he deducts on his personal income tax returns as charitable contributions. However, at the same time Gerbode receives the direct benefit of the bulk of these "contributions" from CAM and IRM in the form of rent, salaries and payment of personal expenses. The organizations also provide Gerbode with an administrative staff and office facilities, all tax-free. The following are specific tax law violations Darling and Friedlander could have found if they had subjected CUT to the same kind of scrutiny they had subjected Churches of Scientology to during the same period.

In 1982 and 1983, prior to the incorporation of CUT, when Gerbode was still the mission-holder of the Church of Scientology Mission of Palo Alto, he claimed substantial tax deductions on his personal tax returns for books, office furnishings, equipment, artwork, etc., that he purchased for use at the Mission. When Gerbode left the Mission in 1984 and established CUT, he donated these same books, office furnishings, equipment and artwork to the new corporation and again claimed them as charitable contribution deductions on his personal tax return. These were listed as donations in the 1023 application for CUT that Darling reviewed in 1986. When Gerbode left Scientology in 1984 he evicted the mission from his building in favor of his new operations, CAM and IRM from which he now collects rent. It is also evident that he launders donations to CAM/IRM back to himself as rent in order to get the benefit of both the charitable deductions and depreciation write-offs.

The IRS continues to probe litigation involving the Church while it ignored litigation against Mayo et al. Indeed the Service gave a de facto subsidy to the Gerbode/Mayo litigation by granting exemption to their litigation tax shelter. In the letter that Mayo wrote to the Service in support of CNC's exempt status in March of 1986 (Exhibit III-10-H) he sent along part of the complaint in the suit RTC and CSI had brought against Mayo and CNC which alleged theft and violations of the RICO statute. Darling apparently did not consider it necessary to inquire about the possible public policy implications of this litigation once he saw that Mayo was on opposite sides in the litigation to the Church and granted exempt status.

In 1986, Gerbode and Mayo established and obtained tax exempt public charity status for the Friends of the First Amendment ("FFA"), an organization purportedly established to support and promote First Amendment rights, but which in fact enabled Gerbode to claim tax deductions for hundreds of thousands of dollars he

"donated" to FFA, which sums were then used to pay Mayo's litigation costs in his litigation with the Church. Although Gerbode is not a party to this litigation, a central issue in the suit concerns the control of copyrights in the name of L. Ron Hubbard that Gerbode has exploited. Gerbode struck a deal with David Mayo that Mayo will continue the litigation provided that Gerbode funds it, with the understanding that Gerbode will be reimbursed for the litigation costs if Mayo wins a counterclaim for damages. Thus, Gerbode has used FFA to deduct as charitable contributions what are in reality his own litigation expenses, that he expects to recover if the litigation is successful. David Mayo, on the other hand, hopes to net millions of dollars if the counterclaim is won. Gerbode has also disguised some of the millions of dollars he laundered through FAA so that they would not appear to be from him in order to avoid FFA being found to be a private foundation, and cemented this by shutting FFA down just before its advance ruling period on private foundation status expired in 1990.

The only question Mayo's and Gerbode's groups were asked concerning litigation was whether their "legal defense fund" was set up solely to battle the Church of Scientology. When they answered in the affirmative, exemption was awarded.

Unlike CNC, CUT, and CAN, who to this day enjoy exemption, our principal clients have no such status. Yet we alone of that group have been and are providing truthful and full answers to each question you have asked.

All of the information the Service has requested in the various subparts of Question 10 is contained in the responses to the individual subparts that follow.

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Questions 10.a, 10.b, 10.c and 10.d.2

In question 10 of our second series of questions, we expressed our concern over the possibility of continuing violations of public policy and requested certain information to assuage these concerns. We have additional follow-up questions in this regard.

a. Attached is a document relating to a program referred to as Snow White that apparently existed as of December 16, 1989. Please explain the apparent discrepancy between the document contained at the attachment and the response to Question 10.b.

b. The response to Question 10.b refers to a decision by Judge Osler of the Supreme Court of Ontario (page 10-5). Please provide a complete copy of the cited opinion.

c. What is the status of Operation Transport Company? Does it continue in existence? If not, please specify when and to whom all assets were distributed or transferred.

* * * *

d.2. Please provide the following information with respect to Exhibit II-10-A; (i) fill in the blank under the heading of "Primary" contained in #6; (ii) an explanation of the reference to "HF" or "AS" under the heading of "Primary" at #7; and, (iii) fill in the blanks under the heading of "Vital Targets" contained in #7.

As a preliminary matter, we note that question 10 has two subparagraphs denominated as "10.d." For the sake of clarity, we will refer to the first as "10.d.1" and the second as "10.d.2." Subparagraph 10.d.1 and paragraph 10.e are addressed in separate responses. This response addresses the remainder of question 10.

Subparagraph 10.a

Subparagraph 10.a asks for an explanation of an "apparent discrepancy" between the response to Question 10.b of your second series of questions and Exhibit II-10-A.

That which is attached is a copy of a document written in December of 1989 by a person holding the position of Snow White Programs Chief in the Office of Special Affairs United States,

and describes her functions and those of the Snow White Unit. The document also specifically mentions the Snow White program and its "Ideal Scene": "All false and secret files of the nations of operating areas brought to view and legally expunged and OTC, "Apollo" and LRH free to frequent all Western ports and nations without threat and all required ports open and free."

Initially, it must be stated that the document in question was stolen from Church offices by an individual who had infiltrated the Church at the behest of the Cult Awareness Network. It was then passed on to the IRS by the CAN infiltrator via CAN. (See page 10-20 of our response to your second series of questions and supra for discussions of the Cult Awareness Network).

The "apparent discrepancy" to which subparagraph 10.a refers seemingly arises from use of the word "programs" in a post title that includes the words "Snow White" viewed against the statement on page 10-5 of our response to your second series of questions that "The Snow White program is not being executed today." There is no inconsistency. That same page also states that the term Snow White became synonymous with the activity of legally locating and correcting false reports on the Church. The Church vigorously pursues these objectives through the use of the Freedom of Information Act and through direct negotiation with government agencies intended to persuade them, at minimum, that if expungement of false reports is not feasible, corrective reports should be filed.

The original Snow White program, provided as Exhibit II-10-A, was written specifically to address problems which existed in 1973 with respect to OTC, the Apollo and Mr. Hubbard. Because the United States State Department and other government agencies had engaged in the circulation of false reports, free access to various Western ports and nations had been severely curtailed. The Apollo was sold in 1975, OTC became inactive at that time, and Mr. Hubbard passed away in 1986. Clearly, the original Snow White program became obsolete within a couple of years of its creation and is no longer in effect. In fact, the Apollo no longer exists. Once converted by its new ownership to a restaurant in Texas, it was involved in a train collision and in dry dock was cut into scrap. So, there is no way the Apollo will be frequenting Western or any ports!

However, obsolescence of the actual program did not invalidate Mr. Hubbard's observation that when governmental and police agencies are allowed to accumulate false information in their files, and disseminate it to other agencies, they then "...tend

to act on the file without the presence of the real scene data which is factually good but which is then ignored." In an ongoing effort to practice the Scientology religion free from the interference of misinformed government agencies, the Church continues to pursue the Snow White objectives with the legal means at its disposal. Only when the Church is free from governmental harassment and is accorded its rights will the need for Snow White activities vanish.

Subparagraph 10.b

Subparagraph 10.b requests a copy of Justice Osler's decision cited in the June submission. A copy of that Supreme Court of Ontario decision is submitted as Exhibit III-10-J-1, with the appropriate sections highlighted.

Subparagraph 10.c

Subparagraph 10.c addresses the present status of OTC, as well as details regarding the timing and distribution of any of OTC's former assets.

OTC effectively ceased to operate in late 1975 when the Church activities that had been housed on the Apollo moved ashore in Florida. OTC remained inactive from that point forward except for ongoing litigation against the Portuguese government which is described on page 10-3 of our response to your second series of questions.

In July 1981, OTC's aggregate assets were approximately \$2,244,252 plus Pounds Sterling 2,254,852. At that time, OTC transferred all of its assets except for approximately Pounds Sterling 200,000 and its pending Portuguese claim to the Scientology Endowment Trust. This trust was recognized as tax exempt by the IRS under Section 501(c)(3) in 1983 after the particulars relating to the transfer of funds from OTC were specifically reviewed. In 1988, OTC dissolved and all assets still remaining, approximately \$180,000, were transferred to Church of Scientology Religious Trust.

Subparagraph "10.d.2"

In subparagraph "10.d.2," you ask to have some blanks in the copy of the Snow White program provided to you with the June submission filled in and for an explanation of the terms "HF" and "AS."

The version of the Snow White program provided with the June submission contained blanks in the places that you noted, apparently left there by whoever retyped that version. We have located, and are including here as Exhibit III-10-K, another

version which appears to be a copy of the original version and contains no blanks. The abbreviations "Cont," "Gdn" and "DG/US" in Vital Target 7 stand for Controller, Guardian and Deputy Guardian United States.

The abbreviation "HF" stands for Hubbard Freedom Foundation. Our records show that it was set up as a Liberian corporation in November 1972 for scientific, research and educational purposes, received a total of \$500 from OTC, but then never became active and never received any other funding.

The abbreviation "AS" stands for American Society which was another Liberian corporation also established in late 1972, at or around the same time as the Hubbard Freedom Foundation and probably for similar or related purposes. The best available information is that the American Society had a fate similar to Hubbard Freedom Foundation, receiving a small amount of money to get started, but then never actually carrying out any activities or function.

As neither of these Liberian corporations was ever active and as no effort was made to maintain their corporate charters in Liberia, we assume that they were dissolved by operation of law many years ago. The Liberian attorney who originally formed them was killed in a political upheaval more than a decade ago, and we, therefore, have no access to HF or AS records.

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Subparagraph 10.d.1

In our prior question 10, we expressed our concern over the possibility of continuing violations of public policy and requested certain information to assuage these concerns. We have additional follow-up questions in this regard.

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d. In CSC v. Commissioner, 83 T.C. 381 (1984) at 431-437, there is a discussion of the actions of several persons identified by name or office (e.g., Vicki Polimeni). Please identify the persons who held the following offices during the period referenced at pages 431-437 of the CSC opinion: (i) FBO International; (ii) FBO AOLA; and (iii) FBOs at various other Advanced Organizations as described at page 431 of the CSC opinion. Please state whether Vicki Polimeni or any of the individuals identified in the response to this question have at any time subsequent to 1989 been related (by reason of being service-provider or otherwise) to any Scientology-related organization (either as staff or in any other capacity). Please describe the current relationship between Martin Greenberg and Scientology-related organizations.

During the period of time described at page 431 and 432 of the CSC decision, i.e., May through August 1969, there were only three Advanced Organizations in existence. Consequently, the positions you have inquired about and the individuals who held them were:

FBO International -- Al Boughton FBO AOLA -- Lauren Gene Allard FBO AO United Kingdom -- Don Clark FBO AO Denmark -- Rob Sanderson

Vicki Polimeni, Don Clark and Rob Sanderson ceased having any relationship with any Scientology-related organization many years ago, long before 1989. From 1989 to the present, Al Boughton has been a staff member at the American Saint Hill Organization (ASHO) in Los Angeles. He holds the position of Auditing Supervisor for the Saint Hill Special Briefing Course, responsible for overseeing the auditing done by students training to be Scientology auditors on this course. The Church has had no specific information concerning the activities or whereabouts of Gene Allard since 1981, when he appeared as an IRS witness in the Tax Court trial of the CSC case.

The Church has long suspected that Allard was sent into AOLA in 1969 by IRS Intelligence Division agent John Daley, to infiltrate the Church as an agent provocateur. John Daley was an agent in the IRS' Case Development Unit in Los Angeles, a unit

which served as a model for a national intelligence operation known as the Intelligence Gathering and Retrieval System ("IGRS"). The IGRS was disbanded in 1975 when Congress found that it had "fostered unrestrained, unfocused intelligence gathering and permitted targeting of groups for intelligence collection on bases having little relationship to enforcement of the tax laws." Congress found that "there were the beginnings of politically motivated intelligence collection in at least one district; and evidence that the fruits of similar investigative efforts in two districts had been destroyed." One of the districts that destroyed its files on the eve of the Congressional investigation was the Los Angeles District (i.e. John Daley's files) and the other was the St. Louis District, where Congress found that a file labelled "Subversives" that "contained only material on the Church of Scientology" had been destroyed. (See pages from Supplementary Detailed Staff Reports On Intelligence Activities And the Rights of Americans, Final Report of the Select Committee to Study Governmental Operations With Respect to Intelligence Activities, attached as Exhibit III-10-L).

Circumstantial evidence strongly suggests that Allard was a clandestine operative who reported to Daley. Daley had been investigating the Church since at least 1968 and, by the time Allard first appeared at AOLA, Daley had already used a plant inside Crocker Bank who provided Daley with illegally-obtained copies of the Church's confidential bank records. After occupying the position of FBO AOLA for barely two months, Allard suddenly disappeared, taking with him some internal Church correspondence and other Church assets. Allard turned over the documents to the IRS in Kansas City; the documents were forwarded to John Daley in Los Angeles.

The Church filed criminal charges against Allard. He was later located and arrested by the FBI in Florida and brought back to Los Angeles. Not long after Daley interviewed Allard in jail, the California Attorney General's office decided the evidence against Allard was insufficient and dropped the charges. Then, in 1981, Allard surfaced as a witness for the IRS in the CSC case along with the documents that he had stolen, admitting on cross-examination that he was hopeful of receiving a reward if his testimony resulted in collection of any taxes. Judge Sterrett demonstrated a willingness throughout the CSC trial to regard any anti-Church witness as credible, but even he had problems with Allard's testimony: Judge Sterrett found that "There were significant inconsistencies in his testimony . . .". 83 T.C. 509.

Nevertheless, it was Allard's testimony and the documents that he stole that formed virtually the sole basis for the findings at

pages 431 and 432 of the CSC decision about which you now inquire. Judge Sterrett's gratuitous comments suggested that whatever occurred at AOLA in 1969 constituted some kind of criminal conspiracy. All of this evidence however, was known in 1969 when Revenue Agent Woodrow Wilson unsuccessfully sought to institute a fraud investigation. In June 1969, Daley even went so far as discussing with California State officials the use of the Allard evidence as "grounds for dissolution" of the Churches of Scientology. (Exhibit III-10-M.) In August of 1969, Wilson presented this information in the form of a "fraud referral" in an effort to elevate it from "case development" status to an actual criminal investigation. The fraud referral was declined by the Chief of Intelligence. (Exhibit III-10-N.)

You have also asked about the current relationship of Martin Greenberg to any Scientology-related organizations. Mr. Greenberg has not been on the staff of any Scientology-related organization since early 1980's. He is a certified public accountant with an accounting practice in Clearwater, Florida. Although we understand that individual Church members have used his services for their personal or business accounting, he has not to our knowledge been retained nor has he done any accounting work for any Scientology-related organizations for many years. Mr. Greenberg is a parishioner of the Scientology religion.

While in Los Angeles in 1978, Martin Greenberg, along with CPA James Jackson, formed the firm of Greenberg and Jackson. In 1983 Greenberg moved away and sold his interest in the practice to Jackson, who retained the name "Greenberg and Jackson" for the professional corporation. At that time Mr. Greenberg ceased having any involvement in or knowledge of the affairs of any Scientology-related organizations. Recently, Mr. Jackson also sold his interest in this practice and presently there is neither a Greenberg nor a Jackson associated with "Greenberg and Jackson." Several Scientology-related organizations continue to utilize the services of CPA Brad Bernstein, one of the present shareholders of that firm.

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Questions 10 e(i)-(ii)

In our prior question 10, we expressed our concern over the possibility of continuing violations of public policy and requested certain information to assuage these concerns. We have additional follow-up questions in this regard.

* * * *

e. We have carefully reviewed the response to Question 10.d. The Service still requires a more complete understanding of the cases listed in the response. Please provide the following information, as well as any other information or documentation that you believe would assist the Service in this regard.

(i) For each of the cases listed on pages 10-20 through 10-22, please provide a short description of all claims by the non-Church of Scientology parties. In particular, please describe any allegations that the Scientology-related organizations, and/or the individuals, described in Question 2.d of our second series of questions have engaged in any action that is an intentional tort and/or that would violate any criminal law. In your description, please include the date the action is alleged to have occurred and the party alleged to have committed the action.

(ii) For each of the cases on pages 10-8 through 10-22, other than the "GO Criminal Activity Fallout Litigation" cases listed on pages 10-16 and 10-17, please provide a copy of any jury verdict, or any decision, finding or statement by a court that any Scientology-related organization, and/or any individuals described in our prior Question 10.d, engaged after 1980 in any action that is an intentional tort and/or that would violate any criminal statute. The copy should be provided regardless of the ultimate disposition of the underlying legal action (e.g., even if an appeal is still pending or the action was settled, dismissed, or successfully appealed). With respect to each copy provided, please state whether the Church agrees with the court's statement, and, if so, whether there is presently any connection or relationship between the individual(s) involved and the church.

Subparagraph 10 e(i)

In our response to the Service's prior Question 10.d, we provided a lengthy description of litigation involving Scientology-related organizations or individuals since 1980. To facilitate the Service being able to understand these cases and put them into proper context, the cases were grouped according to the kind of case and allegations and the phenomena that brought the various suits about.

In this follow-up question the Service is asking for copies of any jury verdicts or judicial findings respecting all but a few of those cases, where it was found that a Scientology-related organization or individual committed a tort or criminal law violation; and with respect to just three of the groupings of cases, the Service wants further information concerning the allegations made in those cases. Those groupings are: 1) cases listed as financial or property disputes or transactions; 2) personal injury or medical-related suits; and 3) suits that appear to have been instigated directly or indirectly by the Cult Awareness Network.

As described above in the Introduction to Question 10, in the vast majority of these cases the allegations that have been made and which are described below, trace back in one way or another to the IRS itself.

Nonetheless, in the spirit of cooperation, we are providing in this response all of the information requested -- i.e. the description of the allegations in each of the cases listed on pages 10-20 to 10-22 of our response to your second series of questions and copies of the verdicts, decisions and findings requested in Question 10.e (ii). We feel it is appropriate, however, to make the following preliminary observations.

Public Policy As An Exemption Issue:

All of these questions concerning litigation relate to the issue of public policy. Section 501(c)(3), however, contains no express condition that an organization must operate in conformance with public policy to qualify for tax exemption. Whether or not an organization violates public policy is relevant to exemption only in the context of whether the organization is operated exclusively for one of the exempt purposes that section 501(c)(3) enumerates.

Only one judicial decision has ever applied a public policy condition to the exempt status of a church -- the Tax Court decision concerning the Church of Scientology of California (the "CSC decision"). Judge Sterrett, however, limited his findings of public policy violations affecting CSC's exempt status strictly to the activities of the Guardian's Office ("GO") that resulted in a number of GO members being convicted of crimes. Thus, although the Service was prepared to present testimony in the CSC case from tort claimants such as Larry Wollersheim and some of attorney Michael Flynn's clients, Judge Sterrett precluded that testimony and made no finding regarding public policy based on any civil tort claims. (See our response to Question 10.d of your second series of questions for a description of Michael Flynn's and Larry Wollersheim's claims infra.)

The CSC decision, upon which the Service has often relied, itself highlights the irrelevancy of pending, dismissed or settled legal cases where any form of tort allegation has been made. The public policy issue was addressed in the CSC case and decided in that case, and the only acts of any Church of Scientology members that were found to provide a basis for questioning exempt status were the criminal activities of the Guardian's Office. If Judge Sterrett did not find the allegations of Flynn's clients, Wollersheim and the rest to be relevant, there can be no legal basis for considering the same kinds of allegations now.

The Church has addressed the Guardian's Office both here (see responses to Questions 3.e, 10.a and 10.d) and in our prior response (responses to Questions 3.d and 10.d). The Church also addressed at some length the various kinds of other litigation Scientology-related organizations and individuals have been involved in (response to your prior Question 10.d). On this basis, the Church feels that it has adequately addressed public policy against the relevant legal authorities.

Public Policy As Applied to Other Churches:

The Service has enforced the public policy standard selectively, applying it only to the Church of Scientology and not to other churches to which it could just as easily, if not more appropriately, be applied. For example, for most of the past decade the Catholic Church has been embroiled in a major scandal arising from the exposure of an astonishingly large number of instances of child molestation involving Catholic priests. Copies of newspaper and magazine articles about this subject are attached as Exhibit III-10-0. A book published in October 1992, Lead Us Not Into Temptation by Jason Berry, states that between 1984 and 1992 four hundred Catholic priests in North America were reported for molesting children, and in this same period the Catholic Church has paid out \$400 million to resolve these cases. The book further details how other Catholic officials, including many high in the Catholic hierarchy, have covered up what occurred or were guilty of complicity by knowing what was happening and ignoring it or reassigning a tainted priest to another job where he would still have contact with children. These are not merely cases where unproven allegations have been made; some of the cases resulted in criminal convictions of the priests involved. In the case of Father Gilbert Gauthé, for example, Father Gauthé pleaded guilty to 36 counts of child molestation while serving as a parish priest in Louisiana. The attempts to cover-up Father Gauthé's crimes described in Jason Berry's book spanned the Catholic hierarchy and included archbishops, bishops, other priests and directions and orders emanating from Rome. Thus a jury also awarded a verdict of \$1.25 million to one of the victims and his family against the responsible Catholic diocese.

We are not suggesting that the IRS should now investigate the Catholic Church or make a tax exemption issue out of an unfortunate scandal that should be dealt with in the criminal justice system. Rather, this example serves simply to illustrate the unfair double standard that has been applied to the Church of Scientology.

Nevertheless, the following is a description of the cases that were listed in our prior response, describing the allegations in those cases of commission of intentional torts or violations of criminal statutes.

Description of Tort Litigation:

The suits listed on pages 10-20 through 10-22 each have their own set of facts and assortment of claims, but for the most part are of the same general character. They involve frivolous claims by "crazies" who think they can make some money suing Scientology; suits against former spouses or business associates naming the Church to seek a tactical advantage; and a considerable number of suits inspired by the Cult Awareness Network, which bombards the person with negative information about the Church and then refers them to an attorney who tells them they can sue the Church and get rich. (See the "Introduction To Question 10" for further information on CAN). There are a few instances, like the Rabel case, where a stereo speaker fell from the window of a Scientology mission injuring someone walking below, where there was a valid claim which the Church equitably settled. Not one of the cases asked about in Question 3.e.1 has been adjudicated by a court; thus all the claims listed are unproven.

Because many of these suits are refund suits, it is useful first to review the Church's refund policy. It has been a long-standing policy of the Church that if someone is dissatisfied with their Scientology services and asks to have their contributions returned within a three month period, these amounts will be returned. Likewise, if the person asks for return of contributions for which no services were received (i.e. an advance payment), there is no three month limitation period. Anyone newly enrolling in services at a Church of Scientology is informed of the policies and signs an agreement to abide by them. As a further condition of receiving a refund or repayment, the person understands that they may not again receive services from the Church.

10-20

Within the Church, there are two separate terms: A "refund" refers to a return of contributions to a parishioner within 90 days of participating in religious services while a "repayment" refers to a return of a parishioner's advance payment before he or she has participated in religious services. For simplicity, the following discussion will use the term "refund" to describe both types of transactions, because both involve a return of parishioner contributions.

The Church's refund policy is exceedingly fair. If someone isn't happy with Scientology -- which is a very small minority of people -- he simply has to make a proper request for his donations back, agree to forego further services and his donations will be returned. For the Church, in addition to the fact that this policy aligns with Scientology principles of exchange, it also serves the purpose of allowing our churches and the parishioners who are very happy with Scientology, to carry on without the unhappy few in their midst.

The presence of a considerable number of refund suits in the following list is directly related to the influence of CAN and CAN attorneys. As described in the "Introduction to Question 10," CAN's modus operandi is to seek out anyone who is unhappy with Scientology, feed them negative information and then refer them to an attorney. The CAN attorney then convinces the person that he can not only get a refund of his donations, but by allowing the attorney to handle the claim he can get damages as well, and possibly get rich. As will be seen in the descriptions of the cases that follow, almost one for one such suits are ultimately settled for the refund amount the person could have obtained in the first place simply by requesting it.

It is also of interest that we know of no suit filed for refund that wasn't instigated by CAN. In fact, the Church rarely has any refund requests, by suit or otherwise, except when instigated by the IRS-sanctioned CAN. And in most cases, further discussion reveals the person was quite happy with his service at the Church and seeks his money back only after CAN has told him how "terrible" Scientology is.

Descriptions of individual suits follows:

Mira Chaikin v. Church of Scientology, L. Ron Hubbard, et al.:
The following is from the judge's ruling dismissing the case, which says all that needs to be said about this case:

"In this pro se complaint, which can most charitably be described as bizarre, plaintiff Mira Chaikin ('Chaikin') alleges that the various defendants are exploiting her, impersonating her and 'implanting' her.

She alleges that because defendant Ron Hubbard has been 'flowing to (her) sexually and romantically' she is his 'true wife,' as well as 'having been (his) wife in (her) last life who was murdered. ' Thus, she further alleges, defendant Mary Sue Hubbard is 'in no way the wife of Lafayette Ron Hubbard ' but has merely been impersonating plaintiff with resulting severe endangerment of plaintiff's mental health.

"As against the Church of Scientology, Chaikin appears to be claiming that the organization is acting contrary to its theoretical foundation. For the reasons set forth below, I dismiss the complaint.

"An action may be dismissed 'when the allegations of the complaint are beyond credulity . . . ' [cite omitted]. I find plaintiff's allegations, to the extent they are comprehensible at all, to be patently incredible."

Terry Dixon v. Church of Scientology Celebrity Center of Portland, et al.: This is a typical CAN-influenced suit for refund by Terry Dixon, which also asks for damages based on claims of breach of contract and breach of fiduciary duty. Dixon alleges that the Church of Scientology Celebrity Centre Portland, Church of Scientology of Portland and Church of Scientology Flag Service Org, breached a contract with him and their fiduciary duty, by failing to deliver to him results he considers to have been promised him from Scientology religious services. The suit was filed in December 1990.

Each of the three churches filed motions to abate the case pending arbitration, based on enrollment agreements signed by Dixon while he was in the Church, which include a clause that any disputes between the Church and the parishioner must be arbitrated. The judge ordered the case to arbitration and it has now been settled for the refund amount.

John Finucane, David Miller, Alexander Turbyne v. Emory Wilson Corporation, et al.: This suit was instigated directly by CAN and CAN attorney Toby Plevin. All of the plaintiffs are dentists who were clients of Sterling Management Systems (Emory Wilson Corporation) for a brief period of time and also briefly received some services from the Church of Scientology of Orange County. Sterling is a company that has been owned and run by Scientologists and uses methods of organizational administration developed by L. Ron Hubbard to help business people improve their businesses. Some of these individuals, upon being impressed with Mr. Hubbard's works, have become interested in Scientology.

The lawsuit was filed in LA Superior Court on December 26, 1991 by Finucane, Miller, and Turbyne, who reside, respectively, in Aiken, South Carolina, Sacramento, California, and Sohigan, Maine,

against Sterling and the Orange County Church. The complaint contains causes of action for deceptive trade practices, fraud, and injunctive relief, alleging that Sterling misrepresented itself to be an independent management training organization when, in fact, it was a part of the Church of Scientology and operated as a recruitment office for the Church with the goal of procuring new members and getting them to take Church services.

Miller and Turbyne settled their cases with the Church of Scientology of Orange County for a refund, but not with Sterling, leaving all plaintiffs with claims against Sterling, and only Finucane suing the Orange County Church. Finucane has so far refused offers from the Church to have his claim arbitrated as per the enrollment agreement he signed. The Church therefore filed a counter-claim and criminal complaint against Finucane relating to his breach of contract (his refusal to abide by the enrollment agreement) and invasion of privacy (for secretly tape-recording a conversation with a Church staff member and then broadcasting a heavily edited version of it on national television).

Dorothy Fuller, an individual v. Applied Scholastics International, et al.: This is another Toby Plevin, CAN instigated suit filed in April 1992. The claims are breach of lease, fraud and negligent misrepresentation. Applied Scholastics leased a residential property from Fuller who claims that the house was misused in several ways, including housing more people than agreed upon in the lease, use of the house as a child center, dormitory style living, and fabrication of products for resale. Thus it is a minor property dispute escalated by Plevin into tort litigation. It is expected that this suit will be quickly settled.

Lisa Stuart Halverson v. Church of Scientology Flag Service Organization, et al.: This was another suit for refund that CAN attorney Toby Plevin filed, alleging several torts for purposes of effect. The claims were for violation of the deceptive practices act and fraud, based on Halverson being told she could get a refund and then not being able to get it. The suit was settled for the refund amount.

Thomas and Carol Hutchinson v. Church of Scientology of Georgia, et al.: The complaint in this suit is virtually a carbon copy of the complaint in the Corydon case, one of the Michael Flynn cases listed at page 10-13 of our prior response. Although the Corydon case was settled, Hutchinson apparently got a copy of the complaint, very likely provided by CAN, and felt its inflammatory claims against a wide array of Church organizations would add spice to what is otherwise a suit for refund of money paid to the Church of Scientology of Georgia. The claims are stated as fraud and deceit and infliction of emotional distress, seeking unspecified damages and injunctive relief. However, the claims revolve around a core that the teachings of Scientology differ from those of

Fundamentalist Christianity, a topic constitutionally barred from secular adjudication.

The Church anticipates dismissal of this suit, favorable summary judgment or settlement for a refund of the Hutchinson's donations.

Mark Lewandowski v. Church of Scientology of Michigan, et al.: This suit was against the Church of Scientology of Michigan and two individuals, one former and one current staff member of the Michigan Church. Mark Lewandowski, who had previously been under psychiatric treatment with a substance abuse disability, took some courses at the Church of Scientology of Michigan in 1988. Although Lewandowski's relationship with the Church was short, in his suit he alleges that the Church committed consumer fraud by failing to ascertain his unstable mental condition, fraud, for allegedly misrepresenting the nature of the courses he took, and intentional infliction of emotional distress through the above. The nature of Lewandowski's claims and allegations strongly suggest that he was influenced to file suit by CAN.

This case went before a mediation panel where a settlement was accepted by the Lewandowski's attorneys for a refund. The Church of Scientology of Michigan is in the process of paying this amount to end the suit.

Peter and Francis Miller v. Church of Scientology et al.: The suit was filed on April 29, 1991 by CAN attorney Toby Plevin against several organizations, including CSI, Church of Scientology Orange County and Sterling Management Systems. This suit makes claims not unlike those of the Finucane suit described above, that they were misled into Sterling and Scientology and therefore want their money back. The claims include fraud, breach of express and/or implied warranties, invasion of privacy, intentional infliction of emotional distress and negligence. The Millers' claims against Sterling were arbitrated, with the millions the Millers originally claimed reduced to the refund amount. The case is still at the pleading stage as regards the Church parties.

Dee and Glover Rowe v. Church of Scientology of Orange County, et al.: This is another Toby Plevin/CAN suit naming the Church of Scientology of Orange County, RTC, CSI, the Sea Org and Does 1-100. It was filed on October 7, 1991, alleging fraud/deceptive trade practices, invasion of privacy, false imprisonment, assault, and intentional infliction of emotional distress. The suit essentially repeats the allegations made by the Rows in the May 6, 1991 edition of Time magazine, that they took courses at Sterling Management Systems and allegedly under the guise of management training were induced to take Scientology services. Discovery in this case has demonstrated that the Rowe's claims are contrived and maliciously false, and that these are people with a history of criminal activity. Glover Rowe embezzled

money from a fraternity in college and Dee Rowe has a history of emotional turbulence starting long before any contact with any Scientology organization. One of their claims, which has already been dismissed on summary judgment, was that the Church bugged their hotel room. This was a completely fabricated claim as seen by the fact that the staff of the hotel testified that this was impossible and that the Rowses could "support" it only by stating without any proof that their room "must have been bugged." It was not, a fact quickly recognized by the court. The Rowses were referred to Time magazine by CAN and continue to be encouraged by CAN.

Pretrial summary judgment motions are still being considered in this case and the Church expects all of the Rowe's claims to be dismissed. The Church also expects to prevail on a counterclaim naming the Rowses and CAN defendants, for libel and breach of contract, and that by deprogramming the Rowses, CAN interfered with the Church's relationship with the Rowses.

Frank and Joan Sanchez v. Sterling Management Systems, et al.: This is yet another CAN-inspired suit involving a dentist, Frank Sanchez and his wife, Joan Sanchez, filed against Sterling, the Church of Scientology of Orange County and IAS.

The Sanchezes attended a Sterling seminar at the end of October 1989, after which Sanchez asked Sterling to administer a program in his office. The Sanchezes went to the Church of Scientology of Orange County in December 1989 and were involved with the Church for less than a month. Sanchez wanted help with his marriage as he and his wife had marriage counseling over a twenty year period but it had been unable to straighten out problems arising from twenty years of adulterous affairs. Joanne Sanchez was opposed to the trip to Sterling and Orange County and went only because her husband wanted her to go.

The Sanchezes paid some money to Sterling and the Orange County Church, but then returned to New Mexico and refused further participation in any services at either Sterling or the Church, which would appear to have been directly caused by negative information provided them by CAN. Although the bottom line of what they are seeking is a refund of their money, their complaint asks for damages for breach of contract, intentional infliction of emotional distress, breach of covenant of good faith and fair dealing, for fraud and all the usual, boilerplate CAN allegations. The suit was dismissed with respect to the Orange County Church and it is expected that ultimately it will be settled for a repayment of the money they paid to Sterling.

Thomas Spencer v. The Church of Scientology, et al.: This suit was settled for a refund and dismissed on August 31, 1992. It was another suit for refund laced with the standard CAN claims,

breach of contract, fraud, and intentional infliction of emotional distress.

Irene Zaferes v. Church of Scientology: This was a personal injury suit filed in April 11, 1989. The plaintiff was a Hollywood woman who claimed that a wrongful death occurred when her brother, Luke Andrea (a.k.a. Louis Zaferes) died on April 12, 1988, some months after he did some "heavy construction work" at the Church of Scientology Flag Service Org, while having a heart condition. Zaferes was acting as her own attorney. The case was dismissed.

Jo Ann Scrivano v. Church of Scientology of New York, et al.: Jo Ann Scrivano, had an extensive psychiatric history including the use of heavy psychiatric drugs, before she came to the Church of Scientology Mission of Long Island in January of 1986. After receiving a small amount of introductory level auditing for which she donated \$450, Mrs. Scrivano became upset and blamed this on her auditing. She was offered her money back, but refused it and left. She subsequently filed a suit naming not just the Long Island Church but also a number Church organizations that had never heard of her. She even alleged an array of torts and sought \$10,000,450 in damages. Her claims include Fraud, Constructive Trust, Breach of Fiduciary Duty, Malpractice, Negligence, and Intentional Infliction of Emotional Distress. None of these claims is true, and both Scrivano's own attorneys and the judge assigned to the case have encouraged her to accept a token settlement offered by the Church just to get rid of the suit.

Marissa Alimata and Richard Wolfson v. Church of Scientology of California, etc., et al.: This case, of Marissa and Richard Wolfson, furnishes an excellent example of how any fruitcake can file a civil suit. The Wolfsons sued for \$1 billion alleging intentional infliction of emotional distress and that the conduct of the Church was "outrageous, fraudulent, malicious, abusive, indecent, intentional, unduly influential, willful, wanton and beyond bounds of common human decency." They claimed to have been subject to "undue influence" and to have suffered "violation of fiduciary relationship," interference with prospective economic advantage, loss of consortium and fraud. Before winning summary judgment on all of the Wolfsons' claims, the church was required to endure the public airing of delusional charges and suffer through such bizarre conduct as Mr. Wolfson appearing at his deposition dressed as Mrs. Wolfson.

Sherry Fortune v. Church of Scientology American Saint Hill Organization and Chuck Tingley: This case was brought by Sherry Fortune against the Church of Scientology American Saint Hill Organization and Chuck Tingley, her former husband, an independent contractor who had been a computer programmer at the Church. The case was essentially a domestic dispute between Fortune and Tingley that involved the rights to some computer software Tingley had developed. Fortune believed that naming the Church in her suit

would give her additional leverage over her former husband so she alleged that the Church was guilty of intentional interference with economic advantage, fraud and misrepresentation, intentional infliction of emotional distress, and conversion. The frivolous claims against the Church were dismissed and Fortune and Tingley reached a settlement between them.

Gary and Susan Silcock v. Church of Scientology, Mission of Salt Lake, et al.: The Silcock's received some religious services from the Church of Scientology Mission of Salt Lake in 1984 and then asked for a refund. The refund amounts requested were paid to the Silcocks and the suit was dismissed in September 1986.

Pedro H. Rimando and Irene Marshall v. The Church of Scientology of San Francisco, et al.: This suit was a suit brought by the parents of Rodney Rimando, a former Church staff member who committed suicide in November 1986 by jumping out of a window of a Church of Scientology building. The suit's claims were wrongful death, intentional infliction of emotional distress, negligence, and outrageous conduct. The suit claimed that Rimando came to the Church of Scientology of San Francisco for spiritual guidance and that no precautions were taken to prevent his suicide or see that he got psychiatric help. This suit only came about because a CAN attorney incited the parents to file it. The parents did not really believe the Church to be responsible for their son's suicide. The suit was never served and was voluntarily dismissed with prejudice.

Wendy and William Rabel v. Eric Rising, Jane Doe Rising, Church of Scientology Mission of University Way, et al.: As described previously, this suit involved an incident where a stereo speaker placed in the window of the University Way Mission in Seattle, Washington fell out of the window and struck Wendy Rabel on the head. A settlement payment was negotiated and the case was dismissed in January 1988.

Francine Necochea, a minor child, by her Guardian Ad Litem Cecilia Garcia v. Church of Scientology, et al.: This was an insurance suit dealing with an incident in 1983 when a girl on a motorized bike hit a Golden Era Studios Bus. She sustained a broken leg and other minor injuries. The girl's family sued the Church and the Church's insurance company handled the case and settled it for \$5,000.

Roxanne Friend v. Church of Scientology International, et al.: Some background leading up to the filing of this suit will help make it understandable.

Shortly after breaking away from the Church of Scientology, Roxanne Friend became romantically involved with a non-Scientologist. After an on-again, off-again relationship, they

finally broke off the relationship in August 1989. For months after this Friend experienced what she later characterized on a medical questionnaire as a "nervous breakdown."

Documents authenticated by Friend in her own hand illustrate her state of mind during this period, and outline the series of bizarre and violent acts that she admits were preceded and prompted by the break-up with her non-Scientologist boyfriend. She first secretly absconded with her former boyfriend's young son and molested him sexually. She next tried to persuade a karate instructor to murder her former boyfriend. Failing this, she wrote letters to the ex-boyfriend claiming that he had drugged, hypnotized and forced her to perform lewd sexual acts for he and his friends. When all of this further alienated the man, her conduct became more bizarre. She scrubbed her mare's vagina with bleach causing the animal severe pain and then physically assaulted and injured the proprietor of the stable when she tried to intercede on behalf of the horse. A bit later Friend was stopped for dangerous reckless driving and resisted arrest by assaulting a police officer.

Church staff who knew Friend and Friend's brother, nonetheless attempted to help by taking her to doctors in Los Angeles and then escorting her to Florida to be in a less stressful environment where she could also be examined by doctors. Once in Florida, Friend refused help, and went to the police with the hallucinatory claim that someone put crack cocaine in her cigarettes to account for her bizarre behavior. She was taken to a hospital at her insistence. The Church attempted to get her to submit to a full medical examination, knowing that most such behavior episodes are initially prompted by some undetected and untreated physical ailment. Friend refused.

Friend was then taken to her mother along with a written recommendation from the Church that she receive a full medical examination.

Friend's mother ignored the recommendation and Friend was later arrested, incarcerated in a mental hospital and sent for counselling at a Jewish support group. A psychiatrist at that group turned her over to the Cult Awareness Network (CAN). As they do in every such case, CAN promptly pumped Friend full of false and derogatory information about the Church and turned her over to their attorney Plevin. Up to that point, when CAN became involved, Friend had never considered the efforts of the Church members to help her as anything other than help, and despite her agitated state, had never accused the Church of causing the condition -- indeed she recognized that the break-up of her ill-fated romance was what brought it on. After being manipulated by CAN, however, Friend decided the Church was to blame and should pay her damages.

Months after the Church had its last communication with Friend, she finally received two medical examinations. The first found nothing wrong with her. The second found that she had a large lump in her abdomen and it was diagnosed as a very rare form of cancer. Friend's CAN attorneys, the same attorneys who had represented the Aznarans (see description of the Aznaran litigation in the response to your prior Question 10.d) considered this the next best thing to a plane crash, and suddenly saw in Friend the prospect of a circus trial with a dying woman to play on the emotions of a jury. Her attorneys rushed to court with a lawsuit that claimed the Church was responsible for her cancer not being earlier detected by not allowing her to see a doctor, and that all her psychotic episodes stemmed from this undetected physical condition. The attorneys characterized the efforts of Church members to help her as examples of assault and battery, wrongful imprisonment, invasion of privacy and intentional infliction of emotional distress. The suit also claimed the Church was guilty of fraud and false advertising and breached express and implied covenants in representing it would refund money to those not satisfied but then failing to do so.

These claims were completely unfounded as discovery proved that Friend had seen many doctors on a regular basis during the period that she was at the Church, both at the Church's direction and on her own, and thus the Church took the appropriate measures to see that she got the care and diagnosis needed. Her own doctor testified that the type of cancer Friend contracted was very rare and virtually undetectable by modern medical science until well developed and spread. The doctor testified that the only way to detect such cancer was for the patient to complain of a lump and then have a biopsy performed. Friend subsequently testified that she had felt a lump developing for two years, but never mentioned it during that time to the several doctors she did see.

The Church settled this case for nuisance value, for less than the cost of a trial, even if the Church prevailed. David Miscavige met with Friend in settlement talks as he was concerned that her attorneys would leave her destitute when doctor reports were submitted in court stating she only had several months left to live. Once settlement terms were generally agreed upon, the first thing Friend did was ask whether if she miraculously recovered, could she get back into the Church and take services. Thus, in the final analysis Friend herself acknowledged that her frightening claims against the Church were contrived.

To our knowledge, despite the claims that were made by Friend and her attorneys of imminent death, she is still alive.

Bruce and Lynnel Arbuckle v. Skip Pagel M.D., Church of Scientology Celebrity Center Portland, et al.: This suit was brought by the parents of Chris Arbuckle, a former Church

parishioner, who died of kidney failure. The suit's claims were wrongful death against Scientologist Dr. Skip Pagel and the Tuality Community Hospital, and breach of fiduciary duty against the Church of Scientology Celebrity Centre Portland, Church of Scientology of Portland and Church of Scientology Mission of Fairfax. Arbuckle, a 25-year-old chiropractor, participated in the Purification Rundown after first receiving a physical examination by Dr. Pagel. Subsequent to this Arbuckle died, in August of 1986, of a heart attack resulting from a kidney failure which followed a dying liver, with the cause of the dying liver attributed to "probably hepatitis" on the death certificate. The complaint alleged that the Purification Rundown caused this to occur. What was found on further examination was that Arbuckle was known to be abusing steroids for body building purposes, that he had undergone a bout of hepatitis prior to doing the Purification Rundown (which he did not disclose to Dr. Pagel), and that a pathologist familiar with Arbuckle's death stated that his liver died as a result of Hepatitis B, and that there was no way the Purification RD could have caused this to occur. The suit was settled and dismissed in August 1990.

In re Dynamic Publications Inc.: Dynamic Publications was a company owned by two now-expelled former Scientologists, who filed for bankruptcy in early 1987 in United States Bankruptcy Court for the District of Maryland. The trustee in bankruptcy, appointed by the court to collect all the assets of the company, determined that these individuals had made donations to Churches of Scientology and Scientology-related organizations through the company and sought to get some of this money back as having been fraudulently conveyed when the company was in debt. The suit was settled in January of 1991.

Ted Patrick, et al. v. Church of Scientology of Portland, et al.: The Church of Scientology of Portland filed a suit against the deprogrammers of Julie Christofferson in September, 1980, suing them for barratry and practicing medicine without license. Ted Patrick, a convicted felon, was one of the deprogrammers. He filed a counterclaim in September 1980 alleging abuse of process and claiming that the Church's suit was frivolous and vexatious. The attorney on the suit was an associate of Michael Flynn associate. The counter-suit was ultimately dismissed.

Gregory F. Henderson v. A Brilliant Film Company, et al. and Gregory F. Henderson v. Marvin Price, et al.: Henderson had a contract with Brilliant Film Company to shoot a movie written by L. Ron Hubbard. Brilliant Film went bankrupt and Henderson filed suit on May 14, 1982 against a series of defendants, including L. Ron Hubbard. It raised financial claims and also that there had been a conspiracy to induce Henderson to agree to a loan that would not be repaid and to keep him from pursuing his legal remedies. He

also filed a second suit, against Marvin Price, an ex-Scientologist who had was the mission holder of the Church of Scientology Mission of Stockton stating claims for negligent misrepresentation, fraud, breach of fiduciary relationship and conspiracy to defraud. The suit with Brilliant Film Company was settled and the other suit was then dismissed with prejudice in July 1984.

Peter Siegel v. Religious Technology Center, et al.: Peter Siegel is a "sports hypnotherapist", doing business as "Achievement Plus Institute". Siegel used a logo similar to a trademark owned by RTC. Attempts were made prior to litigation to settle Siegel's confusion as to the ownership of the mark, which was registered by RTC in December 9, 1986, and to obviate the need for litigation. Siegel was uncooperative in this and RTC and CSI filed suit. Siegel filed a pro per cross-complaint on December 20, 1989 for registration of the mark in his name, cancellation of RTC's registration, trademark infringement, intentional infliction of emotional distress and revocation of RTC and CSI's tax-exempt status. Siegel has no valid claim to this trademark and RTC's summary judgment motion is presently pending. Although Toby Plevin came in at the last minute to represent the defendant at the summary judgment hearing, the court, after hearing her argument, told Plaintiff's counsel to propose an order on the summary judgment motion to be written from the viewpoint that the court was ruling in Plaintiff's favor. The court has also asked for more detailed information concerning RTC's pending motion for attorneys' fees.

Steve Dunning v. Church of Scientology, et al.: Dunning was a Church staff member for three months in 1983 and came and went for very brief periods after that. He is currently in a half way house for psychiatric patients where he committed himself because he could not function in the outside world, has an outstanding warrant for his arrest in North Carolina for assault with a deadly weapon and another arrest for threatening someone with a knife. He filed a suit against the Church asking for over \$5 billion claiming breach of contract, breach of implied covenant of good faith and fair dealing claims, fraud and intentional infliction of emotional distress. The suit was completely groundless and it was dismissed in favor of the Church in August 1987 when Dunning failed to appear at the hearing on the Church's Motion for Entry of Final Judgment.

Jeff and Arlene Dubron v. Church of Scientology International, et al.: This suit which named 21 defendants and 50 "John Doe" defendants, alleged claims of defamation, invasion of privacy, outrageous conduct, and negligent infliction of emotional distress. The suit stemmed out of an incident where some Church staff posted a notice around Scientology churches calling for Scientologists to report unethical conduct and used some facts concerning Dubron as an example. The suit was voluntarily dismissed.

Vicki Adler v. American Sun, Inc., Church of Scientology of Los Angeles: This suit alleged emotional distress as a result of Adler's alleged brainwashing by American Sun, a business owned and operated by several Scientologists. The suit was essentially an employment dispute between Adler and American Sun where Adler made Scientology an issue to intimidate the company. The suit was settled and dismissed in 1988.

Benham v. Church of Scientology Celebrity Center of Dallas This was a personal injury case in Dallas, Texas. Vicki Benham alleged that she was injured while on the Purification Rundown and that she had emotional distress. The case was settled in 1991 for a refund and nominal nuisance fee which was paid by the insurance company.

Michael Burns v. The Recording Institute of Detroit, Inc., et al.: This case was filed on July 25, 1991 against the Church of Scientology of Michigan, Church of Scientology Flag Service Org and several individual Scientologists, and a recording school owned by a Scientologist. Burns claimed that he was subjected to mind control by the Scientologist from the recording school and that this induced Burns to become involved with Scientology and join Church staff, which prevented him from pursuing his studies in the recording field. The case alleged fraud, breach of contract, intentional interference with a contractual relationship, intentional infliction with emotional distress, and conspiracy. The suit has no merit and is expected to be dismissed shortly.

Clay Eberle and Eberle & Jordan Law Firm v. Church of Scientology of California: Eberle is an attorney who formerly represented refund/repayment claimants suing the Church. His suit alleges that he was damaged when CSC settled directly with some of the claimants as the claimants then did not pay him attorneys' fees. In April 1988, the Court granted the Church's summary judgment motion dismissing the case and ruled that there was a qualified privilege for the Church to deal directly with its former members notwithstanding the retention of an attorney by the former member, and there was no evidence that the Church intended for the persons to breach their attorney/client contracts with Eberle, and no evidence that the Church caused the attorney/client contracts to be breached.

Mario Metellus v. Church of Scientology of New York, and Linda Barragan: Metellus was a non-Church member who responded to an advertisement placed by the New York Church for part-time help. After working less than a day, on November 29, 1989 he was dismissed. Metellus refused to leave and the police had to be called in to remove him from the premises. Metellus even refused to respond to the police officer's directions to leave and

was arrested. When Metellus refused to allow the police to take his fingerprints, he was held in custody. The complaint, claimed that Metellus was falsely accused of criminal trespassing and falsely arrested. Metellus also sued the City of New York. The complaint against the New York Church was settled for a nominal amount.

Subparagraph 10.e(ii)

In this subparagraph, the Service has asked for a copy of any verdict, decision or judicial finding that any Scientology-related organization or individual was involved in the commission of an intentional tort or violation of criminal law. Copies of these documents are attached as Exhibit 10-P. There were verdicts, or decisions with judicial findings of intentional torts in only four of the cases discussed on the pages of the prior submission referenced in this question, and all of these cases were discussed in the response to Question 4.d of the Service's May letter -- the Stifler case, the Christofferson case, the Wollersheim case, and the Armstrong case, discussed at pages 10-12; 10-15 to 10-16; 10-16; and, 10-12 respectively, of our prior response.

The Service has asked the Church to state whether it agrees with the findings of the Courts in each of the above decisions. The Church's response to this part of the question follows:

Lawrence Stifler v. Church of Scientology of Boston:

The Stifler case was, for all practical purposes, won by the Church, as the only money judgment in the case was entered against an individual Church member for \$979 in medical bills. This was one of Michael Flynn's stable of cases described in our prior response at 10-12. Lawrence Stifler accosted a staff member of the Boston Church, Roger Sylvester, on the streets of Boston, Massachusetts in the early 1980's. Stifler verbally abused Sylvester for attempting to disseminate his religion. Both men lost their tempers and came to blows. As a result of the altercation Stifler suffered a minor injury to his knee. Stifler filed suit claiming \$4,250,000 in damages.

During the 1984 trial, Flynn attempted to show that the altercation was part of a nefarious Church of Scientology scheme. Flynn sought to introduce his standard retinue of professional anti-Church witnesses in order to reap a large punitive damages award. The Court refused to go along with this charade, bifurcated the Boston and California Churches from the trial and prohibited Flynn from introducing any of his general Scientology issues or "evidence."

Stifler claimed to have suffered major trauma to his knee which had permanently incapacitated him. Yet, when the evidence was presented at the trial, the defense showed that whatever injuries he may have suffered at the time of the altercation with Sylvester were extremely minor. Evidence supporting this defense included photographs of Stifler engaging in competitive stair climbing up skyscrapers at the very time he claimed to be incapacitated. The jury awarded a mere \$979.00 against Sylvester to cover Stifler's medical costs, and the Church defendants were dismissed from the case.

The Church disagrees with the fact that Stifler was awarded any money at all. The Church agrees with the dismissal of the Church of Scientology of Boston and the Church of Scientology of California from the case.

Church of Scientology v. Gerald Armstrong:

We have included some background information here and an epilogue to the decision in question. That is because the Service has continuously thrust the Armstrong case at us, demanding an explanation. The Armstrong case decision was so inflammatory and intemperate that it was used to stigmatize the Church in the legal arena and make other outrageous decisions possible. As we shall demonstrate below, all this decision ever involved was Armstrong's state of mind, which subsequently obtained evidence proved conclusively to be one sordid, sado-masochistic nightmare. Furthermore, Armstrong's state of mind horror stories have fallen on deaf ears in recent litigation. Relying on Armstrong or the Armstrong decision is wholly unjustified.

During the later years of his tenure as an employee of the Church, Gerald Armstrong was placed in charge of a huge quantity of documents that belonged to Mr. Hubbard that contained private and personal information regarding Mr. Hubbard. Part of his duties included research to support the work of an author who had been retained to write an authorized biography of Mr. Hubbard.

In late 1981 after the initial clean out of the higher levels of the Guardian's Office, and when investigations were turning toward identifying those in alliance or sympathy with the GO, Armstrong suddenly vacated Church premises and left its employ, taking with him huge numbers of confidential documents that belonged to Mr. Hubbard or his wife which the Church was holding as bailee. It was no coincidence that Armstrong left at that time because he had repeatedly expressed his ambition to join the GO and work in Bureau 1 (Information Bureau), the same area of GO that had been responsible for the criminal acts of the 70's. Armstrong also had been a long-time friend and confidant of Laurel Sullivan. Just prior to the take over the GO taking place, Sullivan had made a

proposal to place convicted GO members into corporate positions of control throughout the top of the ecclesiastical hierarchy. She was also found to be spying on the CMO for the GO during the early days of the CMO's investigation into the GO. Armstrong assisted and supported Sullivan in her efforts.

In the summer of 1982 the Church received evidence that Armstrong had stolen thousands of documents from archives when he left the Church. Church counsel wrote to Armstrong, demanding that he return them. Armstrong denied the theft.

Once the demand for return of documents was made, Armstrong turned the stolen documents over to Michael Flynn, with whom Armstrong decided he could make a lot of money.

In August 1982, the Church sued Armstrong for conversion, breach of fiduciary duty and confidence, and invasion of privacy based on Armstrong's theft of extensive amounts of private papers owned by the Church or the Hubbards. The Church sought return of the papers and the imposition of a constructive trust over them, and any proceeds derived from them, as well as preliminary and permanent injunctive relief against dissemination or disclosure of the private documents.

In September 1982, Armstrong, represented by Flynn, answered the complaint and raised the defense that he was justified in stealing the documents entrusted to him as a fiduciary because he wished to make public information about Mr. Hubbard and the Church out of fear for his safety and well-being. His defense was stricken on four different occasions by three different judges.

In April 1984, the case was assigned for trial before Judge Paul Breckenridge, Jr. At that time, the Church presented motions in limine to prevent Armstrong from introducing the stolen, confidential documents since their introduction into evidence would vitiate the very rights of privacy the action sought to protect. The Court not only allowed Armstrong to introduce the confidential documents, but also allowed him to raise his four-times stricken defense with a new perverted twist. He would not have to prove there was anything to fear from the Church, but only his state of mind when he stole the documents. The Church was completely ambushed in the trial by these documents, as in most cases Armstrong had stolen the only copy that existed. Then, after he and Flynn had ample time to prepare their case from them, the documents were placed under seal in the Court. Although the inflammatory allegations that Armstrong made and purported to support with these documents could have been shown to be false or grossly distorted by other evidence, the Church had no chance to prepare and put on that evidence before being hit with the documents in court.

During the trial, Armstrong presented testimony from numerous witnesses who testified for the purpose of establishing Armstrong's supposed "state of mind" with regard to his alleged justification for stealing the documents. Each of the witnesses was hostile to the Church and, in fact, was a plaintiff against or taking a position adverse to the Church in other litigation in which Flynn was the counsel. Each witness gave general testimony about his or her own viewpoint on relationships with the Church in an effort to bolster Armstrong's state of mind justification defense.

The Court did not allow the Church to put on evidence to rebut the testimony of those witnesses. The Court also declined to allow the Church to put on evidence explaining the confidential documents and precluded the Church's proffered rebuttal evidence on the ground that the adverse testimony was admitted only for the purpose of establishing Armstrong's state of mind and not for the truth or falsity of the matter testified about.

On July 20, 1984, Judge Breckenridge issued a Statement of Intended Decision which became final a month later, which held that the Church had "made out a prima facie case of conversion..., breach of fiduciary duty, and breach of confidence" (as the former employer who provided confidential materials to its then employee for certain specific purposes, which the employee later used for other purposes to employer's detriment). Judgment, however, was entered in favor of Armstrong. The Statement of Decision adopted as the facts of the case the allegations which Armstrong had made in his trial brief. These allegations included the statements on which Armstrong premised his justification defense; i.e., that defendant "... became terrified and feared that his life and the life of his wife were in danger, and he also feared he would be the target of costly and harassing lawsuits." The judge went on to pontificate on the psychological mind-set of not only Mr. Hubbard, but Scientology at large. The only lawsuit that there was to fear was the one that was ultimately filed for return of the stolen documents. It never would have been brought had Armstrong voluntarily returned the documents when asked, despite the theft.

The IRS CID, however, absorbed Breckenridge's findings as the definitive statement of what Scientology is, and used this decision and the Flynn witnesses who testified at the trial as the nucleus of their investigation. The Church tried repeatedly to explain to the IRS that the Armstrong decision was nothing more than a statement concerning Armstrong's state of mind. The CID and EO weren't interested, as they found in Armstrong a kindred spirit who echoed their own sentiments. They therefore embraced Armstrong and the Flynn witnesses and used their fabrications as the basis for their investigations and denials of exemption.

Evidence found after the Armstrong trial proves not only that Armstrong never was afraid of the Church as he claimed at trial,

but that he was engineering a plan to infiltrate and take over the Church at the behest of the CID.

Shortly after the trial, Armstrong's conspiracy against the Church surfaced when he sought, at the behest of IRS CID agents Al Lipkin and Phillip Xanthos, to recruit Church employees and organize them against the Church. To this end Armstrong contacted a Church member and former friend to enlist his aid in recruiting a group of dissident Scientologists to overthrow Church management. After this individual, however, informed the Church of Armstrong's plan, it obtained permission from the Los Angeles Police Department to conduct undercover surveillance of Armstrong. The Church then used two "undercover" persons to collect evidence of Armstrong's machinations.

Videotaped conversations show that Armstrong intended to recruit additional persons to create "as much shit for the organization as possible." Armstrong intended to foster this plan by creating sham lawsuits against the Church, seeding the Church's files with forged and "incriminating" documents which would then be seized in a raid by the Internal Revenue Service as part of the then ongoing CID investigation, taking control of the Church after such a raid, and lying under oath to prevent discovery and to protect Armstrong's co-conspirators.

Armstrong admitted on videotape that there was no basis in fact for his justification defense since he had no fear that anyone associated with the Church could or would harm him. Speaking with an undercover operative known to Armstrong as "Joey," Armstrong revealed his "justification" defense for the fraud it was, and that his only "fear" was that his conspiratorial plans would be discovered:

JOEY: Well, you're not hiding!

ARMSTRONG: Huh?

JOEY: You're not hiding.

ARMSTRONG: Fuck no! And . . .

JOEY: You're not afraid, are you?

ARMSTRONG: No! And that's why I'm in a fucking stronger position than they are!

JOEY: How's that?

ARMSTRONG: Why, I'll bring them to their knees!

(Exhibit 10-Q).

Armstrong requested that the undercover persons give him Church documents so that he could forge documents in the same style. In particularly revealing language with respect to the documents he stole and later relied on at trial, Armstrong stated with respect to forgeries that he can "create documents with relative ease" because he "did it for a living." (Exhibit III-10-Q).

Armstrong then planned to "plant" forged, incriminating documents in the Church's files so that those documents could be later discovered and used to discredit the Church. Armstrong planned to "tip off" investigators for the Criminal Investigations Division of the Internal Revenue Service once the phony documents were safely planted so that they could be "discovered" in a later IRS raid.

JOEY: (Laughs) Great, so what kind of stuff are we going to want to create and who's going to get it?

ARMSTRONG: That's what we need to talk about!

* * *

JOEY: -- and what do the agencies want on this?

ARMSTRONG: O.K. Well, the agencies have asked for some specific things, that's all they asked for. Now - - * * *

JOEY: Now, who wanted this?

ARMSTRONG: CID.

(Exhibit III-10-Q).

The videotapes also reveal Armstrong's true motivations and his systematic and fraudulent sabotage of the trial. Armstrong stated he would bring the Church to its knees and that the fomentation of litigation was one of the prime vehicles for accomplishing this objective. He stated:

ARMSTRONG: That they're going to lose in a whole bunch of jurisdictions. They're going to lose, they're going to lose, they're going to lose (tapping his palm each time he said it). And they're going to start losing (shrugs) 1985. They only even have to lose one, and attorneys all over the country are going to jump on the fucking bandwagon. And watch, you know, all of a sudden you've got precedents being established, which are incredible.

(Exhibit III-10-Q).

Armstrong further explained that, from his perspective, neither the truth nor good faith play any significant role in litigation. He instructed the undercover Church member that facts mean nothing to a civil litigant and that truth is merely an avoidable obstacle. Armstrong explained how a civil claim can be pursued despite an absence of a claim or essential facts:

ARMSTRONG: They can allege it. They can allege it. They don't even have -- they can allege it.

MIKE: So they don't even have to have the document sitting in front of them and then --

ARMSTRONG: Fucking say the organization destroys the documents

* * *

ARMSTRONG: Where are the -- we don't have to prove a goddam thing. We don't have to prove shit; we just have to allege it.

(Exhibit III-10-Q).

As to Armstrong's "dedication to the truth," for which he is complimented in the trial court's decision, Armstrong took the opportunity to instruct both "Joey" and "Mike" separately on the need and desirability of lying under oath:

ARMSTRONG: By the way, no one will ever get any names, any communications, any times, any dates or anything out of me, that's just the way it is. I'll go to prison before I ever talk, okay. So you have to know that, because they're wanting to depose me every couple of months. I'm simply saying no, anyone I talked to that's, that has nothing whatsoever to do with this lawsuit, the causes of action in my lawsuit began in 1969 when I was enticed into the Sea Organization and it ended in 1981, or they actually they continue on because you guys have continued to harass me but you...

MIKE: Not us, hey!

ARMSTRONG: No, I'm telling you what I would tell them in deposition, but they don't get anything else, go ahead.

MIKE: Okay, so that, that's fine, we have an agreement on that point.

ARMSTRONG: Right. And you guys also have to have your agreements marked out between yourselves too, like, I don't know who knows I'm involved but, I'll deny it!

MIKE: Okay, well, we haven't said anything either.

ARMSTRONG: Good, Good.

(Exhibit III-10-Q).

Armstrong was even more direct in discussing the fine points of perjury when speaking with Joey:

ARMSTRONG: OK. What are our conversations, should it come down to it?

JOEY: What do you mean?

ARMSTRONG: What do we talk about. You're deposed. You walk out there, and there's a PI hands you paper, saying you're deposed Jack, and not only that, you're out of the organization. And what do you say in deposition. Well, Armstrong and I talked about this, and he had a whole bunch of ideas about how to infiltrate the communication lines and spread turmoil and disaster, you know! What are we doing here? That's my question, before I tell you my ideas on documents.

* * * *

ARMSTRONG: OK. So as far as the doc...Let me just say ah, you and I get together, we get together because I have a goal of global settlement. You have felt that the turmoil and abuses and so on have gone on too long... Hence we get together and discuss things. We have not discussed anything about a destruction of the tech, or Scientology is bad, or anything like that. Are we agreed?

JOEY: Yeah.

(Exhibit III-10-Q).

The evidence shows Armstrong's state of mind, not to be fear, but instead to be of a calculating, aggressive and dishonest character.

Armstrong's own writings illustrate Armstrong's state of mind to be sickly and twisted. Attached are two examples of Armstrong's writings illustrating Armstrong's psychosis and his plan to entrap a senior Scientologist in a compromising sexual situation, as previously presented but not provided to the Service. (Exhibits III-10-R and III-10-S).

We do not enjoy even reading much less repeating Armstrong's demented ramblings. However, we have tried to explain to the IRS at every level that the Armstrong decision only stood for what Armstrong's feigned state of mind was during the trial. Yet, the allegations kept getting raised for us to have to deal with as some sort of fact. And they are being raised here again.

The Armstrong case was reviewed by the California Court of Appeal in summer 1991. The Court of Appeal refused to accept the evidence that the Church had discovered after the trial as outlined above, on the technicality that the trial court never got to see it first (an impossibility since it was obtained after the trial). The Court of Appeal upheld Breckenridge's decision on the legal technicality that it believed a justification defense is available to defend against theft in California. As to the Church's protest to the gratuitous and condemning language of the Armstrong decision, the Court of Appeal ruled there was not a problem of stigmatization because Breckenridge was only reciting Armstrong's purported state of mind - exactly what we had been telling the IRS from 1984 to this writing.

In December 1986, Armstrong entered into a settlement agreement with the Church as part of the overall Flynn case settlement. The agreement was designed to resolve all present and future issues between the parties. Armstrong agreed not to insert himself into future legal proceedings regarding the Church absent legal process. Within a short time after receiving the Church's money, however, Armstrong embarked on a course of conduct in direct, intentional violation of that agreement.

Upon entering into the agreement, Armstrong acknowledged that he understood the provisions of the settlement and had received legal advice thereon. Armstrong now states, however, that he found these provisions to be "not worth the paper they were printed on." He now says that he "put on a happy face" and "went through the charade" of signing the settlement agreement. The Church recently sued Armstrong for his blatant disregard of his obligations under the settlement agreement. After a full hearing, in which Armstrong was able to fully air his "justification defense", essentially replaying his 1984 case, another Superior Court Judge was not impressed and slapped Armstrong with a preliminary injunction. So, history has proven Breckenridge wrong. Armstrong is anything but frightened. As he so clearly said - "just allege it."

There is a compelling body of evidence that suggests that Armstrong case was manufactured and arranged by the IRS prior to it even going to trial. The following is brief synopsis of some of that evidence:

- The IRS was part of Armstrong's attorney Flynn's FAMCO plan from the very beginning. FAMCO documents disclosed plans to create

"Federal and State attacks" with the objective of "closing orgs". Flynn conducted a FAMCO conference in May 1981 that included "representatives of Internal Revenue Service"

- The IRS was the recipient of attorney-client privileged audio-taped conferences that were stolen by Armstrong. The IRS pleaded at one point during the US v. Zolin proceedings (see more about this below) that they had received a copy of the tapes from a "confidential informant" whom they refused to identify. This revelation shows the CID had a very strong vested interest in Armstrong being found justified, after they were in receipt of stolen property. This is evidence of motive for tampering with the outcome of the Armstrong case. It also explains their conduct in illegally and secretly obtaining a "legitimate" copy of the tapes from the Superior Court after the Breckenridge decision had been rendered.

- Despite the fact that communication with the IRS or any other federal agency was never an issue in the Armstrong case, Breckenridge's ruling inexplicably invited Armstrong to discuss the contents of the sealed archives documents, and share them, with "any duly constituted Governmental Law Enforcement Agency".

- During post trial proceedings, Armstrong's counsel let slip a mention to Judge Breckenridge that "The IRS is interested, as the court probably knows. An investigation is ongoing right now with respect to the IRS criminal office concerning the testimony in this case and the evidence that was introduced at trial." However, the Church knew of no such investigation and was not informed of such for 2 months. In fact, the CID to this day claims the investigation did not begin until July. Apparently, the IRS saw fit to inform Armstrong, his attorneys, and a sitting Judge about their investigation before informing the Church or the individual targets. The only explanation for this is ex parte communication with the judge on the part of the IRS to the exclusion of the Church.

- Discovery in the Canadian case revealed that Armstrong's video taped statements concerning Flynn, the IRS CID and the Ontario Provincial Police (OPP) actively conspiring to create the "collapse" of the Scientology religion were borne out. Detective Ciampini's notes revealed constant communication with Armstrong, Flynn, and LA CID agents. The CID agents travelled to Canada in late 1984 to coordinate. Canadian documents and agent testimony also revealed that Ciampini and his associates travelled to LA to coordinate with Armstrong and LA IRS in April 1984 - one month BEFORE the Armstrong trial.

- The CID's own Special Agent's Report of May, 1985 also corroborated that they were working in alignment with the FAMCO plan and Armstrong's video taped aims. The report stated that the

objective of the investigation was to cause the "ultimate halt" to and "final disintegration" of the Church of Scientology.

- In the David Miscavige v. IRS FOIA case covering the IRS CID files, the IRS has strenuously evaded acknowledging the name of a single informant, despite the fact Mr. Miscavige has provided public documents irrefutably proving two dozen of them are Flynn clients. In fact, every single witness for Armstrong was an IRS CID informant. The CID has gone so far as to knowingly file a forged document in order to prejudice the court in the effort to prevent the disclosure of any documents generated by informant contacts.

- LA CID agents have sworn under oath several times that the CID investigation started as the result of a 11 July, 1984 New York Times story that covered the Armstrong case. Yet, the New York Times story itself quoted an IRS spokesman as claiming the "Internal Revenue Service has been investigating Mr. Hubbard's financial arrangement with the Church of Scientology for more than a year."

- On Sept 26, 1984 David Miscavige met with several high ranking IRS officials in Washington D.C. including Al Winbourne, Charles Rumph, Joe Tedesco, Marvin Friendlander, and Bill Connet, to answer to allegations made in the New York Times article since that was what purportedly caused the CID investigation. When Mr. Miscavige began by asking how the NY Times article could be the impetus for the CID investigation when the same article states it has been going on for a year, none of the IRS personnel could answer and in fact ended the entire discussion on the article - yet an explanation of the article is precisely why they asked for someone to attend this meeting.

CID agents continuously dispute evidence that their investigation began earlier than the 11 July, 1984 New York Times article. If the investigation started before 11 July, then it would clearly show there was no "reason" for it, other than the reason that has been clearly emerging in evidence obtained through discovery in Canada, and in FOIA cases - to wit, the CID started the investigation much earlier, orchestrated the Armstrong case and N.Y. Times article as a pretext to justify their concerns, with the aim to bring about the "final halt" to and "ultimate disintegration" of Scientology.

The Church contends the 1984 Armstrong decision was brought about by IRS agents illegally working in collusion with private litigants. The Church vigorously disagrees with the 1984 decision and with Judge Breckenridge's observations about Scientology. The Church agrees with the 1992 Armstrong decision preliminarily

enjoining him from injecting himself into other private and government actions concerning the Church.

Among the fall-out from the Armstrong case has been litigation for most of the past decade over the IRS's use of some of the fruits of Armstrong's theft. In addition to Mr. Hubbard's private and personal papers, Armstrong stole a tape made of a GO attorney conference in 1980. This conference was attended by Laurel Sullivan (later an IRS informant) who headed a project called Mission Corporate Category Sort Out (MCCS). The purpose of MCCS was to align the Church's corporate structure with its expanding ecclesiastical hierarchy. MCCS was disbanded in early 1981, coincident with the overthrow and disbandment of the GO, when it was learned that Sullivan was attempting to place some of the indicted GO criminals in high corporate positions and also in control over the trade and service marks of Dianetics and Scientology.

The IRS gained illegal possession of these tapes through a secret summons served on clerk the Superior Court (Frank Zolin) without notice to the Church. A Federal Court later ruled the IRS must return the tapes back to their sealed position in the Superior Court. In defiance of the court order, the IRS made a copy of the tapes, transcribed them, and sent the transcripts to IRS agents around the country. Several CID and EO agents working on Church cases fully reviewed the transcripts, while the Church itself never had access to them.

The IRS has used the existence of the stolen tapes against the Church both in court and in the exemption proceedings. Knowing full well that the Church did not have access to them or knowledge of their contents, the IRS has demanded the Church provide copies of them in virtually every 1023 proceeding.

This ploy was taken to its most outrageous extreme in the CST declaratory judgement case before the Court of Claims in Washington DC. The Department of Justice attorney representing the IRS in this litigation vehemently asserted the bald face lie that CST failed to establish its entitlement to exemption by not providing copies of the MCCS tapes during its exemption proceedings. He used that as the steppingstone for the rest of his argument in which he speculated that nefarious purposes for the establishment of CST were evident in the MCCS tapes, and that these inferences had to be accepted since CST failed to produce them. Not only were the tapes unavailable to the Church, contrary to DOJ assertions, but the IRS had possession of them and knew they didn't contain the inferences put forth to the court. The big lie was pressed so insistently and forcefully that the judge bought and premised his entire ruling on it.

These tapes are still the subject of ongoing litigation. The most recent decision was rendered by the United States Supreme Court on November 16, 1992 in (U.S. v. Zolin which acknowledged that the IRS had access to the tapes in 1984 and had access in 1991 up through present time. In fact, the IRS argued unsuccessfully that because they had the tapes, the Church's appeal of the ruling granting the IRS access was moot.

Christofferson v. Church of Scientology:

The Christofferson case, described at pages 10-15 and 10-16 of our prior response, went to trial twice, had two jury verdicts and both verdicts were overturned. The case ultimately was settled as a nuisance.

Julie Christofferson made her claims against the Church only after being kidnapped and deprogrammed by convicted felon and CAN founder Ted Patrick, and after being induced to file suit by unethical attorneys as part of Michael Flynn's FAMCO scam, as described in the response to Question 10.d of our prior response. Christofferson's attorneys were FAMCO members.

Christofferson claimed that she had been defrauded, brainwashed and subjected to emotional distress. The first trial of the case, conducted in 1979, was a free-for-all, in terms of Scientology bashing. The judge at that trial allowed Christofferson's counsel to parade a string of former members and store-bought psychiatrists through the court room and essentially put the Scientology religion on trial, as seen through their hate-filled eyes. This resulted in a verdict against the Church of Scientology of Portland and other Church entities in the Portland area, of \$2 million.

The Oregon Court of Appeals resoundingly reversed the verdict on the ground that it was a runaway, heresy trial prohibited by the First Amendment. The case was remanded for a new trial.

Given the admonitions of the Court of Appeals in remanding the case, the second trial should have been better controlled. It was not. If anything the second trial, conducted in 1985, was worse, as by that time Michael Flynn had put together a regular traveling circus of apostates that he exported to his allied FAMCO attorneys who were trying the case. All the witnesses had three things in common. One, they had never met Julie Christofferson. Two, they were all represented by Flynn and had a stake in the outcome of the litigation. Three, they were CID informants. This was the same turn-key arrangement used in the Armstrong case.

None of the witnesses had a single thing to say about Christofferson. They were simply summonsed to rant about the

"evil" Church for days on end. Gerald Armstrong, an IRS informant whose love poem to a pig was written at plaintiff attorney Gary McMurry's farm-home between days of testimony, spent several days denigrating the Church and its beliefs.

On cross examination Armstrong was questioned about the facts disclosed in the video tapes outlined earlier in the Armstrong section of this answer. True to his premeditated pledge to deny any of it, even under oath, he proceeded to do just that. Thus, he denied that he had ever been involved in any planning to take over the Church or to seed its files with phoney documents in preparation for a CID raid, and other similar facts that the tapes clearly documented. He was asked if he ever met with anyone to discuss anything like this. Armstrong vehemently denied it. His blatant perjury then was exposed when the Los Angeles police department sanctioned video tapes were put into evidence.

Within two hours of this testimony, CID agents and District Counsel attorneys were in Portland in the Judge's chambers, and in a clear attempt at intimidation, demanded access to and sealing of the tapes. Simultaneously, CID agents Lipkin and Ristuccia visited the Chief of the Los Angeles police department to arrange cover for their operation. This case should have exploded in the plaintiff's face with a summary perjury conviction of her star witness. Instead, as a result of IRS CID interference it was allowed to run its full course as a modern-day heresy trial against the Scientology religion.

Not only was Armstrong not charged with perjury, but other CID informants such as Laurel Sullivan, Bill Franks, Eddie Walters and Howard Schomer, were also allowed to disparage the Scientology religion to their heart's content; and CAN psychologist Margaret Singer, whose theories on "cults" and "brainwashing" have subsequently been completely discredited in several courts, was allowed to expound upon those theories making Scientology out to be something entirely evil and diabolical. This went on to the point where once again Scientology was on trial and the jury was overwhelmed by the poisoned atmosphere and the inflammatory accusations.

The resulting \$39 million verdict was so outrageous that a public outcry went up, not just from Scientologists but from the religious community at large. The judge himself was shocked, and in admitting that the case had gotten out of hand in violation of the court of appeals ruling in the first case, declared a mistrial and nullified the verdict completely.

The Church thus does not agree with the verdict reached by the jury but does agree with the mistrial declaration that nullified that verdict exactly 60 days after it was entered. Lawrence Wollersheim v. Church of Scientology of California.

The Wollersheim case, discussed on page 10-16 of the prior submission is still under consideration by the California Supreme Court. The original \$30,000,000 verdict was reached after months of testimony by Michael Flynn's regular stable of witnesses, including Laurel Sullivan, Eddie Walters, and psychiatrist Margaret Singer, none of whom had even met Larry until the eve of trial. The trial was no different than Christofferson - same witnesses, same documents - except that it lasted for an additional two months. The entire trial was five months of unrestrained ridicule and attack of the Scientology religion.

On appeal the verdict was reduced by the California Court of Appeal to \$2.5 million. The Court of Appeal characterized the amount of the verdict as "preposterous." Although clearly shocked by the outrageous verdict, the court of appeal went out of its way to recite a factual record absolutely unsupported by the record below to justify Wollersheim receiving the \$2.5 million they arbitrarily decided he was entitled to.

Both Wollersheim and the Church filed petitions with the United States Supreme Court. Wollersheim's petition was denied, but the United States Supreme Court granted the Church's petition, vacated the judgment and remanded the case to the state appellate court for further proceedings. On remand, the Court of Appeal issued a new decision giving Wollersheim a choice of accepting a \$2.5 million award or having the case remanded for a new trial. When Wollersheim refused to accept the award, the Court of Appeals changed their decision and, instead of sending the case for a new trial as required, amended the decision to affirm their original award of \$2.5 million.

That decision was superceded as a matter of law by the California Supreme Court's grant this summer of CSC's Petition for Review. The matter is pending before the California Supreme Court. The final adjudication of this case is yet to be made.

However, the only thing the Church of Scientology was ever guilty of with respect to Larry Wollersheim was trying to help him, which is why he kept coming back for over a decade, even after being expelled for unethical conduct. The Church obviously disagrees with the jury's treatment of the Wollersheim case as well as the dishonest manner in which the California Court of Appeals dealt with the case on both occasions on which that court acted. The Church agrees with the US Supreme Court's decision vacating the judgment, and the California Supreme Court's decision to review the case.

Wollersheim, an attendee at numerous CAN functions, has recently communicated directly with Church counsel. This is

significant because the communication from Wollersheim confirms what the Church has asserted about Wollersheim the entire time -- he is deranged and delusional. As can be seen from the attached correspondence (Exhibit III-10-T), Wollersheim's current position is that the Church of Scientology is some sort of massive United States government intelligence experiment run amok. Wollersheim's theory even has the Internal Revenue Service, along with the FBI, Justice Department and the Judiciary, having their actions with respect to Scientology dictated by the CIA:

"If you were sitting as director in one of the super-secret intelligence agencies or think tanks would you hesitate for a moment to run interference on the outer agencies, the FBI, the Justice Dept., the IRS or the Judiciary if this would insure that national security interests in this valuable thought reform field experiment would not be terminated. Wouldn't you also periodically let the lower agencies publicly rough up Scientology to help maintain the great religion cover and release some of the pent up victim and social back-pressure."

Wollersheim's letter is plainly the ramblings of a decayed mind, but it illustrates the sort of persons against whom the Church has been forced to defend itself and further illustrates that any reliance by the Service on the claims of anti-Church plaintiffs like Wollersheim and other CAN members is seriously misguided.

CONCLUSION

As you no doubt expected, we don't agree with the negative decisions concerning some Scientology corporations in the 1980s. More importantly, through the passage of time we are being vindicated.

The Service has criticized the Church for being over-litigious in fighting dissidents. In virtually every instance, however, it has been the Church that in the first instance was required to defend itself in litigation commenced by these dissidents; litigation packaged, marketed and sold by cynical merchants of religious intolerance like Michael Flynn, CAN and a significant element of the IRS.

As detailed in this and our previous submission, we have to litigate seriously because we have been subjected to great persecution. Perhaps those in the Service who complain about our "litigious nature" do so because we didn't just fold under the onslaught of IRS sponsored attacks and this upset the best laid plans of the IRS Scientology-haters. The Service exhibits remarkable temerity to ask us to "explain" such cases when it was so integral in creating them.

The Service also has directed the support these dissidents receive. An LA district counsel attorney encouraged Vicki Aznaran to "take a stand" against Scientology, and her lawyer discussed her civil case strategy at length with LA District Counsel and EO agents. Once Aznaran was on board her ten year old personal income tax dispute with the IRS magically disappeared. Laurel Sullivan was represented by the U.S. Attorney's office (on the justification she was an IRS informant) in a civil case brought by the Church against her for violating the attorney-client privilege. Mayo's perverted version of Scientology principles received tax exemption as soon as he became an IRS informant. Even Flynn's "Scientology Victims Defense Fund" which raised "donations" to fund his contingent fee litigation against the Church received tax exemption.

Cult Awareness Network received exemption as soon as they stated in writing that they would actively refer innocent inquiries about Scientology to lawyers. No cases remain in existence that were not started or maintained by Cult Awareness Network, which continues to operate under the IRS' imprimatur. If the IRS were to withdraw its support, CAN and its instigated cases would disappear.

Our consistent view has been that the civil litigants are solely motivated by greed. The exception is Armstrong who we truly believe to be psychotic. During the 1980's, the IRS used every single civil litigant against Scientology as an IRS witness. The government, however, has no business in taking sides in a religious or civil dispute. It is indeed ironic to note that once the Flynn civil litigation in the 80's was settled, with the exception of Armstrong, we hear no more of their "horror stories" from these paragons of virtue claiming to be interested only in "principle" and "what is right."

But there is a more important point to be made. You are still holding us to a higher standard in these proceedings, which is not a fair and impartial administration of tax law. These decisions --Armstrong, Christofferson and Wollersheim-- concerned CSC. Even putting aside whether we were right or not in the court room, how could these decisions have anything at all to do with these current proceedings? CST, RTC and CSI did not even exist when these individuals left the Church and the decisions in the aforementioned cases are not against these corporations.

We have more than answered your questions on the subject of litigation and we want you to understand how unfair we think this is. After all, as we have shown, significant elements within the IRS have actively participated in the litigation with a vested interest in the outcome. So you are asking us to defend ourselves against unfair attacks that your own agency has had a hidden and illegal part in creating. To understand why we have had to engage in so much FOIA litigation, you need only look at the bizarre

occurrences in our general litigation. So why continue this war of attrition? Who keeps pushing to ask us questions about our civil litigation? It isn't relevant to these proceedings and this should be the end of it.

Everybody today knows Pontius Pilate was a toady who rendered a dishonest decision to curry favor from the Roman establishment. Judge Breckenridge is of the same ilk. The true story of his decision is in LA CID files - provided they haven't been destroyed to avoid our FOIA litigation.

It is time to end this shameful IRS involvement in trying to destroy Scientology. Why must the Service follow in the footsteps of the Nazis, who spread black propaganda about the Jews so that the German people would be inured to the massacre of millions. This is the same tactic used by significant and powerful elements within the Service in their dissemination of false information and active participation in attempting to destroy us.

We have no doubt that the IRS officials involved in unreasoned hatred and war against us are morally certain of their correctness that this isn't the same as the early Roman attacks on Christianity, that it isn't the same as the Nazis' genocide against the Jews. No doubt, the Romans and Nazis also showed the same moral certainty. Many such dogmas have borne the imprimatur of government--the indestructibility of the Roman Empire, the supremacy of the Aryan race, the inevitable triumph of communism over capitalism, the legal segregation of the races. History, however, always has proven otherwise: Rome fell, the Nazis were defeated, communism collapsed and apartheid was unmasked for the evil it is. History is on our side today.

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QUESTION 10.e.iii

iii. The Service understands that criminal legal proceedings are pending in Canada. Please provide a full description, including the current status of the proceedings.

In the preceding subparts to Question 10 and the response to Question 10.d of your second series of questions, the Church has described in detail litigation involving Scientology-related organizations or individuals in the United States. This final subpart broadens the scope of the Service's public policy inquiry to include Canada. While the relevance of this inquiry is perhaps more attenuated than those concerning U.S. litigation, at the same time it provides a fitting conclusion because the Canadian case mirrors much of what occurred in the U.S., including a leading role played by the IRS. We are providing a full description of the Canadian proceedings below, and have also attached as Exhibit III-10-U, a memorandum prepared by counsel for the Church of Scientology of Toronto, setting forth his perspective on this case in response to this question.

Canadian Criminal Proceedings:

The acts that were at issue in Toronto occurred nearly 20 years ago, from 1974 to 1976. Canadian law, however, has no statute of limitations to bar anachronistic prosecutions such as occurred in this case. All the acts at issue were committed by Guardian's Office members during the same time period as similar acts in the U.S. These included a conspiracy of infiltration and theft of documents in Canada similar to that which lead to the trial and convictions of GO members in the U.S. Yet, it was not until March of 1983, when the GO criminals in the U.S. had long since been convicted and sentenced, that the Ontario Provincial Police ("OPP") conducted the largest raid in the history of Canada against the Church of Scientology of Toronto.

The Guardian's Office Clean-up:

In our prior response, the Church's response to Question 3-d provided a detailed description of the actions taken by the Church to investigate and disband the Guardian's Office ("GO"). This included sending missions from CMO INT to Guardian Offices around the United States and in other countries to investigate involvement by GO staff in illegal activities and, based on the findings, to purge offending staff from Church employ. The Guardian's Office Canada, located in Toronto, was one of those offices investigated. A CMO mission found that some of the GO staff had been involved in

illegal activities. Actions were therefore instituted to weed out and discharge those involved. Church executives insisted that all wrongdoers make up for damage done to society by full and appropriate amends. During the thorough clean-up process, those who earnestly complied through thousands of hours of community-based charitable works, although barred from Church staff, were allowed to otherwise retain their membership in the Church. Those who refused to take responsibility for their actions were expelled.

A clique of the most high level GO members in Canada, lead by Brian Levman and Marion Evoy, who ran the Guardian's Office in Canada and, in fact, were the ones originating criminal activities and ordering them carried out, refused to take any responsibility for their acts and were expelled from the Church. Their refusal to cooperate with investigations into the extent of the criminality made it impossible for the CMO missions to find out just how pervasive the crimes committed by GO Canada were.

By January of 1983 it was well known to the OPP that the Church had dismissed from staff all people even tangentially involved in criminal activities committed in the mid 70's, and no one then currently on staff had the slightest inclination to commit crimes, and could not be induced to despite the best efforts of OPP informants. In February 1983, after 2 years of reorganization, a CMO mission fired to GO WW to begin the disbandment of the entire GO network. By late February 1983, GO WW no longer existed, and in the last week of February 1983, GO Canada was disbanded. This drove Ciampini and the OPP into a frenzy of activity.

Just two weeks later, as if fearing that the clean-up and elimination of the GO would completely undermine any case against the Church, the OPP conducted the largest raid in Canadian history, smashing Church property with sledgehammers and axes, and seizing two million documents, including confidential priest-penitent confessional materials from 641 parishioners. All together a total of 950 banker's boxes full of materials were carted off from the Church.

Why did the OPP do this, almost a decade after the alleged acts occurred, six years after the FBI had raided U.S. churches and punished the masterminds of this activity in the US? It was at least in part pursuant to the goal of destroying the Scientology religion. It was also in large measure aimed at aiding U.S. attackers, including Scientology-haters in the IRS.

The IRS, Michael Flynn and his clients Gerry Armstrong and Laurel Sullivan, were key sources who had supplied the OPP with information for the warrant used in the raid. Indeed, a large portion of the Toronto warrant dealt with allegations of fraud (saying Church services did not result in spiritual betterment) and tax fraud against the Church based on information provided

by these IRS witnesses. The warrant predicted broad charges being laid, not only against the Toronto Church, but against the religion's Founder, L. Ron Hubbard, and senior Scientologists such as David Miscavige and Lyman Spurlock.

The two other main informants for the warrant were former Church members John and Nan Mclean. Documents received under the Freedom of Information Act evidence that during the 1970s and early 1980s while the Mcleans were assisting the OPP infiltrate the Church, they were at the same time acting as agents for the IRS. The Mcleans were also plaintiffs in one of the many Flynn FAMCO lawsuits. Other FOIA documents revealed that the OPP had arranged for government legal assistance in the form of money for the Mcleans' attorneys in order to prosecute their civil claims.

Immediately following the raid, Ontario attorney general Roy McMurtry told the news media that a US government agency was coordinated with and served to help spearhead the investigation leading to the raid. Subsequent discovery showed the US agency working hand in glove with the OPP was the IRS. After the raid, IRS agents in LA CID became regular communicants with Detective Ciampini to get information seized in the raid and share with him information from their investigation. In August 1984, CID agents Al Lipkin and Stephen Petersell went to Toronto and met with Ciampini and the forensic accountants who had examined seized Church financial records.

Because of an agreement made with Church counsel, none of the seized documents could be given to foreign agencies. Nevertheless, the Crown allowed IRS agents Lipkin and Petersell to be briefed for several days on the information from the documents, including extracts from the documents themselves. CID agent Lipkin advised Ciampini that if the OPP indicted L. Ron Hubbard and others, the IRS would assist in locating them. Clearly the IRS was encouraging the OPP to go forward with charges despite the stale nature of the evidence, hoping to bolster their own chances to bring charges of some kind in the U.S.

In March 1984, Church representatives went to Toronto to offer the Church's cooperation to the Crown law offices in prosecuting the GO criminals responsible for the criminal acts in Canada. The Crown categorically rejected the Church's good faith offer saying they held all the cards. Instead, the Crown Law Office twisted the Church's offer of good faith cooperation as a threat by the Church against the GO criminals and used this to convince the criminals to accept immunity from prosecution and attack their former religion and the very subordinates they had ordered to commit the crimes in question.

Initially, the Toronto GO criminals were so uncooperative that the Crown could not even communicate with them directly. The Crown Law Office approached apostate IRS informant, David Mayo, for help in gaining support from the criminals. The OPP also utilized Mayo as a middleman to approach the expelled former Church members, as they knew Mayo was a GO supporter and part of the same splinter movement. The government chose sides in a religious dispute and went with those demonstrably guilty of criminal acts because they were willing to denounce the religion of Scientology.

In December 1984, 18 months after the raid, the OPP brought charges against the Church of Scientology of Toronto and 19 named individuals alleging theft of confidential information and property, breach of trust, and possession of stolen information and property. None of the other charges against the Church as set forth in the search warrant that authorized the raid - tax fraud, consumer fraud and conspiracy to commit indictable offenses - were raised in the indictment. After an extensive review by forensic accountants and Revenue Canada agents of all Church finance records and correspondence which had been seized in the raid, no evidence of any financial crime was ever found and no charges proceeded from these allegations. The only charges brought concerned the breaking and entering, and the infiltration activities by the GO.

The Crown gave immunity to the real culprits who actually ordered the activities of the charged individuals. Those given immunity were the GO staff who had been at the top-levels of the Guardian's Office in Canada and who had planned out and ordered the criminal activities. Those who were prosecuted were the lower-level staff who were following these orders. In an unprecedented move, no member of the Board of Directors of the Church of Scientology of Toronto was charged, but rather the entire corporation itself was - a clear move by the Crown to attempt to stigmatize the entire religion for the acts of a few long-since-expelled criminals.

During the preliminary hearings from 1988 to 1990, the Crown produced no evidence that the Church as a corporate entity had advocated the illegal actions of those charged. Evidence that was produced showed that the Church forbade actions which violated the law, was not aware of these individuals' activities and that when they were discovered, the Church removed these people from staff and disbanded the Guardian's Office. Several charges were dropped as a result of the preliminary hearing.

The individuals who were indicted offered to plead guilty if the Crown would drop the charges against the Church, because neither the Church nor its directors nor Church members had any idea that the criminal acts in question were being committed.

The Crown refused to change its position, insisting that the Church plead guilty as well.

In the litigation of this case, which spanned most of a decade, during which time government officials expended \$15 million in attempts to "get" the Church of Scientology. As described below, of 19 original charges, only 12 proceeded to trial and of those the Church was acquitted on 10. The remaining two are on appeal. The case was ill-intentioned from the outset and fell apart in court.

In November 1991, the Ontario Court of Justice ruled that the search of the Toronto Church premises was unlawful and violated the Church's rights under the Canadian Charter of Rights and Freedoms, which affords protection from unreasonable search and seizure. The Church had shown in the months-long evidentiary hearing that the OPP timed the raid to coincide with press deadlines of the international media; that many of the searching officers acted with no specific instructions or were left unsupervised, seizing everything in sight.

The judge ruled that the OPP failed to respect the terms of the search warrant that safeguarded against a general rummaging of the premises. Although the Crown argued that the police had acted in "good faith," the judge found that the police either were unaware of this limitation or chose to ignore it, and he could not find they had acted in good faith. The judge found that the instigator of the raid, Detective Al Ciampini, was not a credible witness.

The judge cited as a significant example of the massive over-seizure, the large amount of religious confessional material respecting Church members taken by the police, noting that confessional material from 641 parishioners was unlawfully seized in violation of their privacy rights.

The judge also found it ironic that for two years prior to the raid, the two OPP officers, placed inside the Church as plants, had stolen hundreds of documents without authorization and without a warrant. These stolen documents then were used in the Information section of the warrant as the justification for the raid. The fact that the information came from documents the OPP had unlawfully stolen from the Church was withheld from the Justice of the Peace who issued the Warrant. The judge also observed the ironic fact that the OPP's undercover police officers had done the very thing that was now the subject of charges against the Church and some of its members. The judge's ruling resulted in acquittals on 7 of the remaining 12 charges, and the elimination of all theft charges. The remaining five charges for Breach of Trust were left for trial. The crime was that certain GO members had worked for Ontario government agencies, had signed confidentiality agreements and then

breached those agreements by passing on information concerning the agencies' activities outside the agencies.

The trial judge allowed the Crown to keep the Church in the case as a party on a tenuous legal theory. The law that was used to support the Crown's position is called the "Dredge & Dock" case, in which a court had ruled that a corporation can be held criminally liable for the actions of its employees. This case was relied on even though it clearly pertained to a profit-making, commercial enterprise, had never been applied to, nor is applicable to, a church and had never been applied to an organization that had thoroughly and demonstrably taken responsibility to rectify the actions of the miscreants.

The trial proceeded in April and May 1992. The Crown put on several ex-GO criminals, all of whom had been expelled by the Church in the early 80s. They testified under immunity even though they were the masterminds of the Canadian criminal activity. These criminals testified against their erstwhile juniors, whom the criminals had ordered to commit criminal acts. The criminals also were allowed to manufacture justifications for their own unconscionable conduct, laying the blame on the Church's doorstep with tortured and false stories about their states of mind.

The Toronto Church had no local witnesses testify as there was no one locally in good standing who knew the first thing about the criminal activity from the 1970s. Senior Scientologists from California did travel to Toronto to testify. David Miscavige, who Ciampini had earlier threatened to indict solely for the purpose of getting ex-GO criminals to testify, voluntarily testified. He told the entire story of the GO take over, what lead to it, how it was carried out, and how the Church was so offended by the GO's crimes that it was the only entity or individual that volunteered its services to the Crown to prosecute the wrongdoers. None of the Church witnesses attempted to justify a single act of the GO. Instead they outlined how the GO had covered up their criminal activity from Church management, and when management found out about the acts, it acted, swiftly and responsibly.

Once the evidence was all in, the trial judge, misusing the "Dredge and Dock" case essentially directed a verdict for the Crown. The Judge stated that whether the GO was separate and autonomous or not, and whether or not they withheld from the Church what they were doing, and whether or not the Church cleaned house long before the OPP and Crown were even interested in any criminal charges, did not matter. He told the jury that despite the unrefuted nature of the evidence of the Church witnesses mentioned above, they must return a verdict against the Church on certain counts. Notwithstanding the de facto directed verdict, the jury found the Toronto Church innocent on 3 of the 5 counts tried. It

was convicted on two counts of breach of trust. 3 ex-GO individuals were convicted on between one and two counts of breach of trust each.

No jail terms were given to any of the individual defendants. One was fined \$5,000 and two others were each fined \$2,500. No probation or community service work was ordered, in acknowledgment of the fact that they had already done thousands of hours of community service at the direction of the Church. The Church was given a fine of \$250,000, one quarter the sum the Crown pleaded was an appropriate minimum.

The judge acknowledged that the alleged criminal acts had taken place more than 15 years ago and that all those responsible were removed by Church officials from positions of authority. He also recognized that not a single member of the present Board of Directors was a director at the time of the offenses, and that most present parishioners were likely not even members of the Church then. He specifically found that in light of those facts, deterrence was not required of the Church.

Following the decision, Church counsel immediately served the government attorney with a Notice of Appeal on the two counts upon which the Church was found guilty. The Church and Church counsel fully expect these convictions to be overturned. Not only was a novel extension of the law used to find corporate responsibility, but the trial was fraught with numerous other errors. The fact that the directing minds of the GO criminality, who testified for the Crown under grants of immunity, were allowed to go on week after week denigrating the beliefs and practices of the religion in their attempt to lay the blame for their own acts on the Church's shoulders, made for an inquisition-like, heresy trial.

On September 15, 1992, the Church filed notice of a \$19 million Constitutional Damages suit against the Ontario Provincial Police and the Crown law office for the unconstitutional search and seizure in the 1983 raid. At the center of that suit are the discriminatory and violent acts manifested by the OPP's raid; a raid that has already been ruled to have been illegal and conducted in bad faith.

The Toronto case began with dozens of charges being proposed in the early 1980's. Internal OPP memoranda obtained through discovery have shown that the aim of the case was to complement the plans of IRS CID and US private litigant to physically overthrow leadership of the mother Church and to wipe out the religion of Scientology. It began with infiltration and attempted entrapment, followed then by an unconscionable physical assault on the Toronto Church, later ruled illegal and unconstitutional. The case was pressed by the OPP and Crown, despite the Church providing evidence it expelled the culprits and was willing to cooperate in their prosecution. The individuals who were convicted, GO underlings of

the Crown's immunized witnesses, had already made up for their wrong-doing years prior to trial at the Church's insistence. The Crown's animus against the Church was so strong that notwithstanding the failure of the IRS CID's takeover plan, and the failure of the US litigants against the Church, they pressed forward by dismissing dozens of capital crime cases in order to make room for their several week heresy trial against Scientology.

The fact that the OPP and Crown walked away with 2 counts of breach of trust, a fine less than 1/4 of what they argued was the minimum possible, and no jail time for any of the individual defendants amounts to one of the biggest embarrassments in the entire history of Canadian jurisprudence. Nevertheless, the Church will continue to fight until justice is completely served. And that means reversal of the two breach of trust convictions, and full recompense awarded for the OPP's vicious and illegal raid on the Toronto Church.

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