

THE HISTORY OF  
THE UNITED STATES  
OF AMERICA

EXCALIBUR II

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OT LEVEL SEQUENCE

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STATES ATTAINED

By Processing Dianetics and Scientology

Name of State	Description
OPERATING THETAN	Ability to be at cause knowingly, and at will over thought, life, form, matter, energy, space and time, subjective and objective.
OT VII	Rehabilitation of intention; ability to project intention.
OT VI	Ability to operate freely as a thetan exterior and to act pan-determinedly; extends the influence of the thetan to the universe of others.
OT V	Re-familiarizes a thetan exterior with the physical universe; freedom from fixated introversion into MEST.
OT IV	Certainty of self as a being.
OT III	Return of full self determinism; freedom from overwhelm.



## OPERATING THETAN

### Section Three

The head of the Galactic Confederation (76 planets around larger stars visible from here) (founded 95,000,000 years ago, very space opera) solved overpopulation (250 billion or so per planet - 178 billion on average) by mass implanting. He caused people to be brought to Tegeesack (Earth) and put an H-bomb on the principal volcanoes (Incident II) and then the Pacific area ones were taken in boxes to Hawaii and the Atlantic area ones to Las Palmas and there "packaged". His name was Xenu. He used renegades. Various misleading data by means of circuits etc. was placed in the implants. When through with his crime Loyal Officers (to the people) captured him after six years of battle and put him in an electronic mountain trap where he still is. "They" are gone. The place (Confed.) has since been a desert. The length and brutality of it all was such that this Confederation never recovered. The implant is calculated to kill (by pneumonia etc.) anyone who attempts to solve it. This liability has been dispensed with by my tech development.

One can freewheel through the implant and die unless it is approached as precisely outlined. The "freewheel" (auto-running on and on) lasts too long, denies sleep etc. and one dies. So be careful to do only Incidents I and II as given and not plow around and fail to complete one thetan at a time.

In December 1967 I knew someone had to take the plunge. I did and emerged very knocked out but alive. Probably the only one ever to do so in 75,000,000 years. I have all the

data now, but only that given here is needful.

One's body is a mass of individual thetans stuck to oneself or to the body.

One has to clean them off by running Incident II and Incident I. It is a long job, requiring care, patience and good auditing. You are running beings. They respond like any preclear. Some large, some small.

Thetans believed they were one. This is the primary error.

Good luck.

\* \* \*

For the purpose of clarity, by BODY THETAN is meant a thetan who is stuck to another thetan or body but is not in control.

A THETAN is, of course, a Scientology word using the Greek theta which was the Greek symbol for thought or life. An individual being such as a man is a thetan, he is not a body and he does not think because he has a brain.

A CLUSTER is a group of body thetans crushed or held together by some mutual bad experience.

#### Character of Body Thetans

Body thetans are just thetans. When you get rid of one he goes off and possibly squares around, picks up a body or admires daisies. He is in fact a sort of cleared being. He cannot fail to eventually, if not at once, regain many abilities. Many have been asleep for the last 75,000,000 years. A body thetan responds to any process any thetan responds to.

Some body thetans are suppressive. A suppressive is out of valence in R6. He is in valence in Incident I almost always.

One can't run a human being on these two incidents since human beings are composites and would not be able to run the lot. Aside from that, non-clears are way below awareness required to even find these incidents.

Huge amounts of charge have already been removed from the case and the body thetans by Clearing and OT I and OT II to say nothing of engrams and lower grades.

Awareness is proportional to the charge removed from the case.

Although a human is a composite being there is only one I (that is you) who runs things.

Body thetans just hold one back.

You will continue to be you. You, inside, can of course separate out body thetans and so solo auditing is the answer. How good do you have to be to run body thetans off? Well, if you didn't skip your grades, Clearing and OT II particularly, you should be able to command body thetans easily.

\* \* \*

Incident II is over 36 days long. Capture on other planets was weeks or months before the implant. Those on Tegeack (Earth) were just blown up except for Loyal Officers who were (shortly before the explosion on Earth) rounded up.

Do not scan through the duration of 36 days. The volcanic

thetans.

### The Basic on BTs

I've isolated a way a thetan comes to be stuck to another thetan. This gives the basis of clusters and having ETs.

A thetan collides with another. That one makes a picture of being collided with. Other ETs get stuck to the picture.

The moment of actual contact of thetans was brief but the picture (containing a stop or withdraw) tends to be permanent.

Thetans then get the idea they can be permanently stuck as they see pictures of it happening.

Thus we get the concept of a "black theta body". This would be actual ETs stuck to a thetan plus pictures of BTs stuck to a thetan.

An answer to all this is to find the first picture a thetan made of contacting another thetan.

If not at once available the earliest instance of a thetan contacting (colliding, running into, attacking) another thetan could be achieved by R3R on being suddenly hit with clusters or strange beings.

The idea is to find and run the first picture one made of another thetan.

This opens another way to "blow off" BTs - run R3R on a BT to the first picture the BT ever made of another thetan.

### Instructions

Locate by meter read or an area of pressure, a body thetan

explosion on Earth to the point where "the pilot" says he is  
mocking it up is only a few days.

Sequence of Incident II for thetans on another planet  
(1) capture (being shot), (2) freezing, (3) transport to  
Teegzeeack (sometimes via a relay point), (4) being placed near  
a volcano, (5) beginning implant up to "the pilot", (6) various  
picture sequences, (7) the 7s and C.C. and Of II materials,  
(8) 36 days of picture implants which give a vast array of  
materials and three explanations for the bombing, (9) transport  
to Hawaii or Las Palmas for packaging up into clusters.

The pictures contain God, the Devil, angels, space opera,  
theatres, helicopters, a constant spinning, a spinning dancer,  
trains and various scenes very like modern England. You name  
it, it's in this implant we call in its entirety "R6".

If one was a Loyal Officer on Teegzeeack, the sequence was  
(1) capture (2) number 5 above on. If one was a citizen of  
Teegzeeack there was only number 5 on.

The material given at the various "volcanoes" was longer  
or shorter but dovetailed into the same sequence of pictures.  
We have the whole text but it is needless.

People who feel dizzy have gotten into the spinning part.

\* \* \*

Incident I occurred about 4 quadrillion years ago plus or  
minus. It is very much earlier than Incident II which occurred  
only 75 million years ago (a bit less).

Incident II is only peculiar and general on this planet

or group (cluster). Run Incident II. If the BT does not blow off or the group break up and blow, then run Incident I on individual BTs. Each will blow off with an F/W.

When you can find no more on which to run Incident Is, once more locate a pressure area or by meter read on looking over body run another Incident II. Then Incident Is on any.

Incident II made clusters of BTs. Severe impacts and experiences ALSO make clusters. (See the data called "Milazzo" in this pack.) Those who do not leave on running the impact or its chain will leave when Incident I is run on them.

Incident II sometimes forms gigantic clusters. In such there is a leader, an alternate leader and several (eight to eighteen) more. These were all implanted in different volcanic areas with fractions of the main 36 day implant and then "packaged" in Las Palmas or Hawaii. Thus if you run Incident II as far as "the pilot" it blows up or loosens up and those who don't go away can be run on Incident Is.

Do not speak your commands. Just "intend" them. A BT controls easily. BTs can be ARC broken by rough or careless auditing. You can also run an Incident II on a BT and he doesn't blow but you accidentally run an Incident I on another one and leave the first still there. The remedy is to run Incident Is on anything you find.

A very SP BT can be run on grades and Power and should then respond to Incident II and Incident I.

After a BT leaves some other BT may copy him or the incident just run.

If you have found a cluster (pressure area) that does not respond or disintegrate to Incident II running, get Dianetic auditing, listing "What impact or incident would cause a cluster?" and RJR on the items found. Then do more Incident Is to clean up the strays with solo. This is a refined "Milazzo".

There are hundreds of ETs you will find.

If you find none, get audited on Dianetics in general and as above (impact list), and if you still find none, get a Review GF 40 and handle all items, then go back to solo.

If you find only one or two, get the Dianetic impact list done.

All "none on CT III" cases were later found loaded.

Do Incident II and Incident Is on what you can find to begin with. You will do fine. Good hunting.

\* \* \*

Certain "buttons" have to be gotten in where running a thetan through incidents. The EFFORT TO STOP the motion hangs up the action and gives a stuck picture. One gets the EFFORT TO STOP off and the scene races through.

The EFFORT TO WITHDRAW is important also and hangs up the action and creates a vacuum.

RUSH, PROTEST, NOT-IS, SUPPRESS are also present.

These were actions - thoughts - the thetan had during the incident and are picked up only when the incident doesn't run well. Sometimes two "buttons" such as STOP and WITHDRAW are in combination.



Thetans in the body may obsessively copy the pictures of other thetans. Therefore you can find it seems that the thetan who just left is still there because there is a picture left. Spot the fact that someone else copied it and it usually goes.

If you do an S & D on a body thetan be sure you give the right item to the right thetan.

#### Cross Auditing

When one runs Incident I out of one thetan and then Incident II out of another (thinking it was the first one) one can get a partially run body thetan who won't blow but who may start to go on through the whole of R6 automatically (since the basic-basis Incident I is not run, yet Incident II is). One can get quite ill doing this as the illness in R6 can turn on.

One can also "feel no wish to audit". All "no desire to audit" is some large blunder on a case.

The way you can run Incident I out of one thetan and Incident II out of another is rather easy. One fails to notice the first one blow on having Incident I run and runs Incident II on another.

\* \* \*

As a matter of data, the only trouble in a III CT run is running an Incident I on one thetan and an Incident II on another, thinking it was the first one. A pre-CT can freewheel into R6 if you run only an Incident II. You can stop a freewheel at once by running Incident I off the same thetan you ran the Incident II on that started a freewheel.

Freewheel means that the pc goes on automatic continuous run. Incident II is R6 75,000,000 years ago. Incident I is about 4 quadrillion years ago. Both, all thetans on this planet and 21 nearby stars have in common. All thetans in the universe have Incident I. Only those in this old Confederation have Incident II and R6. All C.C. and OT II materials are in R6 75,000,000 years ago. These are followed by 36 days worth of motion pictures - God, Devil, space opera, trains, cars, helicopters, crashes, stage etc. This R6 is 75,000,000 years ago and this planet and Confederation.

If the volcano bit is run as per III directions but the Incident I is not run on the same thetan, R6 begins to run off on automatic, the being can't sleep for days, the body dies. That's the way it was designed. -- -

#### Overrun on III

The only way you can get a read on "overrun on III" is to have accidentally run Incident I out and then later run it out again on the same thetan or make a similar blunder. Example - one flattens Incident I by several passes on a body thetan. This body thetan for some reason (mostly because Incident II was then not run) does not fly off. Then, not noticing, one again finds the same thetan and once more seeks to run Incident I. One then gets, in answer to the question "Overrun on III?" a lot of reads and overrun phenomena.

The remedy is to find out WHO was overrun and get the charge off by that action.

One then runs the BT on that area of the BT event, by getting off the charge of "overrun", letting the thetan depart.

Just because one's meter reads "overrun on III" is no reason to attest. Find out who was. It's almost always a body thetan.

\* \* \*

A BT can be overrun past erasure. This fact sometimes causes a solo auditor to believe OT III is overrun.

If he asks "Is OT III overrun?" he may get a read and blowdown. This is actually usually just one BT or cluster that is overrun. The remedy is discovering and indicating the point of overrun. And carry on with OT III.

#### Running OT III

When running OT III the solo auditor handles body thetans as he would any other pc, for the general idea is to run them standardly and not ARC Break them. He does not scan through anything in order to find body thetans.

When a solo auditor can find no more body thetans he can attest, or run a pressure area down and handle as per his running instructions.

The pre-OT could be exterior and the Interiorization processes can be run in Review to help him through.

Here are three reasons why a pre-OT might have trouble whilst running BTs on Incident II (1) it is the wrong area; (2) it is not the volcano of the BT being run; (3) it is not

Check (1) and (2) if you are having any difficulty in running Incident II and handle by locating the correct area or finding the volcano of the BT being run. If it is not a II, simply check for the date and if different run it.

#### OT III Errors

Amongst OT III errors are "a BT run on Incident I fails to blow". There are three reasons: (a) Auditor is trying to run a cluster with an Incident I. The right thing to do is date and get the character of the incident that made it a cluster and then run Incident I on those left when it breaks up. Or get Dianetic auditing. (b) There is an earlier Incident I on the same BT. Find it and run it. The BT has a chain of them all by himself. (c) Another BT is copying the Incident I just run so it looks like it didn't blow. Failure to ever run Incident II can also cause a bog. Routine Dianetic auditing by a Dianetic HDC who is also on or above OT III using triple flows and LDN OT III also handles bogged OT III pre-OTs.

#### Cluster Formation - Cumulative

In doing a cluster one is likely to find it is made up of other earlier clusters. This looks like this. 1898 impact horse accident. When engram 1898 run on R3R, that part blows. No F/N occurs, TA remains up. Remainder will grind after the blow. Earlier portion dates as 93,000,000 years ago, electric shock. When run on R3R, that part blows, no F/N. TA remains up, will grind if run further. Earliest portion dates as 72 trillion implant. When run on R3R, all blow, F/N.

A cluster or engram which is a cluster can repeatedly F/N as BTs blow. Dates as 778 million explosion. After run once or twice an F/N occurs as one BT blows. Run again to second F/N as two more BTs blow. Remainder blow with a wider F/N. The cluster has gone. This happens (repeating F/N) when picture persists and meter check reveals it is not a copy. It will be more BTs in same cluster. So above repeating F/N occurs when pre-OT is moved through it. Clusters are found by meter dating, listing for type of incident and run as an engram. Clusters can occur at Incident II and Incident I. They can also occur at I quadrillion, which is the Clearing Course materials. They also occur at random dates for different reasons.

\* \* \*

I have lately been C/Sing a number of failed OT cases and have found them all running well on solo now. The errors are made as follows:

- (1) The solo auditor cannot audit, needs more training
- (2) Cases are not well prepared with Dianetics. The remedy for all of these is to (a) run the pc for at least a score or two of Dianetic items by RBR, done of course by a good HDC, (b) then do a CF 40. And then repeat it until necessary auditing is complete. These two actions take care of the majority of difficult cases on OT III.

The real end phenomena of OT III and OT IV is exterior with full perception. You can and should accomplish full stable exteriorization on doing the materials of III.

Further III remedies:

(3) High TA. This comes from not completing the Incidents I and II on body thetans.

(4) The solo auditor puts too wide an intention on the BT and runs two or three when he is intending to run only one.

(5) A cluster just won't break up. The remedy is a Dianetic session listing for impacts or incidents that would cause a cluster and doing R3R. The principle of earlier similar holds good. When this is completed, the solo auditor is sent back to solo to clean up the BTs shaken loose and to continue with OT III.

(6) Ruds go out on BTs. The remedy of course is to locate BTs who have out-ruds, put in the ruds and run Incident I, at which the BT should leave.

(7) A theta-bopping meter sometimes puzzles a solo auditor on OT III. This means a BT is trying to exteriorize and can't. The remedy is to complete the partially run Incident II or Incident I or in extreme cases put the ruds in on the hung up BT.

(8) One-hand electrode giving wrong TA read baffling the solo auditor with floating needles with a high TA. The remedy is to have two-hand electrodes handy and trim the trim knob so the one-hand electrode reads the same as two-hand electrodes.

(9) A suppressive body thetan sometimes isn't auditable. The remedy is to run Grades IV or V on him.

(10) By far and large the commonest error and which has been very prevalent is not knowing the materials of OT III or the content of Incident II or Incident I. OT III is a vital grade. One fronts up to it and does it. When he is really done, the rewards of OT III and IV exceed his wildest dreams.

#### Ruds Going Out On ETs

When the ruds go out on ETs during the session the solo auditor recognizes the following:

BT critical = withhold from auditor

BT antagonistic = bypassed charge in session

No TA = problem

BT sad = ARC Break

Soaring TA = Overrun or protest (also more than one

BT being run in error or it's a cluster)

Auditor tired = no sleep or incomplete Incident Is

Auditor dope-off = bypassed F/N or not enough sleep

Auditor no-interest = out ruds on ETs

A solo auditor who isn't sure what it is but runs into trouble with a BT is smart to end off the session quickly, write down the full observation and get it to the C/S. The solo auditor who knows what he is looking at as per the above scale (and the C/S the C/S would give), handles it promptly.

BT critical = w/n = pull the withhold

BT antagonistic = BPC = assess proper list (such as LLC) and handle



No TA (or case gain) = problem = locate the problem and handle

BT sad = ARC Brk = locate and handle itsa E/S itsa

Soaring TA = O/R or protest (also more than one BT being run in error or it's a cluster) = find which and handle (running more than the one intended cores from too wide an intention)

Auditor tired = no sleep or incomplete Incident Is = check which it is and handle

Auditor dope-off = lack of sleep or bypassed F/N = check on sleep or rehab F/N

Auditor no-interest = out-ruds on BTs = put in ruds

#### OT III Auditing

OT III pre-OTs got a reputation of being hard to run on Dianetics early on in Dianetic re-development. Only five reasons exist for this.

- (1) A person that high on OT grades audits fast and a comm-laggy Dianetic auditor can drive him up the wall.
- (2) Too quiet or too blurred TR 1.
- (3) A tendency to evaluate instead of using TR 4.
- (4) The numerousness of BT chains on the same item (the BTs being separated now) making several chains on the same item which if not all run separately leave the pc ARC broken with the bypassed charge of unrun BTs.
- (5) The OT II who is still on OT III and has been on it a while probably himself has no pictures and all the pictures he has are BT pictures.

The lower grade pc (before Clere) reacts as a composite being, all on one chain, so to speak. He is separated into himself and the individual BTs and clusters of them when he gets to OT II and so audits differently. He easily misowns the pictures thinking they are his. The big blowdowns you get on such a pc's item indicates several BTs have it in common. A solo III however will be found to have the same item on more than one BT in many cases.

\* \* \*

The reason for low TA is unflat OT III phenomena. If a person has had a low TA in lower grades the keynote is to take it easy as auditor and C/S. This applies also to any auditing given on upper OT levels.

That a pc's TA goes below 2.0 is a certain indicator of unflat OT III. He's still got some. When a person cannot handle OT III he is too much at effect. He cannot project his intention. And so can't run OT III. The new OT I and OT II, particularly OT II, are designed to increase a pc's ability to project his intention to others. If he can't, they overwhelm him and you get low TA or "none on III". Marsh, overbearing auditing or life incidents have to occur, apparently, to drive the TA down.

Overtis, disagreements expressed as obsessive agreement and other lower level matters are at the bottom of this in any being.

But any case of low TA I have ever found has been (1) overwhelmed in life, (2) unable to project intention, (3) physically

invasive, (4) loaded with EPs, (5) tends to go out of valence easily. In all this number (4) is the important point.

Endless OT III and low TA are alike - inability to project intention, pc at effect. Remedy by lightly causing pc to come to cause, to be able to project his intention and thus flatten OT III. That will complete and finish off low TA.

\* \* \*

It does not matter whether or not you ran Incident I and II on self. The end phenomena of III is getting rid of all body thetans. This does not necessarily include self. If you overrun III it will be by trying to get rid of more body thetans than there were or by then, having gotten rid of the others, starting in on self. So III is complete for purposes of overrun as above. If you have not done Incident I and II on self when above is achieved, attest completion and then do I and II on self.

EPs

No BTs left = OT III

Exterior = OT IV

There were two zones of assembly after the thetan was implanted. Thetans of volcanoes in Asia and the Pacific were taken to Hawaii. Thetans of Atlantic areas were taken to Las Palmas.

Asia and Pacific

North Japan

Mt. Shasta

South Japan

San Gergornio

Krakajawia

Indonesia

Mount Washington

Philippines

Mount Ranier

Himalayas

Mount Hood

(Hawaii)

Andes

Atlantic

Tangier

(Las Palmas)

St. Helena

Canada

Kolomonjero

(Spelling not guaranteed)

(List may be incomplete)

Incident II

75,000,000 years ago on this planet. Sometimes capture was on another planet and explosion on this planet, then called Teegeeack. Locate area of explosion. Pictures of explosion follow it. Get original explosion. Effort to stop usually present.

H-ECMB DROPPED ON VOLCANO

EXPLOSION

TERRIFIC WINDS

THETAN CARRIED OVER PEAK

ELECTRONIC RIBBON CAME UP

HE STUCK TO IT

IT WAS THEN PULLED DOWN AND HE WAS (AS PART OF A

GROUP) IMPLANTED WITH R6

PICTURE OF PILOT SAYING HE IS MOCKING IT UP

(R6 materials follow, then days of pictures of God,  
Devil, etc.)

(Thetan usually cognites on pilot or before (or on first  
incident) and leaves)

#### Incident I

Occurs at start of track (4 quadrillion years ago)

LOUD SNAP

WAVES OF LIGHT

CHARIOT COMES OUT, TURNS RIGHT AND LEFT

CHERUB COMES OUT

BLOWS HORN, COMES CLOSE

SHATTERING SERIES OF SNAPS

CHERUB FADES BACK (RETREATS)

BLACKNESS DUMPED ON THETAN

Effort to stop must be gotten off (sometimes to hurry)

Run as an engram

OT 3-7

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EXCALIBUR II  
The Materials of OT III Through OT VII  
Including Power Process Data  
For Advanced Auditors

OT III

FOURTH DYNAMIC ENGRAM, 1. the basic aberration of the planet. (LRH Def. Notes) 2. the humanitarian objective is to make a safe environment in which the **fourth dynamic engram** can be audited out. By **engram** we mean the mental block that prevents peace and tolerance. By **fourth dynamic** we mean that impulse to survive as mankind instead of just individuals. (Ron's Jour 68)



OT III INTRODUCTION

This incident took place on the time track around 75 million years ago. Ron says 75 million years plus to be more exact. This was the time of the Galactic Confederation when it was in it's hayday of implanting. This is an electronic implant incident that took place on planet earth then called Teegeeack. This implant was a solution to overpopulation and produced some intended aberration on the 2D. The perpetrator of this implant was named Xemu. He was the head of the Galactic Confederation. The Loyal Officers acted as agents of Xemu and ran logistics. There are 2 incidents, one at 75 million and another at 4 quadrillion years ago. The 75 million incident we will call Inc 2. The 4 quad is Inc 1. Sexual perversion and promiscuity come from Inc. 2. Inc 1 and 2 plus CC data and II are called the R6 bank or just plain old R6. The R6 bank was implanted while the thetan was caught in a compound of frozen alcohol and glycol. It contains Animals, Religion, God, Sex, Perversion. Nasty inc.!

Inc's 1 & 2 have a particular phenomenon in that not just one thetan received the implant but a number of thetans did and as a group! This means that when you got the implant that there were a number (2 to ?) that are still stuck to you and your body. So that you are not presently just one thetan sitting in a chair but you are a composite of thetans, many thousand perhaps, all stuck together sharing a common Inc 1 & 2 and perhaps many others incidents as well. The purpose is running Power Processing, Grade VI, CC, OT I, OT II was to unburden the incidents so that the core (Inc 2) could be now available to consciousness for viewing and subsequent erasure. You will be running Incs 1 & 2 many, many, times. You will run a Body Thetan (a thetan stuck to your body) a number of times till he either blows or the Inc erases. You will for this section be a group auditor. You will be scanning your body for an area of pressure of a Body Thetan. The GSR/E-Meter will be

of assistance on this. Once a pressure area is located you will address the presiding thetan or group and run the cluster on Inc 2 till blow or erasure, then you will run each thetan (if still there) on Inc 1 to blow or erasure. That is basically all there is to do.

Ron suggests taking plenty of vitamins and being sessionable before sitting down to process. It is necessary to be an expert with the GSR/E-meter before embarking on this journey. You may even need some more auditor training. You need excellent TR's and a strong intention. Don't Q&A with this material. A read is a read, a body thetan a body thetan, an Inc 1 a 1, and an Inc 2 a 2. Don't play with it, just run it as instructed. I strongly suggest that you have a well trained C/S at your side as a consultant to keep you on purpose and operating in the know.

From what LRH says, Xemu to this very day is located somewhere on a mountain top stuck in an electronic trap. The Galactic Confederation has fallen due to their giant overt against the 3rd and 4th dynamics. When a person gets a cold it is due to a restim of R6 (glycol & alcohol with caused freezing). If you have any trouble with this section, see your local Class VIII C/S for remedy and instruction. You may occasionally find BT's offering other incidents to be run. Take them and run them standardly as if they were an Inc 1 or 2. Thetans tend to cluster upon impact (a number of thetans who get hit in a space car now think of themselves as one entity). There are also other electronic incidents that can cause clustering. To process a BT (Body Thetan) simply intend a BT through the incident. This is done telepathically; no shouting, whispering, talking over your shoulder or other variations on good, clean TR's. If you are not sure if the BT has blown, check copies. To do this simply call out copies and see if you get a B.D. on the meter and if the stuck pictures blow. Oftentimes the other BT's have taken pictures of the BT and you are mistaking these for the actual BT who has long since departed. Don't be fooled; check copies.

How to run Inc 2.

FIRST

Scan the body for a pressure area or a BT (look for meter read).

SECOND

See if there are any Inc 2s to be run.

THIRD

Run the BT or cluster through Inc 2 as many times as necessary to break up cluster and cause erasure or blow (do not go past the pilot).

FOURTH

Run still remaining BT's on Inc 1. Each Separately. Do this until area is cleaned up.

FIFTH

Go back to step 1 again and look for new area.

In running BT's be a good group auditor. Grant beingness, don't Q&A, no eval-inva, let come up what is there and run good control (SCS). No push or shove, just good 8C. Every once and awhile, you may find a BT who needs the ruds flown on him; just do it like any other pc.

Note the whole Inc 2 - from capture to end of implant including Clearing Course, OT 2 - takes 36-38 days ! However, we only run capture-to-pilot- which is about 2 days. The rest of the implant contains pictures of God, the devil, religion, sex, perversions, and many earth-type dramatizations. If you run past the pilot you stand the chance of turning on dizziness, spininess, and sleeplessness. Only run "capture-to-pilot". That is all! NEVER NEVER NEVER run more than this, if you are running God, the devil, religion, etc., you are a fool, so stop that nonsense and do it the way it works! Please get this NOW, O.K.?

The BT's you are running may have been on Teegeeack at the time of the explosion and never "captured", or the BT may turn out to be a loyal officer blown up, inadvertently; so take what you get. So run explosion-to-pilot if that's what's there.

SYMPTOMS OF R6 IN RESTIM

Delusions  
Can't leave alcohol alone  
Dishonesty  
Physical Deterioration  
Deception  
Religious fixation  
Sexual perversion or promiscuity

EP FOR OT III

No more BT's, freedom from overwhelm

LATE NOTE: Ron says that not all beings received Inc 2, but that all beings did receive Inc 1. Inc 2 was just mainly delivered in this sector of the universe. Also, if you are one of those that find "none on 3", meaning that you fail to locate any BT's, LRH says it's because your case is overcharged and your confront is poor. This, of course, requires more auditing. There are specific remedies for this state of case.

Source: OT III Course Pack, and Tape #10 from Class VIII Course.

### STORY OF OT III

First reference in print to OT III is made by LRH in A History of Man published in 1952. On page 75, middle paragraph, there is the statement that "there are usually six or ten entirely different banks in any preclear beside his own."

The whole basis for this phenomena was uncovered by LRH in 1967. He retired to Sicily to work it out and an account appears in Ron's Journal '67. The word "Molazzo", used for one process in OT III, is taken from the place in Sicily where he stayed.

The story begins 75 million years ago when this planet was called Teegeeach and was a very highly developed society similar to what we have in the 20th century. There were then 90 planets in this sector with space travel in between; together they were called "The Confederation" under the leadership of a ruler named Xemu. As now, there were such institutions here as income tax and suppressive governments. Then, however, the chief problem was over-population. There were 200-500 billion people per planet (compared to 5 billion today which we consider over-populated.)

Finally Xemu decided to take radical measures to overcome the population problem -- not only for this time but for the future as well. His action resulted in what is called "Incident Two". The planet earth was designated a place for executions. Beings were captured on other planets as well as on this planet and flown to locations near 10 volcanos or more on earth. H-bombs (far more powerful than any in existence today) were dropped on the volcanos, destroying the bodies of the beings who as Thetans attached themselves to one another in clusters. These

clusters concluded they were one, which resulted in a primary aberration still in existence, i.e., as in the statement "We are All One." Since that time, all of us have had on our bodies or in our psychic spaces clusters of up to one thousand beings acting as if they were one being but all with different goals and purposes. This is what makes us so confused and keeps us from achieving our own purposes. LRH says man is really a composite of many beings.

After the explosion, a 36 day implant sequence followed for the Thetans now out of their bodies. This implant involved spinning dancers, gods, devils, the psychiatrist, helicopters in a modern society sequence: all called the R6 implant. The 36 day implant was designed to kill any being once he got into it again if he should recall the sequence. If one should start running the implant itself, a phenomenon called "freewheeling" will occur, which means that a track movie will turn on that can't be turned off, and the victim will find himself unable to sleep or eat and will die of exhaustion or something like pneumonia before the 36 days have elapsed. The designers of the implant wanted it to be too horrible to ever escape from.

After the explosion the earth was left a cinder of radioactivity. It was considered to be the end of this world. The beings clustered were packaged in two locations, Las Palmas, Canary Islands, and in Hawaii.

Since that time beings born on this planet have had clusters of thetans attached to their bodies and in their spaces. OT III can run out these clusters and cause them to leave us and be free to reincarnate as individuals. These beings are called Body Thetans (B.T.). The common pictures of the incident

can cause the cluster to break up and blow.

Around us these beings affect us telepathically. We get voices and ideas from somewhere. Voices say "I should be an artist" or "I should do this or that", i.e., "Jump off the bridge." Body Thetans communicate with us not only as voices but as ideas we have. They have the capability of thinking, as well as feeling, and persist because they are misowned by the individual who has them on his body or in his space.

After Incident Two, a revolt followed of the loyalists (Loyal Officers) against Xemu. Xemu was locked up in an electronic mountain fortress and remains there still. In the battle, the other planets connected with Earth were wiped out.

All of those who got Incident Two on this planet clustered up and have been reincarnating here ever since. LRH was very afraid of atomic war; he felt beings would start clustering up all over again. He himself freewheeled into the whole 36 days in 1967 when he was working out OT III. He almost died, broke his back, and was generally messed up for some years afterwards. However, he worked out a procedure for OT III that safeguards us from that possibility.

All beings in the universe got Incident One which will be described below. This is the Basic to which Incident Two is a "lock". Only beings on this planet got Incident Two. Incident One occurred 4 quadrillion years ago. All beings in this universe have Incident One.

#### RUNNING INCIDENT TWO

The procedure is to run out all the clusters in or around your body or in your psychic space first. Then, only if necessary,



do you audit yourself through the incident. Do not audit yourself first or you may freewheel. Do not go through the 36 days in any case. Stop at the pilot.

### TECHNIQUE

Locate by pressure area on your body or meter read a cluster. It may be ten feet or miles away. This is all done silently, telepathically. Look around silently for clusters. As their auditor, give them the R factors needed and take them through Incident Two up to the pilot. Intend them through it; once started, they will continue on by themselves. They got charge off with you through the CC and OT II. Be sure that if they come into your space, they will be ready to run. Use the auditor's code with the body thetans. They are sentient beings and you can ARC break them like anyone else. Fly ruds or do L 1 C if you should ARC break them. Be careful. Handle originations. Give R factors where needed. You might find one who is feisty. Usually, however, they want to cooperate. Check always to see if you have a cluster or individual. You must keep your attention on the one you find; you could restimulate the others otherwise and start freewheeling. Lots of discipline is needed to handle this. Run the cluster until they break up. Remember, this is the end objective of running Incident Two: to break up the cluster.

Body Thetans involved in Incident Two include three types:

1. "Captured Being" from another planet. These were revolutionaries, DBs, criminals, or those considered too smart. These beings, after capture, had their lungs shot with alcohol and glycol and were transported as beings by space ships resembling DC 3's to earth. Sometimes you will find a cluster who were all captured together or a mixture together with other types.

2. "Loyal Officer". These were civil servants or army personnel loyal to Xemu who were betrayed before and during Incident 2. These were captured on another planet or this one and chained down near the bomb sites.

3. "Citizen" of this planet. For him the incident starts with the explosion. He was not necessarily captured.

Thus the main distinction of these people is the start of the engram at Capture or Explosion. This must be determined by the auditor through questioning the B.T.'s in order to determine the beginning of the incident.

Class VIII C/S materials deal with p.c.'s who have alcohol problems that go back to the time of this implant. Thetans were implanted while in the alcohol and glycol compounds. In the transport they were made to believe they were frozen. The C/S data states that the delusions of alcohol are almost entirely R-6: animals, religion, gods, perversion, promiscuity. The use of alcohol restimulates R-6. The symptoms are delusions, can't leave alcohol alone, physical deterioration, religious fixations, dishonesty, promiscuity, perversion, deception. The 36 days of the implant involved visions of Jesus on the Cross, religious symbols, etc. The Catholic Church is almost all R-6.

People got the implant in varying degrees -- some were closer, some farther away. The reason this is called the Wall of Fire is because of the H-bombs used. They were far worse than any we have today. The impact was incredible. Nothing you could imagine today would be as horrible and painful.

For the auditor the problem of running the Body Thetans will be similar to that he experienced in contacting his past lives in his own auditing for the first time. It is just a matter of getting the hang of it.

SEQUENCE TO LOOK FOR AS AUDITOR

Run Capture to Pilot or Explosion to Pilot  
Till the cluster breaks up.

SEQUENCE OF INCIDENT TWO

1. Capture
2. Transportation
3. Placement in or on or near volcano. (See list of volcanos)
4. H-Bomb goes off. Explosion, white heat, light, terrific winds.
5. Thetans stuck to electronic ribbon after the explosion pulled down over a peak.
6. The pilot who appears near the volcano says "I'm mocking it up" or "You're mocking it up." (Stop running here)
7. 36 days of implants follow which go through the CC, OT II, then into gods and spinning dancers, etc. There is a buffer for us in the CC, OT II -- a clear chargeless space. (If you hadn't had OT II or CC this incident would not run at all or would pull you right into the 36 days.)

The idea behind the pilot's command was to make the beings feel they were mocking up the whole thing. This "mocking it up" could come as a feeling--suggestion to the thetan after running the steps before. AT THIS POINT IT IS VERY IMPORTANT TO STOP THE RUNNING TO PREVENT YOURSELF AND THE BODY THETANS FROM FREE-WHEELING THROUGH THE 36 DAYS.

Don't invalidate your data if it differs somewhat from the above.

RUN THE INCIDENT UNTIL:

1. The cluster breaks up (could break up at any time, even right at the start)  
or
2. Blows  
or
3. One being will blow. Can get BD or read at this time.

NEXT: Check to see if the cluster is still there. Several runs through Incident Two may be needed to get the cluster to break up. After this has happened, run the remaining body thetans on the earlier INCIDENT ONE one at a time (never in a group) until each and all blow.

This is not R3R. You are just using Book One dianetics, putting them through with intention and no words.

BE SURE NOT TO RUN PAST THE PILOT.

#### STEPS

1. Give R factor if necessary
2. Go the beginning of the incident.
3. When was it?
4. Where was it?
5. Go through the incident. Have you finished?
6. Go to the beginning and through again.

You can check in on their pictures if you can see them. Either the cluster will break up or blow. The left-over guys must be taken through Incident One or they will continue on through the 36 days. They know what you know; they have been through your training. Just give R factors. You will erase the 36 days without even having run it. Here the genius of

LRH comes in -- the discovery that the earlier beginning is the basic and more important. And this is also the basis for the freewheel remedy which can be used to stop freewheeling. (See attached sheet.)

Some field sources say that the implant began before the Pilot. This could be quite dangerous to go through -- if you see spinning dancers and devils, watch out.

INCIDENT ONE is run to blow and repeated for each thetan INDIVIDUALLY. It is dangerous to run a cluster on Incident One or to run it first. This incident is not the source of clusters. If you try to run a cluster on it, it will just restimulate Incident Two and run into the 36 days.

#### PROCEDURE FOR INCIDENT ONE

Reach out and find one thetan telepathically. Have him move to Incident One and take him through the steps till blow or run an E/S Incident One.

After you have finished running all B.T.'s, then run your own Incidents Two and One. Or you may not need to run yourself.

Do not continue running after the Thetan blows. The blow feeling will be similar to that experienced on the date/locate process.

Above all do not Q and A with the information received on a non-verbal level. For smooth running, accept the information that comes to you first and run rapidly enough not to invalidate yourself or the B.T., yet not too rapidly to miss important data.

It is sometimes necessary to audit the B.T. before it will go. In such a case all processes up to and including power processes can be used... In the case of a suppressive B.T., Power Process 6 should be run first and then up the grades. If he hasn't blown by then, run Incidents Two and One.

#### MORE DATA

The 36 Day implant was done telepathically and holographically with lots of accidents, operations and with beings made to feel they were in the incidents. All the worst horror shows were designed to trigger the body into "can't sleep" manic types. Drugs can key this in too and cause freewheeling. At the end of the 36 day implant three explanations are offered as to why the bombing was done. This data was not made explicit by LRH. LRH does say that modern society keys us in more and more to this 36 day implant.

#### MORE DATA FROM THE CLASS VIII COURSE

There is a correction list called OT III LDN designed for the Dianetic auditor or an OT III. This can be run on the Body Thetan also during OT III. There are no directions on the form for handling. Usually just indicating will help; you must figure out for yourself how to handle.

#### EP FOR OT III

The end result of OT III is the existence of no more Body Thetans in your psychic space and on your body.

See attached for ready reference:

1. Incident Two Sequence
2. Incident Two Sequence
3. List of Volcanos
4. Instructions for Remedy of Freewheel
5. Problems and how to handle them.

OT III PROBLEMS AND HOW TO HANDLE THEM

PROBLEMS

- 1. Could have cluster still on Incident One. Remedy: Run through Incident Two again.
- 2. Could have wrong area, volcano, etc. Remedy: Correct and begin Incident Two again.
- 3. Could have wrong date or B.T. doesn't go to exactly 75 million years ago. Remedy: Correct date and begin Incident Two again.

TWO REASONS WHY INCIDENT TWO WON'T RUN

- 1. Thetan caves in hard --- could have overts and have implanted others on earlier Incident Two's. Remedy: R3R on implanting others.
- 2. You could have a cluster that won't disperse and that is impacted. In this case use what LRH calls the MOLAZZO: "What impact or injury would cause a cluster?" Run this R3R. This could relate to an incident from just a few years ago.

BUTTONS TO USE IF THE ENTITY OR CLUSTER STOPS RUNNING OR IS HUNG UP (stuck picture):

- SUPPRESS
- INVALIDATE
- EFFORT TO STOP "Is there an effort to stop?"
- EFFORT TO WITHDRAW
- STOP-WITHDRAWAL COMBINATION
- ASSERT
- PROTEST

Simple indications of these buttons will probably free him up and enable him to run.



COPY: An entity could make a copy of Incident 1 from bank and keep it from erasing. You can finish Incident one and feel either the presence of an entity or that it has not entirely erased even though the being has blown. Or you may feel all are gone. To make sure, and in the above cases, ask "Copy? Copy?" or "Is there a copy?" "Has anyone made copies of this incident?" You may then see another blow.

INSTRUCTIONS FOR REMEDY OF FREEWHEEL OR SICKNESS

If you get sick or freewheel or if one of the body thetans is sick or freewheeling (and probably affecting you):

STEPS

1. Find whoever is in freewheel.
2. Run Incident Two, Capture-to-Pilot or Explosion-to-Pilot.
3. Then run out their Incident One.

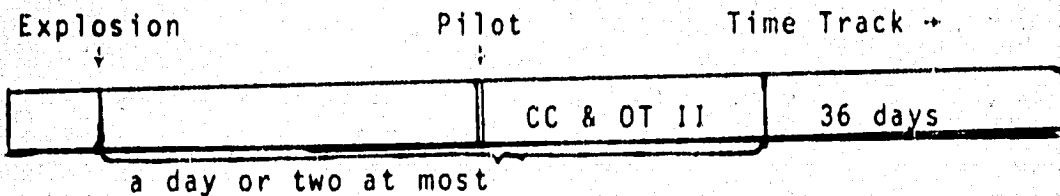
This should stop the freewheel. These steps may need to be gone through several times until the sickness leaves. Sickness is caused by the Body Thetans going through the 36 day implant which restimulates you and gets you going through it also.

This remedy can be run directly on one's self also.

OT III SEQUENCE

- A. A being from another planet (from one of the "nearby" 90 planetary star systems):
1. Capture on another planet.
  2. Lungs injected with freezing Alcohol/Glycol mixture with a long needle into lungs.
  3. Frozen in Alcohol/Glycol and transported in that state to earth aboard a space ship which resembled the DC 3's of today.
  4. Placed on or near one of the major volcanos (see volcano list).
  5. Explosion
  6. Beginning Implant
  7. Pilot says "You're mocking it up." (Stop here)
  8. CC Material
  9. OT II Material
  10. 36 day Implant. Called R 6, containing God, The Devil, Spinning Dancers, Auto Accidents, Trains, The Crucifixion, psychiatrist, Doctor dismembering bodies and feelings of nausea, sickness and spinning sensation. The 36 days also contains 3 explanations for the incident.
- B. Loyal Officer
1. Capture on Teegeeach (earth)
  2. Placed in or on volcano or chained down near volcano.
  3. Explosion
  4. Beginning Implant
  5. Pilot says "You're mocking it up." (Stop here)
  6. CC Material
  7. OT II Material

8. 36 day Implant. Called R 6, containing God, the Devil, Spinning Dancers, Auto Accident, Trains, the Crucifixion, psychiatrist, Doctors dismembering bodies and feelings of nausea, sickness and spinning sensation. The 36 day also contain 3 explanations for the incident. (See the covers of Dianetics and Scientology books as they are symbols contained in 36 days.)
- C. Citizen of Teegeeach
1. Explosion (he or she just got it in the teeth with no warning).
  2. Beginning Implant
  3. Pilot says "You're mocking it up." (Stop here)
  4. CC Material
  5. OT II Material
  6. 36 days as with Loyal Officers and Citizens from another planet.



The purpose of CC and OT II is to get enough surcharge off Incident I so that the beings wouldn't be "sucked" into the 36 days.

When doing the actual running of OT III, do not use this material, use the Inc II, Inc I, and Volcano List platten only. This material is meant as a general guide only.

## INCIDENT TWO SEQUENCE

1. CAPTURE
2. TRANSPORTATION
3. PLACEMENT ON/IN VOLCANO (See list attached)
4. H-BOMB DROPPED ON VOLCANO
5. EXPLOSION
6. TERRIFIC WINDS
7. THETANS STUCK TO OR PLACED ON ELECTRONIC RIBBON  
AND PULLED DOWN OVER PEAK
8. BEGINNING IMPLANT (Not 36 days)
9. PILOT SAYS "I'M MOCKING IT UP" or  
"YOU'RE MOCKING IT UP." (Stop here, don't go any  
further)

Date: 75 million years ago

Location: Particular volcano (or if citizen of  
this planet, location on this planet)

RUN TO BLOW/BREAK UP OF CLUSTER

## INCIDENT ONE SEQUENCE

LOUD SNAP  
WAVES OF LIGHT  
CHARIOT COMES OUT TURNS LEFT THEN RIGHT  
CHERUB COMES OUT  
BLOW HORN  
CHERUB RETREATS  
SERIES OF SNAPS  
BLACKNESS DUMPED ON THETAN

Date: 4 quadrillion years ago  
4,000,000,000,000,000.

Location: not given

Run to blow and repeat for each Thetan left after Incident Two. If the Thetan does not blow, ask for an E/S Incident One. For this you must rely on the Thetan for data for the time the Physical Universe began for him. This is the BASIC BASIC of when the Universe was formed. All beings in the universe share this incident. Only this planet has Incident Two.

## LIST OF VOLCANOS (there are others also)

PHILIPPINES

HAWAII

SAN GREGORIO

MT. SHASTA

JAPAN, MT. FUGI

KILAMANJARO

ANDES

LOS PALMAS

HIMALAYAS

KRAKAJAWEA

MT. LASSON

MT. RAINIER

MT. HOOD

INCIDENT II

## Instructions and Telepathic Commands

1. a. Intend without words to view a cluster of B.T.'s.  
b. Intend to retain attention on that cluster until it has blown apart, or simply blown.
2. Intend for the cluster to run the incident while you watch.
3. Telepathic commands:
  - A. Give R-factor, if necessary.
  - B. Move to the beginning of incident.
  - C. When was it?
  - D. Where was it?
  - E. Move through the incident.
  - F. Have you finished?
  - G. Move to the beginning of the incident. Move through to the end of the incident (the pilot).
4. Cluster will break up, or blow, or one B.T. will blow. If not, repeat G.
5. Left over B.T.'s now separated must be run on Inc. I individually.
6. Locate new cluster and repeat 1 - 5.



INCIDENT I

Instructions and Telepathic Commands

1. Intend without words for an individuated B.T. to move to an incident four quadrillion years ago.
2. Intend for B.T. to run through the Inc. I sequence:
  - A. Loud snap
  - B. Waves of light
  - C. Chariot appears. Turns left, then right.
  - D. Cherub appears. Blows horn.
  - E. Cherub retreats.
  - F. Series of snaps.
  - G. Blackness dumped on Thetan.
3. Run to blow.
4. Ask: "Is there a copy?" or "Has anyone made copies of this incident?" You may see another blow.
5. If no blow in #3, ask for an E/S Inc. I. You must rely on Thetan for the time when the physical universe began for him.
6. Run Thetan through #2 above, until blown.
7. Repeat for each Thetan left after Inc. II.

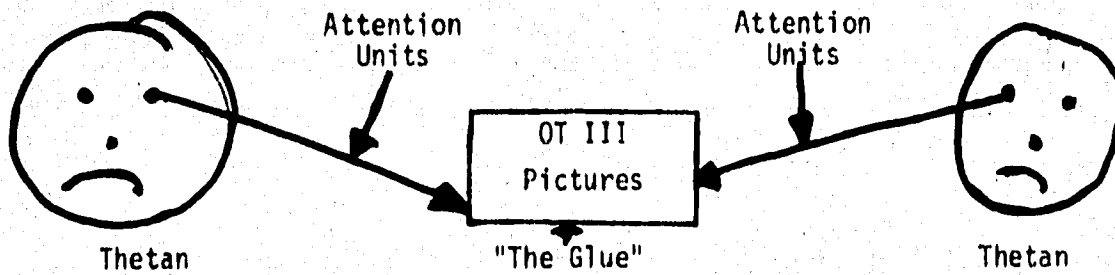
THE MECHANISM OF OT III

The pictures of Inc II are the glue which hold the Thetans together. The Thetans are all stuck looking at a mutual incident of impact, force, injury, overwhelm and disaster which is of incredible and unbelievable magnitude (a whole society and planet being systematically destroyed). The thetans in a particular cluster are all sitting there in a state of "shock" fixatedly looking at this disaster mental image picture; therefore, the picture is the "glue" which causes the Thetans to be stuck together mentally. They are "glued" together by their own reactive fixation in looking at the picture of Inc II.

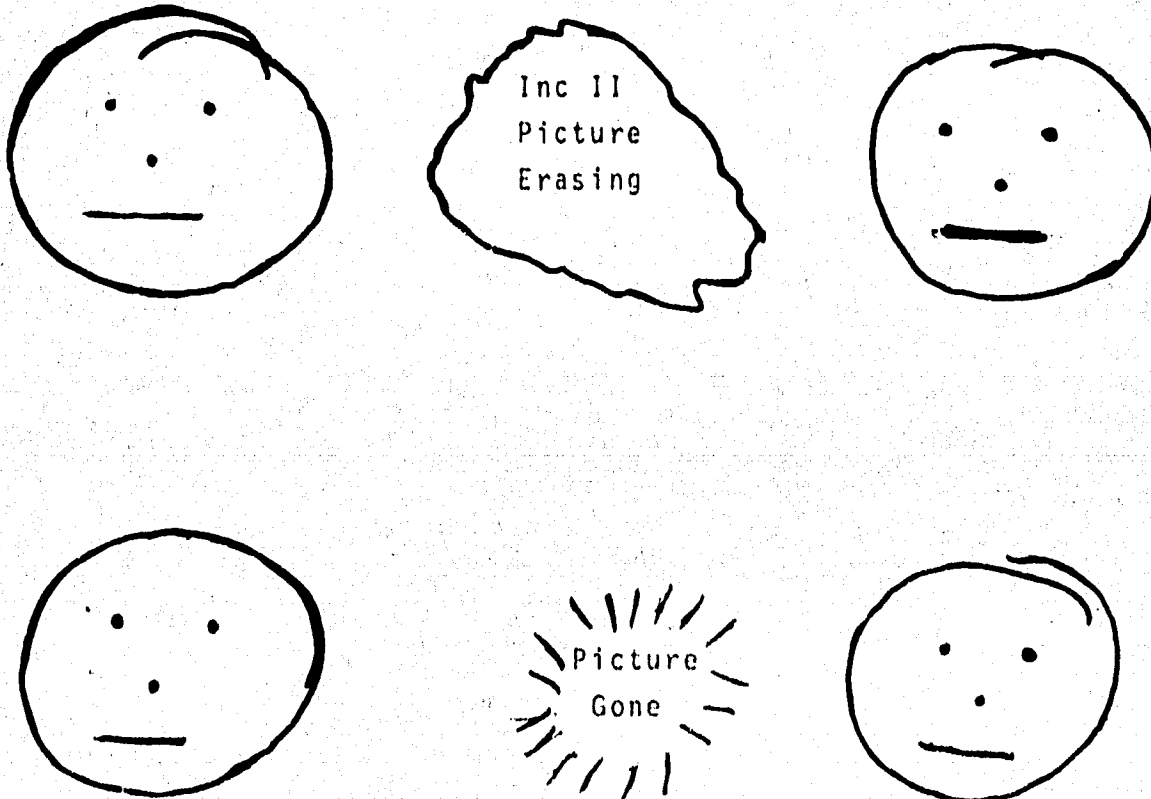
They, the Thetans, have gotten charge off with you all the way up the grades and through R6EW, the CC and OT II. So now by running them in explosion-to-pilot or capture-to-pilot (see the running instructions for details), we cause them to erase, as-is, or run out the picture they are reactively looking at through their own fixation. This dissolves the "glue" and the beings are set free.

We are running only the first few days of capture-to-pilot or explosion-to-pilot since the entire incident of 36 days is too long and is designed to kill by sickness, exhaustion and pneumonia (See Hubbard's Dianetic data on why running the first part or beginning of an incident will cause the entire incident to erase). Lastly, after being unstuck or freed from Inc II a few, or sometimes all, Thetans will need to be run individually on the true basic-basic of the time track, Inc I.

Here's a simple cartoon illustration:

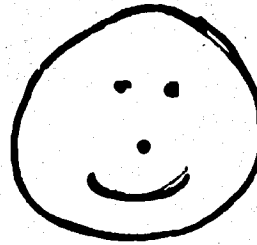
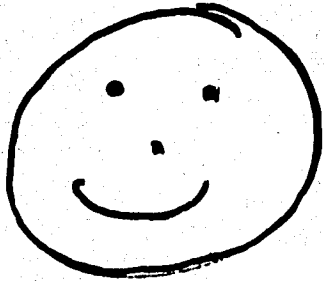
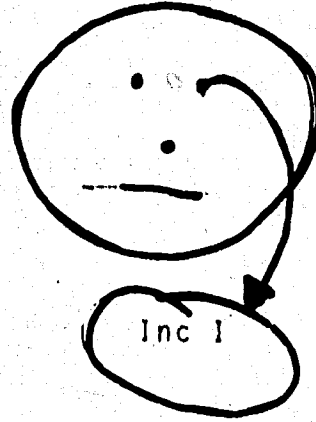
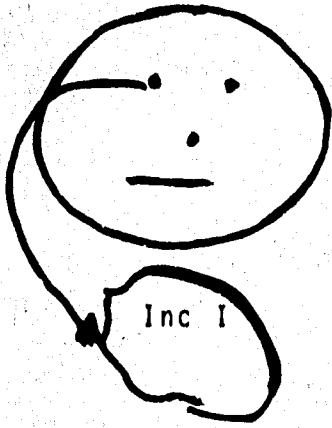


Run the picture or have the Thetans run the picture with you as the auditor.



FIN

Now run them, if needed, on Inc I (some or each still have Inc I as the basic)



The beings are now free and independent.

REASON FOR DIFFICULTIES

ON OT III

Incident One:

1. There is an earlier Inc I
2. Trying to run a cluster using Inc I (Inc I is not a cluster forming incident)
3. Copies of the original

Incident Two:

1. Wrong Area (Wrong Volcano)
2. Wrong Date
3. Wrong Inc 2 or wrong cluster forming incident.

FOR OT III and OT III X

CONFIDENTIAL

THE GREEN GREEN FORM

This is a repair list to be used by the solo auditor on OT III and OT III X. Assessment is done Method 5. Read may occur on the Solo Auditor or on a companion being. Sort out which it is and handle appropriately (telepathically if it's a companion being who got the read). Handle by 2 w/c Itsa Earlier Similar itsa unless otherwise stated.

1. Sufficient Sleep \_\_\_\_\_  
2 w/c and end off for sleep.
2. Physically tired \_\_\_\_\_  
2 w/c and end off for sleep.
3. Sufficient food \_\_\_\_\_  
2 w/c and end off for food if not sufficient.
4. Are you hungry \_\_\_\_\_  
2 w/c and end off for food if hungry.

(On items 1 through 4 you can indicate the BPC of the incomplete cycle of action of ending session to get food or rest.)

5. Alcohol \_\_\_\_\_
6. Aspirin/Tranquilizers \_\_\_\_\_
7. Drugs \_\_\_\_\_

(On items 5 through 7, if you've drunk alcohol, the drying out period is 24 hours and for drugs it is 3 days. You can indicate the BPC of the incomplete cycle of action if you have to end off to "dry out".

8. Wants auditing \_\_\_\_\_  
(If doesn't, discuss why not and earlier similar why not.)
9. Wrong indication \_\_\_\_\_  
Switch to L4BR.
10. Out-List \_\_\_\_\_  
Switch to L4BR.
11. ARC Break \_\_\_\_\_  
Handle standardly.
12. Environment ARC Break \_\_\_\_\_  
Same as 11.
13. Ignored originations \_\_\_\_\_

14. Present time problem \_\_\_\_\_
15. Evaluation \_\_\_\_\_
16. Invalidation \_\_\_\_\_
17. Auditor Code Break \_\_\_\_\_
18. Withhold \_\_\_\_\_
19. Missed Withhold \_\_\_\_\_  
Handle as M/W/H -- who missed it, etc.
20. Withhold that Kept coming up \_\_\_\_\_  
Who wouldn't accept it, who said or implied it still  
read. Indicate false read and 2 w/c the concern.
21. Overts \_\_\_\_\_
22. Misunderstood \_\_\_\_\_  
Clear and handle the M/W.
23. No Auditing \_\_\_\_\_
24. Something that isn't there \_\_\_\_\_
25. Trying to put something where there is nothing \_\_\_\_\_
- 26A. Body Thetan \_\_\_\_\_  
Use OT III Procedure.
26. Companion being \_\_\_\_\_  
Find who and handle with ruds if needed, then Inc 2  
and Inc 1 as needed.



27. Incident II \_\_\_\_\_  
Handle with OT III Procedure.
28. Incident I \_\_\_\_\_  
Same as 27.
29. Cluster \_\_\_\_\_  
Same as 27.
30. Animal \_\_\_\_\_  
2 w/c and handle with ruds if needed and then OT III  
Procedure if companion being or cluster.
31. Plant \_\_\_\_\_  
Same as 30.
32. Bird \_\_\_\_\_  
Same as 30.
33. Insect \_\_\_\_\_  
Same as 30.
34. Disturbed while running an incident \_\_\_\_\_  
Indicate and put in ruds if needed.
35. Wrong date \_\_\_\_\_  
Correct the date.
36. Wrong location \_\_\_\_\_  
Spot the correct location.
37. Has anything been suppressed \_\_\_\_\_
38. Has anything been invalidated \_\_\_\_\_

- 39. Has anything been rushed \_\_\_\_\_
- 40. Has anything been missed \_\_\_\_\_
- 41. Has anyone been missed \_\_\_\_\_  
If companion being, locate and handle with ruds if needed and then OT III procedure.
- 42. Has something been overrun \_\_\_\_\_  
Indicate and spot the flat point or release.
- 43. Something else wrong \_\_\_\_\_  
Locate and handle or 2 w/c and turn folder into solo C/S.
- 44. Unnecessary Action \_\_\_\_\_  
Indicate and Earlier Similar if needed.
- 45. Nothing wrong in the first place.  
Indicate and Earlier Similar if needed.

That completes the GGF assessment. All reads are handled  
Itsa earlier similar itsa unless otherwise stated.

HUBBARD COMMUNICATIONS OFFICE  
Saint Hill Manor, East Grinstead, Sussex

Class VIIIs

Only HCOB Bulletin of 12 October 1969

Secret  
LDN OT III

This list is for use while running a pc who is OT III or above on Dianetics.

When an impasse occurs or the pc gets upset, the Dianetic Auditor (who must be on OT III or above as a Pre OT) assesses this list and works out from what is found to read what has gone wrong.

LDN OT III

Pre OTs Name

DN Auditor

Date

1. Is this being mocked up again so it can be run \_\_\_\_\_
2. One individual who thinks he is a cluster \_\_\_\_\_
3. A cluster being handled as though it's an individual \_\_\_\_\_
4. The Date was actually from a date given in an implant \_\_\_\_\_
5. This chain is all in one implant \_\_\_\_\_
6. Wrong date for incident \_\_\_\_\_
7. No date was given for incident \_\_\_\_\_
8. Wrong duration for incident \_\_\_\_\_
9. No duration was given for incident \_\_\_\_\_

- 10. Incident 1 got into restimulation \_\_\_\_\_
- 11. No incidents on Flows 2 or 3 because impossible for pc to tell \_\_\_\_\_
- 12. Unflat chain on Flow 1 \_\_\_\_\_
- 13. Unflat Chain on Flow 2 \_\_\_\_\_
- 14. Unflat chain on Flow 3 \_\_\_\_\_
- 15. Running a flow already flattened \_\_\_\_\_
- 16. Running an incident on the wrong flow \_\_\_\_\_
- 17. Earlier beginning undetected \_\_\_\_\_
- 18. By passed basic on a chain \_\_\_\_\_
- 19. Stirred up incidents earlier than basic \_\_\_\_\_
- 20. More than one cluster in a cluster \_\_\_\_\_
- 21. Somebody copying what was just erased \_\_\_\_\_
- 22. By-passing prior charge on a chain necessitating going closer to PT before one can go earlier \_\_\_\_\_
- 23. Random pictures coming in indicating a cluster \_\_\_\_\_
- 24. Failure to date and identify a cluster-making incident \_\_\_\_\_
- 25. Jumped from one chain to another \_\_\_\_\_
- 26. Jumped from one BT to another \_\_\_\_\_
- 27. Should have run the incident longer to let BTs blow off it \_\_\_\_\_

- 28. Another BT restimmed and putting some of his pictures on the chain \_\_\_\_\_
- 29. An F/N gotten but pictures not totally erased \_\_\_\_\_
- 30. Already flattened the chain \_\_\_\_\_
- 31. False track that was really part of an implant \_\_\_\_\_
- 32. An earlier Incident ? \_\_\_\_\_
- 33. Basic keeps reappearing because it is a cluster \_\_\_\_\_
- 34. Incidents run that are not part of the chain \_\_\_\_\_
- 35. An earlier error made \_\_\_\_\_
- 36. Another BT also has chain being run \_\_\_\_\_
- 37. Failure to complete the action begun \_\_\_\_\_
- 38. Didn't run the item given \_\_\_\_\_
- 39. Location of incident needs attention \_\_\_\_\_
- 40. Sequence of events incorrect \_\_\_\_\_
- 41. Incorrect ownership of incident \_\_\_\_\_
- 42. Rudiments were out \_\_\_\_\_
- 43. A thetan has been invalidated \_\_\_\_\_
- 44. Failure to quit on a win \_\_\_\_\_

OT III Pack  
Class VIII

HCO BULLETIN OF 18 SEPTEMBER 1969

Confidential

### DIANETIC AUDITING AND OT III

After a person has been on OT III for awhile and he is audited by a Dianetic Auditor (who must be a Grade OT II working on OT III or an Oi III himself, unless you want to wreck your Dianetic Auditors and break security), certain phenomena develop:

It will be found that emotions and somatics etc., will assess as ever without difference on a Health Form. There is no change in this.

However, in running, the chain may be found to consist of incidents which are connected with OT III Solo auditing as well as events.

Thetans which were not run due to interruptions of Solo III, due to errors by the Solo auditor and incidents in which the pc received BTs as well as impacts making clusters may be encountered.

Such auditing can be apparently full of ARC Breaks but only if the Dianetic auditor departs from the Auditors Code or regular procedure.

The auditing situation may seem to demand changed commands etc., but the only fallability can occur if the auditor goes non-standard.

For Example:

The pc cognites he is not running his own incident but a body thetan. This requires only TR 4 as it is only an origin. Acknowledging the fact, the auditor simply goes on. Evaluation by the Auditor can easily and dangerously occur.

For example, the pc finds he is relaying the auditing commands to the BT. This would seem to indicate that the auditor changed the wording of R3R to "Have him move \_\_\_\_\_" or some such alteration. To alter commands is fatal. Soon the pc will find the Bt is taking the auditing commands directly and and no change of command was needed.

The pc relaying BT comments back to the auditor is only a TR 4 situation unless, of course, the command was wrong or a clarification is requested. Even then the auditor does not go non-standard.

The primary Dianetic Auditor error in running one BT on Inc 1 after another is to use ABCD instead of 1, 2, 3, 4. The last BT blew. The new BT hasn't got a date to move to if you just use ABCD. You do 1,2,3,4 on the next BT. You should realize he is a different pc.

Running a chain of one emotion or somatic you can get lots of BTs who have a part of that chain. So if one goes down the chain to Inc 1 and blows with an F/N, you may find the same somatic or emotion on a new BT which will run as in any R3R and again get down to an Inc 1.

Example: The Solo auditor has not audited for 6 months. He gets a Dianetic session. Assessed is "A feeling of sadness." The Dianetic auditor runs a chain consisting of

1. An interrupted Solo session
2. An overrun Inc 2.
3. An Inc 1 to blow and F/N.

Now the same item "A feeling of sadness" reads. A chain is run consisting of

1. An interrupted Solo session
2. Where the BT picked up the pc. Blow F/N.

Now the same item reads - "a feeling of sadness". A chain is run

1. An overrun on Inc 2 BT.
2. The cluster the BT was in. Blow F/N.

Once more "a feeling of sadness" reads. The chain is run

1. An ARC Brk from now getting audited.
2. Inc 2 overrun
3. Inc 1. Blow F/N.

The somatic is checked and the item does not read, only F/Ns.

So that's all there is to that. Reassess or add to the Health Form.

---

This does not apply to Dianetic preclears. It applies ONLY to Dianetic auditing done on Solo Auditors who are incomplete or overdue or hungup on OT III.

---

One word of warning. BTs are sometimes not very bright and perceive poorly. The Dianetic auditor whose TR 1 is adequate to a regular Dianetic pc but inadequate to auditing a solo auditor's BTs on a via can cause a lot of ARC Brk and upset. The BT misses or doesn't hear some of the commands and gets confused if the Dianetic auditor has a too quiet or poorly pronounced TR 1.

In auditing a former Solo Auditor on Dianetic auditing, the Dianetic Auditor's TR 1 must be clearly hearable and carefully said.

Also, as above, it is easy to mess up on TR 4 and evaluate for the solo-auditor-now-pc "clearing it up by telling him what reads on the meter" etc.

---

OT III pre OTs got a reputation of being hard to run on Dianetics early in Dianetic re-development.

Only five reasons exist for this:

1. A person that high on OT grades audits fast and a comm laggy Dianetic auditor can drive him up the wall.
2. Too quiet or too blurred TR 1.
3. A tendency to evaluate instead of using TR 4.
4. The numerousness of BT chains on the same item (The BTs being separated now) making several chains of the same item which if not all run separately leave the pc ARC Broken with the by-passed charge of unrun BTs.
5. The OT II who is still an OT III and has been on it awhile probably himself has no pictures and all the pictures he has are BT pictures.

The lower grade pc (before clear) reacts as a composite being all on one chain, so to speak. He is separated into himself and individual BTs and clusters of them when he gets to OT II and so "audits differently". He easily misowns the pictures, thinking they are his. And the big Blowdowns you get on such a pc's item indicates several BTs have it in common.



If a lower grade pc ever got separated out like this, it could be that "he" has several chains of the same item, meaning he has separated BTs. If the Class VIII sees a lower grade pc whose "illness won't recover" he need only have the same items checked that have already been run on the pc and if one gives a BD, get it run again or again and again. But this means this pc was already chopped up in sessions in some way so that, unknown to the pc (and you don't inform him or her) other BTs than that one run had the same somatic or emotion and only one was run on it. You just leave all items already run on the list and run them again if they read again. If really flat the item briefly F/Ns but you disregard the F/N while assessing in this case. The phenomenon is rare that a lower grade pc has to run more than one chain on the same item.

A Solo III, however, will be found to have the same item on more than one BT in many cases.

L. RON HUBBARD  
FOUNDER

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HCO BULLETIN OF 23 SEPTEMBER 1968

Class VIII

C O N F I D E N T I A L

RESISTIVE CASES

FORMER THERAPY

Hypnotism, "psycho" analysis, "psychiatry" and other implant type therapies often key-in and jam the track.

These characters here, on any other planet and on the whole track dramatize implanting. The "therapy" involved would be a temporary relief brought by suggestion.

The wrong date of the "science" itself operates as a whole track lie. Getting well or able depends on establishing truth. These "scientific" lies are alterations of actual laws.

We often note electronics men have a rough case time. This traces to the lies Man uses for his "electrical science". As the subject is based on false assumptions, it itself tends to aberrate.

Therefore we get out of the road any former "therapy". We can rehab any moment of release in it, handle any overrun, etc.

We also do a new style Remedy B to get old therapies spotted and run back.

The only cases which hang up are

- (1) Unaudited cases (lies about grades, etc.)
- (2) Drug cases (who seek in processing the delusions or madness which exhilarated them on drugs).
- (3) Former therapy cases. (In this or past lives.)
- (4) Out of valence cases.
- (5) Cases who continue to commit overts on Scn.
- (6) Case "audited" with their ruds or grades out.
- (7) Seriously physically ill cases (where the illness makes too much PTP in PT).

The trouble with such former "therapies" and electric shock, etc., is that it

- (a) groups track by the command of the practitioner
- (b) appears to be a grouped track because Body Thetans flash their pictures at the moment it happens and so makes multiple pictures and hides the real scene, or
- (c) sends the pc to the start of track WAY back and sticks him there out of PT.

The keynote of piloting through messes like this is to A. Know what kind of mess it is and B. Don't EVER force a pc back track or into anything he doesn't want to confront easily.

Drugs force the person back into these messes and stick him.

One of these former therapy or drug messes is only hard to untangle because they are full of incredibles. The pc doesn't accept them or just try to see what's in them.

The basic rule in any case is reality is proportional to the amount of charge removed and so Reality can be increased simply by removing charge. Those surges of the needle as well as the BDs of the TA are "charge coming off".

Anything eventually resolves if the pc just keeps on getting charge off.

The earliest charge is the most important.

Charge off the exact grades is the most valuable.

But ANY charge off will make it, even on former "therapies".

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Saint Hill Manor, East Grinstead, Sussex

AOs  
Class VIIIs HCO BULLETIN OF 3 JANUARY 1970  
OT III Study Pack Issue II  
R6EW Study Pack

CONFIDENTIAL

SOLO & R3R

DO NOT ATTEMPT TO RUN R3R as a SOLO Action.

Tests show that while one occasionally can "get away with it" the practice can be dangerous.

Solo Auditing is addressed to specific areas of the mind as given in the auditing materials of R6EW and upwards as issued.

One can run Rudiments on oneself successfully with "Itsa earlier Itsa" meaning finding an earlier similar ARC Brk etc.

But when one tries to run engrams by R3R on Solo one can run into trouble.

When engrams not related to Auditing materials get in one's way on Solo OBTAIN A DIANETICS SESSION from the org.

It is also very bad in Solo to wander around the bank looking over various ideas instead of auditing the materials.

No org can be responsible for somatics and case upsets occurring because one has departed from the exact regimen given in the materials for Solo Auditing. Get a Review or a Dianetic session from a Dianetic auditor who is OT III or above.

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Class VIII  
OT III

Study Pack HCO BULLETIN OF 2 JANUARY 1970

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AUDITING BY R3R

Elsewhere earlier HCOBs forbade Inc II and Inc I to be run when encountered by a Dianetic auditor an OT III student.

This restriction is lifted. Experience shows they must be run if encountered by a Dianetic Auditor who must be OT III.

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OT III REFERENCE

Alcohol

Symptoms

- Delusions
- Can't leave alcohol alone.
- Dishonesty
- Physical deterioration.
- Deception
- Religious Fixations
- Sexual perversions or promiscuity

Alcohol produces its effect by rapidly burying up the B<sub>1</sub> vitamin and foods in the body. This pulls a thetan in to the resulting low area.

The delusions of alcohol are almost entirely from R6. Animals, Religion, God, Sex, Perversion. The R6 bank was implanted while the thetan was caught in a compound of frozen alcohol and glycol.

Use of alcohol restimulates the R6 bank.

Tiredness

Symptoms

- Tired Continually.
- Sleeps too much.

Tiredness is technically BLUNTED PURPOSE.

The most effective way to handle this is by the over-motivator engram.

However, tiredness is also to be found in some basic incident like Inc I which cannot be run before OT III.

Thus the engram overt-mot approach is best.

Symptoms

Has completed Section III

Drug Rehab not ended on F/N, so it's overrun or incomplete.

Next Process didn't run well.

1. Fly each rud to F/N
2. Assess 7 Cases to an item a C/S can use. Don't Itsa it. Last action (2) is because Pre OT still hung up after major case action.
3. Find and run Incident 1s until none are available.
4. Find and run an Incident 2. Capture-to-pilot only. Don't scan through the 36 days.

(Rudiments - you always check the Question on a rudiment before asking earlier similar.)

Valence Shifter and Confront

Symptoms

Valence Shifter didn't wholly bite. TA went low after. Been shoved into an incident 1 by Pot and he went out of valence.

1. Fly ruds to F/N
2. Find an engram chain and run to F/N and then Incident 1. Beware of overrun on Body Thetans on 1.

Symptoms

Low TA

Not exterior

Long time on Section III

1. Fly ruds to F/N
2. Find an Incident 2, Date it. Capture-to-pilot only. Don't ever scan anyone through the 36 days.
3. Find Incident 1s and run them as available.

### Section III

#### Symptoms

Pre OT complains of head clogged up and real pressure in it, in session.

Cold turned on.

Another C/S should have been sent for. It's a cluster in her head. Remedy is Milazzo.

1. Fly the ruds
2. Find the mutual Incident of the cluster. Run it
3. Run Incident 2, Capture-to-Pilot, if available.
4. Run Incident 1s.

### False Section III

#### Symptoms

Pre OT has duration of 2 mixed up with Inc. 1.  
Wrong date of Incident 2  
Neither the Pre OT nor Auditor know the materials  
Secondary is run on Section III

TA High, Complains of Somatics

1. Both Auditor and Pre OT to star rate Section III Materials.
2. Fly the ruds to V/H and GIs.
3. Locate and run a severe injury engram or chain, by the book to F/N.
4. Locate and run any Incident 1s.

Command is "Locate an Incident 1." or "Locate a Body Thetan", and have him run his Incident 1. Direct him telepathically.

### Section III

#### Symptoms

TA High  
Pre OT putting a mass there, Overrun and ARC Broken  
B Thetan  
Complains of Somatics. He's squashing his own body.  
Originates still has the B Thetans.



1. Its a cluster with a mutual engram.
2. Find the date of it and run it, then Incident 1s on the Body Thetan
3. Handle any overruns and ARC Breaks on Body Thetans.

Symptoms

Out Ruds during Solo Auditing

Dope Off

Sickness

Put in his rudiments on Solo Auditing.

1. What ARC Break did you have during your Solo Auditing?  
ARCU, CDEI  
What Present Time Problem did you have during your Solo Auditing? Itsa earlier Itsa  
What Missed Withhold did you have during your Solo Auditing? "Who nearly found out?"  
All to F/N. (Pre OT may spot he has ARC broken a Body Thetan.)
2. Send Auditor to Cramming to correct outness as a solo auditor.

Section III

Symptoms

PC can't run cluster.

PC not complete on OT III but can't find any more (doesn't want to attest).

1. Fly a rud if no F/N.
2. List what impact or experience would cause a cluster.
3. Take largest reading item. Run by R3-R.

What Impact or incident would make a cluster?

Make a list, at least 1 BD item.

R3-R on items found

Run Inc 1s

Low TA Action after Power  
Out of Valence

Symptom

Been Misaudited  
Indicates out of valence and stuck in Body Thetans  
Invalidation, Overwhelm  
No TA Action on See Checks, anybody has a few.

1. Do Green From to F/N.
2. Rehab Drug Trips, Alcohol
3. Do Valence Shifter
4. Rehab or run ARC St/Wire to Grade IV. (Omit Power V & Va)
5. Rehab R6EW, CC, OT I, (If Old OT I run, indicate any overrun), OT II.
6. Run "What can you Confront?"

Then in the Ethic sphere, find out where and who let  
Pre OT this far with no TA condition. Assign a low condition  
without disturbing the Pre OT.

OT 111X

OT IIIIX

This OT Section is done after the processes of OT VII.

The sequence is:

OT III

OT VII Processes

OT IIIIX

OT IV

OT V

OT VI

Full OT VII (Rehab or Rerun OT VII Processes)

OT IIIIX is simply a repeat of OT III after the processes of OT VII have been run. The theory is that the processes of OT VII raise the persons ability to project intentions so he/she can now totally clean up any remnants of OT III and free all remaining body thetans (companion beings).

OT IV RUNDOWN

Non-Solo

OT IV RUNDOWN  
Non-Solo

OT IV Rundown  
Symptoms

Has completed OT III  
OT IV Warning.

This is in fact a grade. Therefore to run it without setting the case up fully is to waste it.

Often the case has to (1) be discharged with a lot of corrective actions and (2) OT III must be run on the PC by the auditor or at least cleaned up. It might not be uncommon to have to do half or more of the C/Ses in the book before doing the OT IV Rundown.

If one holds off and really flies the case, then the person winds up at OT Exterior very nicely when one does OT IV.

If you do OT IV and he's still in his head, all is not lost, you have other actions you can take. Clusters, Prep-checks, failed to exteriorize directions.

OT V and VI are designed for someone already exterior. If a person doesn't go exterior after OT IV Rundown you set him up for V by then seeing he jolly well does go exterior before going on to V.

---

OT IV Rundown

Done only by an Auditor on a Case fully set up by various Directions.

- (1) Ruds or GF to F/N.
- (2) Rehab Drugs.
- (3) Valence Shifter. "What valence would be safe?"
- (4) Rehab ARC St/Wire to Grade IV.
- (5) Rehab R6EW - OT II
- (6) Prepcheck OT III
- (7) Rehab OT V & VI
- (8) Run "What has been Overrun?"
- (9) Run "Whas can you confront?"

(IF THE PRE OT DOESN'T EXTERIORIZE, WE WILL DO 7 CASES NEXT SESSION AND HANDLE UNTIL HE DOES GO EXTERIOR which is really the end phenomena of OT IV Audited only by a Class VIII).

Power of choice over where one is and where one is not is thus a key to engrams.

Finally - a thetan mocks up because he covertly refuses to abandon a location under duress and not-ises the place where he does not wish to be but must.

Using these facts one can blow engrams without running them.

Some sample questions:

What point (location) is unsafe?

What location could you have held absolutely?

Where did you first get an intimation of danger?

What place would you rather not be in?

What effort would it take to hold (that) (a) location?

---

Working with this you will see a door open to a higher level than Dianetic R3R. But realize that it is only for a high level thetan.

This is the road to returned personal power in the physical universe.

L. RON HUBBARD  
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OT IV

SOLO

2 April 1978

OT IV SOLO

The end phenomenon of OT IV is "Certainty of Self as a Being". The thing that would make a being uncertain is the possibility of future implants. OT IV Solo is designed to "proof up a being" against any possibility of being reimplanted now that he/she has finished running implants with the completion of OT III.

The main idea on OT IV Solo is to mock up (create) each line of The Clearing Course (7's, The Basic End Words, The Confusion GPM, Objects-Hollow, Objects-Solid) with all the perceptics, force, impact, and unconsciousness of the original implant (as much as you are able). When the line is mocked up (created or recreated), then unmock it, cease creating it, and blow the charge you have recreated or mocked up. Do this repetitively with each line of the Clearing Course (including lights) to a floating needle on each line. Continue until you feel totally free with and at cause over this implant sequence; (you may or may not need to complete all 5 parts). Do it until you can freely and easily mock up and blow this implant and can confront implants.

Lastly, scan out all of your auditing early to late adding up all the hours in session as you go alone.

Come up with a total number of auditing hours for yourself.

Find and run a havingness process.

Attest to OT IV.

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5a

OT V

OT V  
Cause Over MEST  
Gain Freedom from Fixated  
Introversion into MEST

For eons, man has speculated and guessed about the nature of the physical universe. There have been many opinions and much discussion. Even the modern physicist, with his many names and labels, is still in the dark when it comes to how it got here and why. Before Scientology, the exact truth about the MEST universe was lost, and the way out of the trap unknown. Lies and misinformation had taken the place of the truth.

In 1967, L. Ron Hubbard released Section V of the Operating Thetan Course, the most powerful level released up to that time. On OT V you learn the truth about the physical universe, not the laws of physical scientists, but the basic considerations about Matter, Energy, Space and Time.

The tremendous power that this universe seems to have over thetans resulting in entrapment, degradation and death, is traced to its source. As you exteriorize from the physical universe at Section V, you discover exactly what MEST is, and become free of its laws.

At OT V, a being is refamiliarized as a thetan exterior with the physical universe. OT drills are done to remarkably increase a being's ability to communicate with his environment. He is now able to do so, totally free of the mind and body, and free from a fixated introversion into MEST.

Solo auditing on this level serves as an introduction to the rehabilitation of his total abilities as a thetan. He learns to use his new abilities as a thetan with wisdom and judgment.

OT V

Pre OT is to lie down in a comfortable position with eyes shut.

- (1) Spot a spot in the room
- (2) Spot a spot in your body

Alternate 1 and 2 until commands are flat then,

- (3) Spot two spots in your body
- (4) Spot two spots outside

Alternate 3 and 4 until flat then,

- (5) Spot a spot outside
- (6) Spot a spot on the sun

(notice the distance between)

- (7) Spot two spots outside
- (8) Spot two spots on the sun

(notice what happens.)

The pre OT may exteriorize during these drills but doesn't necessarily have to.

While still inside with eyes shut in a comfortable position the pre OT is to follow the following commands and write down any major cognitions.

- (9) Spot an object in the room.
- (10) Spot an object outside.

- (11) Locate a moving object.
- (12) Locate a spot in your body.
- (13) Spot a motion.
- (14) Locate a space.
- (15) Spot a Thetan.

Continue the above steps until major cognition, very good indicators or exteriorization occurs.

The following steps are done outside. the pre OT takes a paper and pencil with him to take notes.

- (1) The pre OT is to put his attention on an object that is ahead of him like a parked car, lamppost, etc. and walk towards it noticing the distance between him and it. He is to continue to do this until cognition.
- (2) Next the pre OT is to again pick out an object ahead of him and wrap an energy beam around it and himself and pull himself toward the object with shortening of the beam.

Notice what happens.

- (3) Locate an object, draw energy from it into you. Repeat at least ten times.

Note any cognitions.

- (4) Locate an object as above and walk toward it. Notice what is holding you to it.
- (5) Notice a cloud and notice the space between you and it.

- (6) Notice your body.
- (7) Notice the motion of the earth and your relationship to it.
- (8) Notice something about 10 people.

Do all the above steps to a cognition.

NOTE: Originally it was not necessary to be exteriorized in order to do OT V or VI 6. Recently however, it has been changed and the state of exteriorization is supposed to be achieved by OT 4 thereby leaving OT V and VI to be done while exterior.

END OF OT V

SB

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GRADE V  
POWER PROCESSES  
ALL FLOWS

PR PR 1

- F1.
  - 1. What has another done to you?
  - 2. What problem was he/she trying to solve?
  - 3. What hasn't another said to you?
  - 4. What problem was he/she trying to solve?
  
- F2.
  - 1. What have you done to another?
  - 2. What problem were you trying to solve?
  - 3. What haven't you said to another?
  - 4. What problem were you trying to solve?
  
- F3.
  - 1. What has another done to another or others?
  - 2. What problem were they trying to solve?
  - 3. What hasn't another said to another or others?
  - 4. What problem were they trying to solve?
  
- F0.
  - 1. What have you done to yourself?
  - 2. What problem were you trying to solve?
  - 3. What haven't you said to yourself?
  - 4. What problem were you trying to solve?

PR PR 2

Give me some practices, opinions or beliefs you have been connected to, whether you left them or not. Run reading items.



- F1. 1. What condition have you encountered in/with \_\_\_\_\_?  
2. How have you handled it?
- F2. 1. What condition has another encountered in/with \_\_\_\_\_?  
2. How has he/she handled it?
- F3. 1. What condition have others encountered in/with \_\_\_\_\_?  
2. How have they handled it?
- F0. 1. What condition have you encountered with your-  
self because of \_\_\_\_\_?  
2. How have you handled it?

PR PR 3

For those overwhelmed by a clearing practice.

- F1. 1. What condition have you encountered in Sciento-  
logy (or auditing, clearing, educting, Eductivism,  
EST, or Dianetics)?  
2. How have you handled it?
- F2. 1. What condition has another encountered in  
Scientology (or auditing, clearing, educting,  
Eductivism, EST or Dianetics)?  
2. How has he/she handled it?

- F3. 1. What condition have others encountered in Scientology (auditing, clearing, educting, Eductivism, EST or Dianetics)?  
2. How have they handled it?
- F0. 1. What condition have you encountered in yourself because of Scientology (auditing, clearing, educting, Eductivism, EST or Dianetics)?  
2. How have you handled it?

PR PR 4

- F1. 1. Tell me a source.  
2. Tell me about it.  
3. Tell me a no-source.  
4. Tell me about it.
- F2. 1. Tell me a source for another.  
2. Tell me about it.  
3. Tell me a no-source for another.  
4. Tell me about it.
- F3. 1. Tell me a source for others.  
2. Tell me about it.  
3. Tell me a no-source for others.  
4. Tell me about it.
- F0. 1. Tell me about yourself as a source.  
2. Tell me about it.  
3. Tell me about yourself as a no-source.  
4. Tell me about it.

PR PR 5

- F1. 1. What is?  
2. What isn't?
- F2. 1. What is for another?  
2. What isn't for another?
- F3. 1. What is for others?  
2. What isn't for others?
- F0. 1. What is for yourself?  
2. What isn't for yourself?

PR PR 6

- F1. 1. Tell me an existing condition.  
2. Tell me how you have handled it.
- F2. 1. Tell me an existing condition for another.  
2. Tell me how he/she has handled it.
- F3. 1. Tell me an existing condition for others.  
2. Tell me how they have handled it.
- F0. 1. Tell me an existing condition in yourself.  
2. Tell me how you have handled it.

GRADE VA

POWER PLUS PROCESSES

ALL FLOWS

1B

L & N to first B.D. Item.

What person have you known?

Run terminal in following processes.

- F1. 1. What has \_\_\_\_\_ done for you?
- 2. What problem was he/she trying to solve?
- 3. What hasn't \_\_\_\_\_ said to you?
- 4. What problem was he/she trying to solve?

- F2. 1. What have you done to \_\_\_\_\_?
- 2. What problem were you trying to solve?
- 3. What haven't you said to \_\_\_\_\_?
- 4. What problem were you trying to solve?

- F3. 1. What has \_\_\_\_\_ done to others?
- 2. What problem was he/she trying to solve?
- 3. What hasn't \_\_\_\_\_ said to others?
- 4. What problem was he/she trying to solve?

- F3A. 1. What have others done to \_\_\_\_\_?
- 2. What problem were they trying to solve?
- 3. What haven't others said to \_\_\_\_\_?
- 4. What problem were they trying to solve?

- F0.
1. What have you done to yourself because of \_\_\_\_\_?
  2. What problem were you trying to solve?
  3. What haven't you said to yourself because of \_\_\_\_\_?
  4. What problem were you trying to solve?

1C

L & N to first B.D. Item.

What place have you known?

Run the place found in the following processes.

- F1.
1. What has another done to you in \_\_\_\_\_?
  2. What problem was he/she trying to solve?
  3. What hasn't another said to you in \_\_\_\_\_?
  4. What problem was he/she trying to solve?

- F2.
1. What have you done to another in \_\_\_\_\_?
  2. What problem were you trying to solve?
  3. What haven't you said to another in \_\_\_\_\_?
  4. What problem were you trying to solve.

- F3.
1. What has another done to another in \_\_\_\_\_?
  2. What problem were they trying to solve?
  3. What hasn't another said to others in \_\_\_\_\_?
  4. What problem were they trying to solve?

- F0.
1. What have you done to yourself in \_\_\_\_\_?
  2. What problem were you trying to solve?
  3. What haven't you said to yourself in \_\_\_\_\_?
  4. What problem were you trying to solve?

1D

L & N to first B.D. Item.

What subject would you like to know more about?

Run the subject found in the same processes as given  
in 1C (places), Quad Flow.

OT VI

OT VI

Each of the following processes are run to a

- (1) floating needle
- (2) major cognition
- (3) regained ability.

(Preferably all three together as the ideal end. E.P.)



Be Three feet in back of your head. Whatever you are looking at, copy it a dozen times, put it into you. Find the two back corners of the room and hold onto them without thinking for two minutes.

Find two corners of the planet Earth, hold onto them for two minutes.

Find a place where you are not.

Spot three spots in your body.

Spot three spots in the room.

Be in the following places;

The room, the sky, the moon, the sun.

Locate an animal--postulate him moving from one spot to another. Observe him doing this.

Find a walking man----postulate his walking faster. Do this with 20 people.

Find a walking person---postulate that he will stop, then continue walking. Do this 20 times.

Find a person in a distant land. Notice the time of day. Notice the terrain. Notice the general environment.

Smell the air. Locate a thought that is his. Locate a thought that is yours. Continue until flat.

Notice differences between you and your body.

Create in your body a feeling of calmness; create in your body sexual desire and turn it off. Continue that step until you feel you have control over the sexual drives. Create in the body a feeling of pain. Create in the body a feeling of serenity. Do the above until flat. Create in the body a feeling of hunger and turn it off. Continue this step until you are in control of hunger drives.

The end result of these particular drills is the regained ability to control the body and its sensations.

Now: Postulate Anger, Boredom, grief, cheerfulness and serenity---in that order. This is continued until you are sure that you can create any emotion.

Finally, exteriorized visit a friend who lives in another state. Greet him and flow affinity to him. Ask him to communicate to you by letter.

End of OT VI

OT VII

Nonsolo and SOLO

OT VII RUNDOWN  
June 1979 Revision

I. Basic Processes Setup

OT7-1

What are you willing to cause?  
What are you willing to be the effect of?

OT7-2

Decide something.

OT7-3

Clear intention. (Very thoroughly) Have client use  
word in at least six sentences. (if needed)  
\*CDP/MCP "Intention"

OT7-4

1. What is a clear intention
2. Give me an example
3. What isn't a clear intention
4. Give me an example.

OT7-5

2W/C -- the subject of intention.

OT7-6

Recall an intention.

OT7-7

Invent (mockup) some intentions.

\* CDP = Creative Definition Procedure  
 MCP = Meaning Control Procedure  
 These are both Eductivism procedures for clearing words.

5-1-2

OT7-8

- F-1. Tell me a thought/intention you would be willing to receive from another. (whichever reads)
- F-2. Tell me a thought/intention another would be willing to receive from you.
- F-3. Tell me a thought/intention others would be willing to receive from others.
- F-0. Tell me a thought/intention you'd be willing to receive from yourself.

OT7-9

- F-1. What intention of yours has another helped?  
What intention of yours has another not helped?
- F-2. What intention of another's have you helped?  
What intention of another's have you not helped?
- F-3. What intention of another's have others helped?  
What intention of another's have others not helped?
- F-0. What intention of yours have you helped?  
What intention of yours have you not helped?

OT7-10

- F-1. What intention of another's could you confront?  
What intention of another's would you rather not confront?
- F-2. What intention of yours could another confront?  
What intention of yours would another rather not confront?
- F-3. What intention of another's could others confront?  
What intention of another's would others rather not confront?
- F-0. What intention of yours could you confront?  
What intention of yours would you rather not confront?

OT&-11

- F-1. What intention of yours could another be responsible for?
- F-2. What intention of another's could you be responsible for?
- F-3. What intention of another's could others be responsible for?
- F-0. What intention of yours could you be responsible for?

OT7-13

Give me an unknown datum.

OT7-14 (PAB 69)

Tell me some orders you wouldn't mind receiving.

Tell me something that would obey you.

OT7-15

Get the idea I can place an intention.

Get the idea I cannot place an intention.

## II. L & N Intention Process

OT-16

Has an intention been --

Suppressed	Forgotten
Invalidated	Hidden
Blunted	Avoided
Abandoned	Altered
Denied	Twisted
Enforced	Changed
Desired	Completed
Decided	Made Wrong

On biggest reading item L & N --

What intention has been \_\_\_\_\_?

R-3-R Quad if evil intention.

III. Placing thoughts and intentions (Inside Auditing Room)

OT7-17

A. Spot an object

B. Locate an object from which you are separate

Locate an object which is separate from you.

OT7-18

Think a thought.

Creatively place that thought in/on that. (indicated object)

Now creatively get that (indicated object) thinking that thought.

Creatively have that (indicated object) continue thinking that thought.

Creatively have that (indicated object) cease thinking that thought.

OT7-19

Clear intention.

Mock up (invent) an intention.

Get the idea of placing (or place) that intention in that (indicated object).

OT7-20

From (indicated point) make a choice between (indicated positions or objects).

OT7-21

Putting the decision on (in) that (indicated object) make a decision about it.

OT7-22

Decide something.

IV. Outside Processes with an Auditor (objects).

OT7-23

Spot an object.

OT7-24

Locate an object from which you are separate.

Locate an object which is separate from you.

OT7-25

Think a thought in (on) that (object or position)

or

Do you see that (object)?

Think a thought in (on) it.

Did the thought appear where it is?

OT7-26

From (indicated point) make a choice between (indicated positions or objects)

OT7-27

Putting the decision on (in) that (indicated object) make a decision about it.

V. Outside Processes with an Auditor (people)

OT7-28

Spot an acceptable energy source.

OT7-29

Spot a person.



OT7-30

Locate a person from whom you are separate.

Locate a person who is separate from you.

OT7-31

Point out a difference between that persons body and yours.

OT7-32

Tell me something you really know about that person.

What would you permit that person to know about you?

OT7-33

Postulate perfection into that person.

Now postulate perfection into that one.

OT7-34

Tell me something you wouldn't mind not-knowing about that person.

Tell me something you wouldn't mind that person not-knowing about you.

OT7-35

Think a Thought in (on) that person

or

Do you see that person?

Think a thought in (on) him/her.

Did the thought appear where it is?

OT7-36

From that person make a choice between (indicated positions or objects).

OT7-37

Putting the decision on (in) that person, make a decision about him/her.

OT7-38

Decide something.

OT VII SOLO SECTION

VI Inside Processes Solo  
(on the meter)

OT7-39

Spot an object.

OT7-40

Mock-up a confusion.

Unmock it.

or

What confusion could you create?

OT7-41

Mock-up a communication terminal.

Mock-up another communication terminal.

Disnose of these mock-ups.

OT7-42

What wouldn't you mind communicating with.

OT7-43

Mock-up your (father, wife, mother, husband)

Mock him (her) up again.

Dispose of these mock-ups.

OT7-44

Now could you appreciate another as a human being.

Now could another appreciate you as a human being.

Now could you appreciate yourself as a human being.

Now could another appreciate themselves as a human being.  
Now could another appreciate another as a human being.

OT7-45

Find and run a havingness process on yourself.

VIII Outside Processes Solo  
(off the meter)

OT7-46

Spot a person

or

Spot a thetan.

OT7-47

1. Go to a place with lots of people
2. Spot them one at a time
3. As you spot each person, do the following:
  - A. Perceive the individual as a Life Source (Thetan).
  - B. Know something about that person.
  - C. Be willing to not-know something about that person.
  - D. Grant beingness to that person (by cognizing the way they are).
  - E. Having that person grant beingness to you.

OT7-48

1. Find some plants, trees, etc., and communicate to them individually until you know they received your communication.
2. Go to a zoo or a place with many types of life and communicate with each of them until you know the communication is received and, if possible, returned.

OT7-49

Go out to a park, train station or other bus- area. Practice placing an intention into individuals until you can successfully and easily place an intention into or on a being and/or a body.

Attest to OT7

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OT VIII

OT VIII

HCO BULLETIN OF 1 OCTOBER 1969

SECRET

### WHY THETANS MOCK UP

This question has been the most plaguing one in Dianetics and Scientology.

The ONLY way a thetan ever gets in trouble, the ONLY way he can get trapped or become part of a cluster is by mocking up and making pictures of bad experiences.

And why record all bad experiences? This too is not good sense.

One can explain it by a yearning for event, by havingness and other ways but these do not factually lead to a total solution.

The real reason stems from a characteristic of a thetan. He never totally gives up.

There is, seemingly, a streak of resistance or resentment that makes a thetan wish to persist in the same place. If he cannot, he will do so covertly.

All power comes from the ability to occupy a point. The base that separates two terminals must be firm or there will be no exchange of energy.

The effort to weaken a thetan is to make him relinquish his point in space. Covertly or overtly a thetan seeks to assert his position in space.

If he cannot do so overtly, he does so covertly.

When a thetan is moved unwillingly from a point or position he even then refuses to give up that point but MOCKS IT UP. He also mocks up the events of his departure as a part of the action of mocking up the point he is leaving. This, unwittingly, gives him a picture, an engram.

Now let us see if this theory holds true in practice.

A. Just ahead of any engram there must be an effort to retain a position and there must be a point or location being mocked up.

This is true. You can blow an engram without running it by spotting its first point in space and time. In a secondary, "where did you first hear of the loss" is a vital question.

B. In a contact assist getting a person to touch again the point where he was hurt with what was hurt will blow the engram.

C. Getting a person to locate areas (locations) that are not safe produces blows of engrams without running them.

D. Exact and accurate dating sometimes blows an engram. Those times when it does not it should blow when the location is exactly spotted.

E. Implants and traps were done mainly to keep thetans out of an area. The thetan, resenting and resisting mocks up the place anyway and so implants himself.

---

A thetan too easily substitutes a mock up for a point in the real universe.

One could also say that a thetan, by mocking up, warns himself against certain points in space or areas in the physical universe.

Anxiety is solely not being able to be certain places and not where one is either.

Making people leave is the most unpopular action unless one also frees them to be anywhere.

Transferring people is a degrading thing to do to them.

Jail denies a thetan all spaces except where he has been placed and note that thetans are made very miserable in jail. Jailing is a sure way to confirm criminals and also to make them crazy as well.

Any thetan, stuck in an engram, is asserting the effort to be at the point where he was hit at the beginning of that engram.

An engram therefore is a refusal to leave a place at which force was exerted to drive one away.

Reversely, one can refuse to be held at a place where one does not wish to be but this is a negation of a place, a not-is of it and its time.



OPERATION

CALIFORNIA is composed of "seven 'branches' or units, each of which are part of the corporation. Each of these is in a separate location and each is under the control of the common Board of Directors and Officers" (Exhibit 6). CALIFORNIA'S submission outlined the seven branches as follows:

1. San Francisco Organization (SFO)
2. Los Angeles Organization (LAO)
3. American Saint Hill Organization (ASHO)
4. Advanced Organization Los Angeles (AOLA)
5. Guardian Office (GO)
6. Flag Operations Liaison Office (FOLO, FOLOWUS)
7. Flag (aka APOLLO)

During a meeting on June 25, 1976, CALIFORNIA also submitted a full description of their organizational set up (Exhibit 6). They alleged that there are minor variations in their structure as compared to the submission but essentially the submission represents the organizational structure of each of its "branches". The submission outlines 21 departments.

CALIFORNIA alleges that the San Francisco Organization and Los Angeles Organization are Class IV organizations and are similar in all respects to other Class IV organizations. A Class IV organization "is a Church of Scientology and Missions to have the power to ordain ministers of the Church, expel individuals from the Church and conduct religious training up to the level known as Class IV" (Exhibit 6)

The June 17, 1968 minutes of the Board of Directors of CALIFORNIA suggests that the San Francisco Organization became a part of CALIFORNIA on June 17, 1968 (Exhibit 7). Prior to this date, the San Francisco Organization was a subordinate church of CALIFORNIA. The minutes reflect the fact that CALIFORNIA is the "Mother Church".

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CALIFORNIA has submitted an explanation of the day to day operations of the "Churches" (Exhibit 8). The information contained therein states that the Los Angeles and San Francisco Organizations operate as "Day org and Fnd org". This term merely means that the organizations have two shifts. During the weekdays, the "Day org" conducts its activities from 9:00 AM to 6:00 PM and the "Fnd org" conducts its activities from 7:00 PM to 10:30 PM. During the weekends, the organizations are opened from 9:00 AM to 6:00 PM.

A description of the San Francisco Organization's premises was furnished (Exhibit 8) by CALIFORNIA wherein the following was stated:

"There are three large course rooms in the San Francisco Church. One is where the ministerial training is delivered, one is for the beginning introductory courses and one is for advanced students, the other two will hold 60 to 100 students."

During the course of this examination, we took the opportunity to tour the Los Angeles Organization premises. The layout of the premises is different than that described above but CALIFORNIA has alleged that the delivery of the services are similar.

The American Saint Hill Organization (ASHO) became a part of CALIFORNIA on June 8, 1970 (Exhibit 9). This organization operates on a "Day" and "Fnd" schedule similar to the San Francisco Organization and the Los Angeles Organization.

CALIFORNIA'S submission describes the <sup>ASHO</sup> premises as having two large course rooms which hold over 100 students each and a third internship room which holds approximately 50 students (Exhibit 8). While the San Francisco Organization and the Los Angeles Organization delivered processing and training up to level IV, ASHO delivers more advanced "religious" training

and upper level ~~H~~oral Counselling (Exhibit 10). The majority of the students at this Church are sent from the San Francisco, Los Angeles and other Churches of Scientology to partake of the more advanced training and Pastoral Counselling." (Exhibit 8)

The Advanced Organization of Los Angeles (AOLA) became a part of CALIFORNIA on June 8, 1970 (Exhibit 9). This organization does not operate on a "Day" or "Eve" schedule but "is open and functioning from 9:00 in the morning until 10:30 at night."

AOLA offers the most advanced courses and Pastoral Counselling available. The "parishioners" of this organization are made up of graduates from the other Churches of Scientology and the American Saint Hill Organization.

Within AOLA is another organization (Exhibit 8) known as the Advanced Organization Church's public division whose function is to tour the other Churches explaining the advanced levels of Spiritual Counselling available at AOLA.

In late 1972 or early 1973, CALIFORNIA purchased an old manor located at 5930 Franklin Avenue, Hollywood, California (Exhibit 11). This complex is adjacent to the Advanced Organization operations. The prime function of this operation is to house out of town "parishioners" who are taking courses at ASHO or AOLA.

The Guardian Office is that branch of the CALIFORNIA that is responsible for the defense of Scientology, designed to handle major legal matters of the Church, and major dissemination of the Church. CALIFORNIA alleges that the Guardian Office is managed locally and under the control of the Board of Directors and officers (Exhibit 8). This position is in direct contrast to the "HCO POLICY LETTER OF 25 MARCH 1971" (Exhibit 12) wherein it is stated

that: "The command line of any Guardian Office is directly under that of the continental Guardian who is under the Guardian KW. The Guardian KW is under the Controller KW." The Controller KW is Mary Sue Hubbard.

The Flag Operations Liaison Office (FOLO) became a part of the Church of Scientology of California on August 15, 1970 (Exhibit 13). It was known at that time as the United States Liaison Office. Its name was changed to the Flag Operations Liaison Office on June 6, 1972 (Exhibit 14). FOLO functions as a relay point between the various branches of the Church of Scientology and FLAG. FOLO is the relay point for communications, flow of monies, and the furnishing of supplies (Exhibit 15). CALIFORNIA states that the operation of FLAG is as follows:

"In the 1971 to 1974 period, the Flag Church was aboard the sea going vessel Apollo. All staff members of the Flag Church are members of the Sea Organization. The day to day operation of the Church is divided into three general areas.

The first is that of the ship's operation. The ship's crew did all the normal duties of any ship's crew, ensuring the safety and normal function of the vessel. Each crew member spent 2½ to 5 hours a day in religious training or Pastoral Counselling, the rest of his time was spent in his duties except for the hours to sleep and eat and one day off each week.

1. A fraternal society existing within the formalized structure of the Churches of Scientology. It consists of highly dedicated members who take vows of eternal service to the Church.

The second area of day to day operation is the religious training and Pastoral Counselling function. This activity was carried on daily in the same general manner it is carried on at any Church. The majority of the students and those receiving Pastoral Counselling were staff members sent from other Churches of Scientology for the advanced training and Pastoral Counselling available only at the Flag Church, where the most highly trained course supervisors and Pastoral Counsellors are found. Parishioners from outer Churches also came to the Flag Church who desired Pastoral Counselling and religious training from the most highly trained Scientology Ministers and supervisors. Parishioners visiting the Flag Church were given a cabin and their meals during their stay.

The third general area of operation of the Flag Church is the administrative guidance function. Flag Church staff members review data and reports from the outer Churches of Scientology, and from the overview they obtain, they are able to advise the outer Churches of Scientology in order to aid them in their individual expansion and thus help to co-ordinate the expansion of the faith in general.

The ships crew worked day and night on shifts as would any ships crew, whether in or out of port.

The religious training and Pastoral Counselling activity was conducted from between 9 in the morning until 10:30 at night.

The administrative guidance activity was carried out on a schedule from midnight until noon:

During the period from 1971 to 1974, the above encompassed the day to day operation of the Flag Church and its approximately 250 to 300 Sea Organization members.

ordained ministers. The ministers also perform the usual sacerdotal functions of marriages, baptisms, funerals, weekday and Sunday services.

During the course of our examination, we have had the opportunity to inspect various documents and find that the statements previously incorporated herein as a part of the explanation of the operations of CALIFORNIA are substantially true.

The day-to-day activities of CALIFORNIA may be categorized under three broad headings: counseling and training, promotional activities and administrative activities.

#### Counseling and Training

According to CALIFORNIA'S submission (Exhibit 16), CALIFORNIA engages in two types of counseling: "Pastoral Counseling" (aka Auditing or Processing) both done for a "fixed donation" and free and general counseling provided at no cost to "ministers of the Church."

"Religious Counseling" is used by Scientology to allow an individual to see the truth that he is a "spiritual being." The auditing or processing is characterized by Scientologists as a confessional procedure by which an individual with the aid of a trained Scientologist uses inter-personal communication to discover and remove "spiritual limitations." The trained Scientologist (auditor), utilizes a devised set of questions and drills, as well as a device labeled an "E-meter", to conduct this type of counseling. CALIFORNIA has maintained that the "Spiritual Counseling" is done on a one to one basis with one Minister involved in the Counseling of one parishioner.

As previously stated, "Pastoral Counseling" is given for a fixed donation and at no charge. According to the submission by CALIFORNIA, the fixed donation is set at \$25.00 for 12 1/2 hours of Counseling. This 12 1/2 hour block

is referred to as one "Intensive". The rate cards (Exhibit 17) submitted by CALIFORNIA discloses that the following rates are applicable for "other auditing actions":

12½ hour Intensive	\$ 625.00
25 hour Intensive	\$1250.00
50 hour Intensive	\$2350.00
75 hour Intensive	\$3350.00
100 hour Intensive	\$4250.00

In addition to the above charges, two additional types of "Auditing" are available. "Integrity Processing" is available at \$750.00 per 12½ hour Intensive and "Expanded Dianetics" is available at \$950.00 per 12½ hour Intensive.

By its submission, CALIFORNIA has represented that "Counselling" has been "given at no charge to the destitute and needy in certain of the Church's charitable community service programs" and that the fixed donation is not a requisite to obtaining "Counselling".

Auditing for no charge for the "needy or destitute" appears to be in accordance with the publication Scientology: A World Religion Emerges in the Space Age, Church of Scientology Information Service (1974) 75. CALIFORNIA has submitted an outline of the various free services offered (Exhibit 18), however, no estimates of the hours spent has been furnished. In addition to the above, CALIFORNIA has submitted other documentations which purport that 1000 hours per week are spent on a program called "Free Word Clearing". The "Free Word Clearing" program was developed because many individuals "will give up a study or become confused in an area (or unable to learn)" because "he or she has

gone past one or more words not understood." (Exhibit 19).

The second type of counseling offered is "general counselling". This is offered under the "Free Scientology Center" policy (Exhibit 18). Included in the counseling offered are group counseling sessions, pastoral counseling, ethics counseling and etc. Many of these overlap with the concept of "free services" as previously mentioned. Chaplains are also utilized in providing "general counselling" by helping to settle disputes among Scientologists in addition to performing the regular sacerdotal functions of marriages, baptisms, funerals, wedday and Sunday services.

THE CALIFORNIA CHURCH also engages in the training of individuals to be Scientologists and Scientology Ministers by offering "religious" educational courses relating to Scientology (Exhibit 17).



The rate cards submitted by California (Exhibit 17) reflect the courses rates at the different organizations. The courses previously stated have been represented by CALIFORNIA to be all the courses available at the different organizations. In our analysis of the rate cards and other publications in which rates were published (Exhibit 20), we noted that the prices varied according to where the courses were taken, courses taken in package deals, advertised specials, etc. As an example, the Hubbard Apprentice Scientologist (Communication Course) cost \$25.00 at the Los Angeles and San Francisco Organization. This same course taken at FLAG cost \$250.00. As another example, the Organization Executive Course cost \$1,475.00 at the American Saint Hill Organization and again we see that the same course taken at FLAG cost \$4,000.00. Upon a close analysis of the rates, it appears that the difference in course rates appear between FLAG and the other organizations.

The rate cards also reflected the following statements:

"If the course is donated for well in advance a 5% advance donation discount will be awarded"

"Donations promptly refunded to any dissatisfied student or preclear"

"With respect to the pricing of various courses, CALIFORNIA submitted a statement along with "HCO POLICY LETTER OF 4 APRIL 1972" (Exhibit 21). CALIFORNIA's submission states in part the following:

"Numerous things had to be taken into consideration before a fixed donation could be set for either Pastoral Counseling or Religious training. Basically, these included the following:

1. Free services given by the Church.
2. Charitable activities of the Church,
3. The Religious doctrine of an exchange needed for services given,
4. The many discounts given in the form of memberships,
5. The administration backup needed to deliver Spiritual Counseling and Religious training,
6. Church expenses in running the organization."

The "HCO POLICY LETTER OF 4 APRIL 1972" was submitted to substantiate the religious doctrine of exchange.

In order for us to learn more about the pricing policy of CALIFORNIA, we reviewed a set of books entitled "The Organization Executive Council - An Encyclopedia of Scientology Policy" by L. Ron Hubbard, Scientology Publications Organization, (1973), (OEC). This book contains most of the operating rules of Scientology and will from time to time be utilized in demonstrating our findings. In this particular instance, we were able to determine how some of the rates for the courses were established by reading the OEC Volumes.

The guidelines included in this volume are known as the "HCO POLICY LETTER". The pricing of courses appears to have originated from "HCO POLICY LETTER OF 19 OCTOBER 1964 - PRICING FORMULAS" (Exhibit 22). Item 1 of the "Pricing Formulas" states the following:

"The price of a 25 hour intensive or any one course above the level of BAS shall be computed as costing the same as three months' pay for the average middle class working individual. Each Continental District shall make its own computation of what that sum is. From this total price a Lifetime Member shall have a discount of 20%. An International (yearly) member may have a discount of 30%. For the purpose of Courses and Intensives only these two discounts may be additive. Courses above the level of HPA may be increased in price at the discretion of the Continental Director or Executive Director. Processing bought in amounts more than one 25 hour intensive may be decreased proportionally at the discretion of the Continental Director or the Executive Director."

This particular policy letter also states other pricing policies to be followed, for example, it states the policy on Book discounts, Staff member auditing, etc. In our review of the OEC and our search for the pricing policies, we found other pricing policies (Exhibit 21) as follows:

"HCO POLICY LETTER OF 22 MARCH 1965"-SAINT HILL SERVICES,  
PRICES AND DISCOUNTS:

"HCO POLICY LETTER OF 20 JULY 1970-INTERNSHIPS AND CASE  
SUPERVISORS"

"HCO POLICY LETTER OF 17 FEBRUARY -Issue II-CLASS VII"

"HCO POLICY LETTER OF 6 NOVEMBER 1971-Issue II-(Amends HCO PL  
20 JULY 1970, 'Internships and Case Supervisors') SELLING  
INTERNSHIPS"

We previously stated that the rate cards reflected a refund policy. Our reading of the C.C. Volume disclosed the following policies which commented on the refund policies:

"HCO POLICY LETTER OF 27 FEBRUARY 1962-REFUND OF FEE POLICY REVISED"

"HCO POLICY LETTER OF 23 OCTOBER 1963-REFUND POLICY (Cancels HCO POLICY LETTERS OF October 12, 1961 and February 27, 1962)-REFUNDED FEES"

"HCO POLICY LETTER OF 23 MAY 1965-Issue II-REBATES"

"HCO POLICY LETTER OF 31 JULY 1966-REFUND NOTICE"

"HCO POLICY LETTER OF 1 AUGUST 1966-REFUND ADDITION"

"HCO POLICY LETTER OF 3 FEBRUARY 1967-Issue II-LEGAL STANDARD WAIVER"

"HCO POLICY LETTER OF 5 February 1970-Issue II-SCIENTOLOGY REFUNDS WRIT OF EXPELSION AND WAIVER"

CALIFORNIA has policies

that the policy of "complete refunds" are strictly enforced and follow the above quoted policy letters (Scientology: A World Religion Emerges in the Space Age, ibid, pg. 75).

The "REFUND NOTICE" and "REFUND ADDITION" policy letters dictate the current policy of CALIFORNIA. They state in part "FEES PROMPTLY REFUNDED TO ANY DISSATISFIED STUDENT OR PRECLEAR" and "No refund may be applied for successfully after three months from the end of the last service rendered." Prior to any "student" receiving a refund of "donations" he has to execute a "STANDARD WAIVER" which states:

"I, JOE BLOW, having requested a refund of .....for services rendered, within three months after such services have been given, hereby agree by way of consideration, upon receipt of such refund, to waive any further rights I may have as a Scientologist and to take no legal action against L. Ron Hubbard, any person or Scientology organization in respect of or arising out of any Scientology course or other services rendered before this date, and in full understanding that I may not again be processed or trained."

We previously discussed in length the courses available at the various organizations and the cost to take the course. In order that an individual may avail himself of the "Pastoral Counseling" and "Religious Training", he must execute a contract with CALIFORNIA (Exhibit 23). During the period 1971 to September of 1973 an individual signed a "PLEDGE OF OFFERING" and a "LEGAL CONTRACT FOR AUDITING AND TRAINING" prior to receiving any Church services. (SCIENTOLOGY, A World Religion Emerges in the Space Age, ibid, pg. 73).

"I, \_\_\_\_\_, undertake the amount of \_\_\_\_\_ as an offering to the Church of Scientology of California. Although it is my understanding that guidance is made available at no cost to Church parishioners, I further understand that the amount pledged above provides eligibility (sic) for certain particular ministrations and Pastoral Counseling of the Church, known as training/processing, such ministrations or spiritual guidance, not to exceed....., is to be directed toward my attainment of the validated

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state of ....., which I fully understand to be a personal state of increased spiritual awareness and ability, the attainment of which I alone may attest. I understand the time limit is imposed so that facilities the Church has available for such guidance may be utilized by other parishioners."

The "LEGAL CONTRACT FOR AUDITING AND TRAINING" provides in part the following:

1. The service hereunder provided for is known as  

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2. The service which is the subject of this agreement is open to any person who:
  - (a) Understands that Scientology is a spiritual and religious guide intended to make persons more aware of themselves as spiritual beings, and not treating or diagnosing human ailments of body or mind, nor engaged in teaching or practicing of the medical arts or sciences.
  - (b) Does not have a purely medical illness that would be curable within the skill of a physical practitioner.
  - (c) Does not have a history or record of institutionalisation in an insane asylum or similar place.
  - (d) Does not have a criminal record.
  - (e) Is not connected to any person or group of known antagonism towards Scientology.

- (f) Enrols on his own determinism and not on the determinism or orders of any other person or group.
- (g) Will use the knowledge gained to help others, in the understanding that one has to help others to help himself.
- (h) Is willing to abide by the rules governing the practice of Scientology as such may be made known to him in HCO Policy Letters and other authorised (sic) publications.
- (i) Is not using this service to try to cure an illness.
- (j) Is not addicted to drugs or alcohol.
- (k) Understands that in fulfilling this agreement, it may be necessary for the applicant to go for Review, or being a student, to cramming, for which a fee is charged, with the sole purpose of assisting the Applicant to achieve the end result of this service thoroughly and speedily.

3. The Applicant declares that he/she is a proper Applicant for the service within the terms of the foregoing, and has made or agrees to make an agreed contribution towards the cost of this service.

4. The organization undertakes to ensure proper and adequate supervision for the duration of such period as the applicant is in its charge and to make every effort to ensure that the Applicant progresses and attains the end result of this service thoroughly and speedily.

5. This agreement is terminable at will by the Organization subject only to the right of the Applicant to claim under this agreement.
6. Any contribution made under this Agreement will be returned to the Applicant, provided that the Applicant makes his application for a refund within three (3) months from the last day of the service rendered, and signs a waiver provided by the organization releasing the Organization, its servants, agents and assigns from further obligation; but any certificates awarded to the Applicant shall be cancelled and the Applicant thereafter shall not be admitted to any service in any Scientology Organization or Church. Where the Applicant has previously completed a Scientology service, he declares that he is satisfied with the results achieved from that service and now wishes to proceed with this service, and accordingly that he will not make any application for a refund of contributions made towards any previous service.
7. The Applicant waives any right of action arising out of or consequent upon this Agreement or the purported exercise of this Agreement against L. Ron Hubbard, his heirs, executors or assigns.
8. The Applicant waives any rights of action arising now or in the future in respect of or arising out of or consequent upon this Agreement or the purported exercise of this Agreement against the Organization, its servants, agents and assigns, save only the right to claim a refund in accordance with paragraph 6.



9. The Applicant declares that he/she is of full age and under no legal disability or that being of less than full age has obtained the signature of his/her parent/guardian to undertake this service.
10. The Applicant declares that he/she will not hold the Organization or its principals responsible for medical costs or errors, the Applicant undergoing any necessary medical treatment from a medical doctor and not from the Organization.
11. Each provision of this Agreement is of the essence of the Agreement whereof the Applicant is fully aware and signs hereunder of his own free will."

From September 1973, the "parishioner" was required to complete and sign an Enrollment Form which is in three parts. At the time the "parishioner" comes for enrollment, he is given a booklet entitled "CHURCH OF SCIENTOLOGY, Information, Definitions, Rules" (Exhibit 25). The booklet states the following:

"It is the practice of the Church of Scientology to require and accept fixed offerings from members (who elect to also become pre-clears and students) for its pastoral counseling and training services.

A preclear or student who requests it in writing at any time within 90 days from the end of any course of auditing or training and who undertakes to release the Church and its employees from further obligation will be granted a refund of any monies paid for that course and within the following 90 days. However, he will not again be audited or trained.

The results claimed and benefits obtainable from auditing and training, though they may be observable to others, are personal and are experienced by the individual himself or herself. It is essential that you participate actively and honestly in the course you are undergoing, and while so doing observe the advices and ethical prescriptions which the Church has laid down to assist your progress.

Scientology as practiced by the Church of Scientology is a spiritual and religious guide intended to make persons more aware of themselves as Spiritual beings and not treating or diagnosing of human ailments of the body or mind nor engaged in the teaching or practicing of the medical arts or sciences.

Dianetics is practiced in the Church of Scientology as pastoral counseling, addressing the Spirit in relation to his own body and intended to increase well-being and happiness.

The Church of Scientology advises medical attention from a person's own doctor for any physical infirmity or mental illness, and reserves the right to suspend from auditing or training any such person until he has sought advice from a medical practitioner.

The word Scientology is derived from the Latin SCIO (I know; sciens, knowing) and the Greek LOGOS (the word; ology, study of).

It is an applied religious philosophy.

Dianetics is derived from the Greek DIA (through) and NEOS (spirit).

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AUDITING is a pastoral counseling procedure by which an individual is helped, in stages, to recover his self-determinism, ability and awareness of self as an immortal being.

An AUDITOR (literally; one who listens) is a trained Scientology Minister or Minister-in-training, who delivers Scientology or Dianetic auditing.

The auditor uses interpersonal communication and carefully-devised questions and drills, intended to enable the Church member being audited, called the PRECLEAR, to discover and thereby remove his self-imposed limitations.

A preclear is required to eat properly, sleep well and refrain from drugs and alcohol during the period that he or she is being audited.

A person who uses drugs by way of medical treatment should seek the advice of a medical practitioner before ceasing to use them.

Nothing is claimed for any course or auditing or training given by the Church other than claims made in its own current professional literature which relate specifically to a particular course given by the Church and which bear the Church's copyright. By "current" is meant within a year of commencing a particular course.

The E-Meter is used in auditing by the Auditor, who has been trained in its use. It is not used by the preclear, nor is a preclear required to possess one. Indeed, the Church will only make E-Meters available to Ministers and student Ministers. It is a religious artifact which is intended to help the Auditor to audit the preclear. By itself it does nothing; it may be compared with a magnifying glass which enables a viewer to observe things of the Spirit which he would otherwise miss. It is not intended for or effective in the diagnosis, treatment or prevention of any disease.

Scientists recognize and revere the Spiritual leadership of L. Ron Hubbard as the founder, and as the source of the religious philosophy of Scientology. His achievement in developing a practical and workable religious technology is without parallel in history.

He is not a Director of the Church of Scientology, and has no legal responsibility for its management. The practice of Scientology and Dianetics in the Church and the provision of all courses of auditing and training, are the sole responsibility of the present Board of Directors.

There are many books on the subjects of Scientology and Dianetics by L. Ron Hubbard. As he himself has said, they "are a record of research and are writings. They represent a very broad survey of the whole field of human knowledge and the mind and contain ANYTHING THAT WAS FOUND". They recount observations by the author as a consequence of his research and learning over a

long period of time, and should be construed only as a written record of such research and not as a statement of claims made by the Church or the author. The books must be available to students, for the student to reach his own understanding of the teachings of L. Ron Hubbard, and in adopting this position, the Church adopts these words of its founder:

"WHAT IS TRUE FOR YOU IS WHAT YOU HAVE OBSERVED FOR YOURSELF.

NOTHING IN DIANETICS AND SCIENTOLOGY IS TRUE FOR YOU UNLESS YOU HAVE OBSERVED IT.

• AND IT IS TRUE ACCORDING TO YOUR OBSERVATION THAT IS ALL."

In return, the Church will do its best to ensure that you attain the result claimed for the particular course you are undergoing.

You are expected not to proceed to a further course until you are completely satisfied with the results obtained from your preceding course.

Minors are required to obtain the consent of a parent or guardian before undertaking a course.

The Church may suspend any preclear or student for violation of the course rules.

The Church delivers auditing and training solely on the understanding contained in this booklet, and you are required to have carefully read and digested them before commencing any course or counseling.

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Prior to starting a counseling session an evaluation is made of the "parishioner" by means of a "PRECLEAR ASSESSMENT SHEET" (Exhibit 24). This "white form" is used by the auditor "to establish Auditor control over the preclear, to better acquaint the Auditor with his preclear, and to provide essential information required." This "white form" originated in HCO Bulletin of 24 April 1969 and revised and reissued on 8 September 1974.

As an aid to understanding Scientology doctrines, the auditing procedures and training courses, the CALIFORNIA maintains a bookstore offering various books and other artifacts including E-Meters. CALIFORNIA submitted a price list (Exhibit 26) reflecting the books on hand and their various prices. Books are sold to "parishioners" and other Churches of Scientology at retail or discounted if volume purchases are made, purchased by certain types of memberships, etc. (Exhibit 27).

When an individual desires to purchase an E-Meter, a contract is entered into with CALIFORNIA (Exhibit 28). The contract provides that the individual desiring the E-Meter is in the status of: (1) ordained minister, (2) qualified theological student or (3) theological student seeking higher levels of Scientology awareness. The applicant signs a statement to the effect that the E-Meter is a sacred "article of faith" of the Church and that it is not intended for nor can it be used for the prevention, diagnosis, or treatment of any physical ailment or disease. The applicant further confirms the vows of Scientology and pledges to contribute a sum of money. After signing the contract, attestation as to the status of the applicant is attached to the contract which is then verified by the "Assistant Guardian" who notifies the local bookstore that the E-Meter may be delivered to the applicant.

CALIFORNIA has submitted a list of memberships that they offer (Exhibit 29). According to the submission by CALIFORNIA, the corporate memberships are: (1) Voting members, and (2) associate members. Other memberships offered to "parishioners" are H.A.S.I. (Hubbard Association of Scientologists International) memberships as follows: (1) lifetime members, (2) one year members, and (3) free members. Any "parishioner" not previously a member may upon request receive a free six month membership. This entitles the member to a 10% discount on book purchases. Following the six month free membership, the individual was eligible by "donating" \$15.00 for a one year membership. This membership entitled the member to 10% off on books, 20% off on tapes and E-Meters, and 10% off of the fixed donation for spiritual counseling. An individual may become a H.A.S.I. lifetime member by "donating" \$75.00 for the membership. This entitles the member to 10% off on books, 20% off tapes and E-Meters, and 10% off the fixed donation for spiritual counseling. If the lifetime member is also a yearly member an additional 10% discount is offered on the fixed donation for spiritual counseling.

Promotional Activities

The second major activity in the day-to-day operations of CMH/PHA is that of promotion or public contact. The promotional activities may be divided into two basic types; direct promotion, including free lectures, Sunday services, newspaper and radio advertisements, Meetings (aka Franchises) and the <sup>Field</sup> Staff Member Program, publications and indirect promotional activity, which includes various committees designed to make the public aware of problems facing the community and active programs designed to aid various classes of people. The indirect promotion is usually done thru news stories or the distribution of reports commenting on specific social problems.

In "HCO Policy Letter of 20 November 1965 - THE PROMOTIONAL ACTIONS OF AN ORGANIZATION" (Exhibit 30) and "HCO Policy Letter of 23 May 1969 - PUBLIC DIVISIONS PROMOTIONAL ACTIONS" (Exhibit 30) there were listed a total of 134 actions to be taken to "ensure solvency and are vital in an org." The two policy letters, in part, state:

- "2. DEPARTMENT 1 (Dept. of Routing, Appearances and Personnel) sees that the org has a good clean appearance."
- "9. DEPARTMENT 2 (Dept. of Communications) - Keeps a complete Address File in such shape that mailings are wide and sent to people who will respond. Never lets go of an address or a mailing list and keeps them all properly corrected and up to date and in proper categories for ready use."
- "14. DEPARTMENT 3 (Dept. of Inspection and Reports) - Sees that org is there and functioning."
- "19. DEPARTMENT 4 (Dept. of Promotion) - Issues magazines on schedule."



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20. Properly presents services in ads in org magazines and mailings.
  21. Does up work and pieces for Publications Dept.
  22. Executes planned promotions as laid down in Sec Eds.
  23. Compiles promotional pieces and programmes for issue to Scientologists.
  24. Sees that the files, addresses and requirements of persons interested in Scientology are used to the full.
  25. DEPARTMENT 5 (Dept. of Publications) - Sees that good qualities of books are in stock."
  - "34. DEPARTMENT 6 (Dept. of Registration) - Letter Registrar works to accumulate questionnaires and mail from those responding to promotion. Follows exact policy and gets out floods of mail of all possible proper candidates for service."
  - "42. DEPARTMENT 7 (Dept. of Income) - Persuades payment of cash or increase in purchase whenever possible."
  - "45. DEPARTMENT 3 (Dept. of Disbursement) - Keeps bills paid in such a way that the org is in excellent credit repute. (Promotes with good credit rating.)"
  - "47. DEPARTMENT 9 (Dept. of Records, Asset and Material) - Gets proper quarters to make the org look good, whether for momentary or permanent use for all divisions."
  - "52. DEPARTMENT 10 (Dept. of Tech Services) - Makes the customers happy and glad to be there."
  - "55. DEPARTMENT 11 (Dept. of Training) - Gives excellent training. (The soundest possible promotion quickly mirrored in members enrolling.)"

"62. Gets students (Free Scientology Centre) to find new, raw meat pcs of their own around the town and audit them for student classification and gets them to bring such pcs in for Release examinations and declarations (during which they get routed through Registrar who presents the award) and refuses any for classification in cases already known to be paying pc of some org or auditor."  
(See previous discussion of Free Scientology Centre in general counselling section of this report.)

"63. DEPARTMENT 12 (Dept. of Processing) - Gets excellent results on all pcs."

"73. DEPARTMENT 13 (Dept. of Examinations) - Makes sure no untrained student or unsolved case gets past."

"77. DEPARTMENT 14 (Dept. of Review) - Quickly repairs any flat ball hearings turned out by the local Division so they will be no discredit to org."

"82. DEPARTMENT 15 (Dept. of Certs and Awards) - Issues credentials that will be seen around - pins that people will wear, certificates they will hang up, cards they will show."

"86. a. Pushes along the Free Membership programme and makes sure Accounts sends a bill for the next year's Membership the moment the six months expires AND IS ITS STATISTIC."

"87. DEPARTMENT 16 (DEPT. OF PUBLIC RESEARCH AND REPORTS): Discovers the Ethnic values of the local area.

88. Sees that Ethnic data is correctly evaluated for assimilation and adaption.
89. Makes sure Ethnic data is provided for use in Rehabilitation and Promotion Programmes.
90. DEPARTMENT 17 (DEPT. OF PUBLIC REHABILITATION): Sells Scientology to Governments and broad social stratas.
91. Works on the public not on Scientologists already known to Division 1 and 2.
92. Makes Scientology popular and the thing to do.
93. Uses the media of Press, TV, Radio.
94. Issues projects of application to advanced Scientologists, particularly those projects involving artists or public figures.
95. Appoints committees of Scientologists in various areas and groups to advise on improvements of a civilization.
96. DEPARTMENT 18 (DEPT. OF PUBLIC PROMOTION): Advertises to the broad public using what is acceptable and valuable (Ethnic values).
97. Produces promotional material for Press Releases, TV Scripts, Book advertising using Ethnic values.
98. Gets books placed in bookstores reviewed and in public view.
99. Acquires new mailing lists.
100. Sends out excellent info packs.

101. Invites Scientologists to ask that info packets be sent to friends and relatives.
102. PUBLIC ACTIVITIES SECRETARY: Co-ordinates and gets done the Divisional promotional functions of Division 7.
103. DEPARTMENT 19 (DEPT. OF FACILITIES, SCHEDULES AND PUBLIC EVENTS): Plans and organizes Public Events.
104. Advertises and holds: Congresses, Open Evenings, etc.
105. Furnishes lecturers to public - bodies and groups.
106. Plans and conducts lecture tours and special events.
107. DEPARTMENT 20 (DEPT. OF ACTIVITIES): Guides in new body traffic.
108. Makes sure Public reception and displays full data making Scientology real to the public and includes nothing that would overwhelm or confuse.
109. Sees that the Introductory Lecture and non-classed courses use no words that will be misunderstood and makes people want to buy training and processing and offers it.
110. Advertises and conducts and Extension Course.
111. Encourages broad public (lay) Memberships.
112. DEPARTMENT 21 (DEPT. OF SUCCESS): Contacts by letter all ex-pcs and students of the org. They should be written to at widening intervals after leaving the org.

113. Keeps bad cases and files out of the field by sending all who fall Key Questions directly to Review at the cost of the Organization.
114. Collects by letters, or verbally, successful applications of Scientology.
114. A. Acknowledges the activities of Scientologists busy out in the world.
115. Encourages and publicizes various applications of Scientology.
116. Makes a catalogue of successes with various processings on various conditions.
117. Issues stories of successful application.
118. Condenses wins into data of interest for logs and at headquarter.
119. Gets spectacular wins posted on the org's public notice boards and in Success booklets at Reception.
120. Makes sure morale in the Org is high, with Chaplain picking up any loose threads in Ethics matters and seeing they are cleared up and that people do not fall off the Org board.
121. Quickly acts through the Chaplains Court Unit to resolve any disputes of a Civil nature among Scientologists.
122. Advertises and conducts a successful Sunday Service.
123. DISTRIBUTION SECRETARY: Coordinates and gets done the Divisional promotional literature, etc.

124. DEPARTMENT 22 (DEPT. OF FIELD SERVICES, ESTABLISHED 1971): RECRUITS, APPOINTS and FRANCHISES FSMs, GROUPS and Franchises.
125. Registers Franchise Centres abroad.
126. Finds and encourages the formation of Scientology Groups and Registers them and offers Certificates.
127. Recruits Field Staff Members to get pas and students into Org and collect past lehrs.
128. Gets all commissions owed promptly paid to encourage earning more commissions.
129. DEPARTMENT 23 (DEPT. OF FIELD TRAINING): Trains the FSMs and Franchise holders and makes them financially successful.
130. Trains the world's best and most active salesmen and is not led by any other business org.
131. Carries out all FSM and Franchise activities and makes them head people towards the Org.
132. DEPARTMENT 24 (DEPT. OF FIELD SERVICES): Keeps in touch with the Field and keeps them informed and supplies them with advice and data.
133. Sends out mailings to the Field.
134. Gives FSMs and Franchise holders and groups things they can use to disseminate and collect."

Included with "THE PROPORTIONAL ACTIONS OF AN ORGANIZATION" letters are other policy letters which further explain the Departments previously mentioned (Exhibit 30).

The primary method utilized to introduce interested individuals to the tenets of Scientology is the free lecture. These events come under Department 19 requirements. The free lecture may be a film lecture by L. Ron Hubbard, a lecture by a Scientologist, a lecture by a well known personality such as John Brodie, who is a Scientologist, and other "public events" (Exhibit 31). CALIFORNIA'S submission stated that the Los Angeles Church as a representative sample of all the Churches devotes approximately 320 hours of a total of 4920 hours to the delivery of this service (Exhibit 32). This particular activity represents approximately 6% of CALIFORNIA'S overall activities. CALIFORNIA has not submitted a detailed explanation as to the mechanics of the distribution of the tickets and pamphlets and the length of the lectures; however, from the appearance of the pamphlets and tickets it would appear that many are handouts. In conjunction with the free lectures are the Sunday Services given by CALIFORNIA. In "HCO POLICY LETTER OF 20 AUGUST 1970 - DIVISION SEVEN - THE PUBLIC SERVICES DIVISION" (Exhibit 30), the "Ideal Scene" under Department 19, Public Events is stated as follows:

"Lots of well run public events which are attended by volumes of people in increasing numbers, and which create and generate high interest resulting in numerous enrollments for training and processing.

Stat: Total number of public events and Sunday Services attendees routed to a Registrar."

Included in the various handouts or references to:

- (1) "Free Personality Portraits."

(2) "Learn how you can increase your respect for yourself and others, increase your self confidence, personal well being, understanding of life, peace of mind and MORE!!"

(3) "Free Personality Tests are given daily to all new people."

A second method of direct promotion utilizes the mass medias of newspapers, magazines, and radio. This particular function comes under the control of Department 18 (Dept. of Public Promotion). The advertising appears to be developed under the guidance of "HCO POLICY LETTER OF 21 NOVEMBER AD19 - ETHNICS - FIND OUT WHAT IS NEEDED AND WANTED". (Exhibit 33). This policy letter, in part, states:

"The purpose of this policy letter is to provide a SET FORMAT that can be used over and over again by Orgs. to find out in their country, area, city, community WHAT IS NEEDED AND WANTED. Once this known to an organization it can angle its promotion on it and produce it. For example, an area wants more INTELLIGENT PEOPLE AND ACTIONS and LESS STUPIDITY. The Org of the area finds out and goes into a promotional programme of 'We can RAISE your IQ!!!'. Of course through training and processing an organization can produce this exact result."

CALIFORNIA has submitted a sample of a number of advertising that they have taken out in various newspapers (Exhibit 34). Some of the terminology used on the various ads are as follows:

(1) "Gain Respect for Self and Others"

(2) "How can we achieve self-respect and mutual trust?"



(3) "Is it hard for you to reach out and touch people?"

(4) "Discover the mind's powerful influence on your health"

In addition to the news and radio ads, CALIFORNIA also advertises by handouts (Exhibit 35). Some of the terminology used on the various handouts are as follows:

(1) "Can One Change One's Personality"

(2) "Is Your Life As Good As It Could Be?"

(3) "THE ENERGY CRISIS - THE FACTS, THE WHY, AND THE HANDLING"

(4) "If you feel your life could be better, find out how."

(5) "Get Free I.Q. Tests - Discover your true potential NOW!"

Prior to the issuance of the "ETHNICS" policy letter various other policy letters were issued on advertising formats (Exhibit 36). Various suggestions were made in the policy letters such as: "When making people decide on existing advertising and stay decided for a week, change ad to a vocational type ad: - 'Do you dislike your job? - Come in for Vocational Checking. - You May have talents you don't suspect.' All the ads are for the purpose of selling books, processing and training. This is the natural process, that dissemination leads to Salesmanship. "In (4) Salesmanship, one effectively offers these individuals something they can and will buy - service, status increased potential, anything they will buy." (HCO POLICY LETTER OF 21 JANUARY 1965 - REVISED 5 APRIL 1965 - VIAL DATA ON PROMOTION (Exhibit 37)).

Another form of direct promotion engaged in by CALIFORNIA is the Chartering of Missions and the Field Staff Member ("FSM") program. These two activities come under the control of Department 22 (See previous cite of Dept. 22).

Under the authority of "HCO POLICY LETTER OF 20 NOVEMBER 1969 - LEGAL ASPECTS"

OF MISSIONS" the Church of Scientology of California, as the Mother Church, is given the authority to issue Charters to applying individuals (Exhibit 35). Missions by their nature are limited in the levels of course that they may offer; therefore, any individual wishing to take advance courses must go on to the Class IV orgs. (L.A. & S.F.), ASHO, AOLA and/or FLAG. One of the requirements of having a "Mission" is the remittance of 10% of the gross income from Scientology and/or Dianetics training and processing as a "contribution towards the Public defense of Scientology." (Exhibit 38).

The FSM performs a function of a local missionary in the community who contacts individuals and tries to interest them in Scientology. They were created under the authority of "HCO POLICY LETTER OF 26 MARCH 1965 - REVISED 30 MARCH 1965 - FIELD AUDITORS BECOME STAFF" (Exhibit 39). If an individual buys training or processing as a result of FSM, then the FSM is paid a "commission of 10%" for fees collected by the Org.

The final method utilized by CALIFORNIA in direct promotional activity is the publication of various magazines and papers designed to interest people in Scientology and Scientology philosophy. Under "LRH ED 59 INT - 14 DECEMBER 1969 - MAGAZINES" (Exhibit 40) we can see that magazines "helps sell only those people already sold." "The magazine is always working on already existing customers so it has to sell things THEY will buy, not things the raw public would buy. Thus an org has income."

CALIFORNIA has submitted a number of magazines for our review. We have selected a sample for inclusion within the exhibits. A summary of the magazines included are as follows:

- (1) ADVANCE - A publication by the Advanced Organization of the Church of Scientology (Exhibit 41).

(2) THE CLEAR - Published by the Church of Scientology, a monthly journal by ASHO publications (Exhibit 42).

(3) REALITY - An official publication of the Continental Church of Scientology, Los Angeles (Exhibit 43).

(4) GATEWAY - An official publication of the Church of Scientology in San Francisco (Exhibit 44).

Each of the magazines <sup>have</sup> various articles on Scientology along with "success" stories by Scientologists that have completed a particular course, in addition there are numerous ads for courses, books and meters.

In addition to the Magazines, CALIFORNIA has submitted a number of papers for our review. We have selected a sample for inclusion within the exhibits.

A summary of the papers included are as follows:

- (1) FREEDOM - Published by the Church of Scientology in California. This particular journal is distributed both internally and externally (Exhibit 45).
- (2) THE AUDITOR - This is a monthly journal of Scientology published by <sup>the</sup> ASHO branch of CALIFORNIA (Exhibit 46).
- (3) CLARE - This is the ASHO Foundation Magazine in newspaper form and is an official monthly publication of ASHO (Exhibit 47).
- (4) CLEAR NEWS - This is the AOLA newsletter and is sent free of charge to Clears, OTs and "I Want To Go Clear" Club members (Exhibit 48).

Similar to the information contained in the magazines, the publications contain articles of Scientology along with "Success" stories by Scientologists

that have completed a course, in addition there are no procedures for ...  
locks and meters.

CALIFORNIA has engaged in activities not related to the direct promotion of  
the Scientology doctrines (Exhibit 49). Notwithstanding the lack of a  
direct connection with the "promotion" of Scientology, CALIFORNIA considers  
the following activities as an indirect promotion of the tenets of Scient-  
ology (Exhibit 50).

- (1) Newsarticles - The newsarticles announce a particular event and  
community activities which the Church has staged (Exhibit 51).
- (2) Committee on Public Health and Safety - Services as a consumer  
information center and provides the public with information on  
health care and safety (Exhibit 49).
- (3) Task Force on Mental Retardation - This group published a report  
entitled "Mental Retardation in California" that was submitted to  
the Governor of the State. This report was in three parts  
(Exhibit 52).
- (4) Committee to Re-Involve Ex-Offenders - This committee began as  
a referral service to help ex-offenders find jobs and groups he  
could go to for services that fit his particular needs (Exhibit 49).
- (5) Cerus Society - The stated purpose of this group is "to set up  
communities where the aged have a chance to be productive in  
society and remain independent in their individual lives." The  
society has submitted a report to Governor Edmond G. Brown, Jr.,  
The State Department of Health, and the California State Legis-  
lators (Exhibit 53).

(a) Commission on the Study of Criminal Psychiatric Welfare - "For purpose is to investigate charges of abuses and eradicate any abuses found" (Exhibit 49).

Other examples of CALIFORNIA'S "charitable social welfare and community programs" are contained in the statement furnished by CALIFORNIA (Exhibit 49).

The indirect promotional programs are in accordance with "MCO POLICY LETTER OF 20 AUGUST 1970 - Issue III - DIVISION SIX - THE PUBLIC RELATIONS DIVISION DEPARTMENT 17 - PR CONTROL" (Exhibit 30). The policy letter, in part, states:

"PUBLICITY SECTION

Ideal Scene: Is a professional competent information service, putting out many effective, publicly acceptable, hard news releases, articles and PR statements to TV, press and radio which get used, handling expertly the demands of all mass media with whom the Org has excellent relations; resulting in smooth control of all influential mass media contacts to whom the publicity section (or its PRO) is a stable terminal thus making it possible for lots of free good publicity for the Org, Dianetics and Scientology but impossible for any bad publicity."

"COMMUNITY RELATIONS SECTION

Ideal Scene: Gaining to the Org's side all community leaders, VIPs, groups and contacts by communicating and projecting a real and highly acceptable Org image, ensuring all business contacts are smoothly handled by participating in community affairs to the enhancement of Scientology's image and to effect by these means PR Area Control in the community. The Org's control over the community will lead and is leading to a Sane Society and an OT civilization."

CALIFORNIA has stated that the report reported approximately 1310 hours out of a total of 4920 staff hours for the delivery of "charitable services given at no charge." (Exhibit 32). CALIFORNIA has also stated that the "facts and figures are based on the Church of Scientology of California Los Angeles Church as a representative example of all the Churches of the Church of Scientology of California." (Exhibit 32). The above averages represent 38% of the Church's time spent for "charitable activities" (promotion).

## Administrative

The final major activity of CALIFORNIA is its basic administrative procedure. Within this sphere of activity is the executive management of CALIFORNIA and staff assistance to help keep track of the day to day and overall operations of CALIFORNIA. The administrative personnel are also responsible for the legal affairs of the "Church" as well as the financial planning requirements.

The administrative aspects of CALIFORNIA include the following:

- (1) Procurement of new personnel and placement
- (2) Routing of Communication
- (3) Contracting and enrollment "parishioners"
- (4) Guidance of "FSM" (Field Staff Member)
- (5) Legal Support
- (6) Financial planning and execution
- (7) Administrative Guidance (11:13)

CALIFORNIA'S procurement procedures require that new personnel execute a contract (Exhibit 54). The contracts are for week to week employment, 2+ years employment or 5 years employment. Existing staff members wishing to join the "Sea Organizations" signs a contract which states the following:

"I, \_\_\_\_\_, DO HEREBY AGREE to enter into employment with the SEA ORGANIZATION and, being of sound mind, do fully realize and agree to abide by its purpose which is to get ETHICS IN on this PLANET AND THE UNIVERSE and, fully and without reservation, subscribe to the discipline, mores and conditions of this group and pledge to abide by them.

THEREFORE, I CONTRACT MYSELF TO THE SEA ORGANIZATION FOR THE  
NEXT BILLION YEARS." (Exhibit 54)

As a part of the staff, the staff members are required to take certain "on the job" training courses. The staff members also receive certain benefits including training and processing for free or at a 50% discount.

CALIFORNIA has submitted an outline of the staff member's "on the job" training requirements (Exhibit 55). "Staff Status" IV to VI is achieved by completing the OEC checksheets for the OEC Volumes one thru seven. Since we have previously introduced the OEC Volumes as the operating guide, this now confirms our position that the policies contained in the OEC Volumes are the authority for the operation of CALIFORNIA as well as other Scientology Organizations.

On many occasions, we have discussed the policy letters with CALIFORNIA'S representatives. They have repeatedly stated that the policy letters are only guides and are not absolute authority. In support of their position, CALIFORNIA has submitted a number of "ED" (Executive Directives) which they state are contrary to policy (Exhibit 56). Each of the "ED" cite the policy letter that it violates and the reason for the issuance.

"HCO POLICY LETTER OF 18 OCTOBER 1967 - Issue II - POLICY AND HCOB ALTERATIONS - HIGH CRIME" (Exhibit 57) states that the issuance of an order contrary to policy is "committing a high crime which on proof beyond reasonable doubt constitutes a HIGH CRIME and can carry the assignment of the Condition of TREASON for both the person issuing the order and the person who receives and executes it." Treason is defined by Scientologist as Betrayal after trust.



"HCO POLICY LETTER OF 6 FEBRUARY 1972 - Executive Series 6 - EXECUTIVE INTENTION" states that "LRH policies are always senior to any Mission Orders, Project Orders or other types of issues." (Exhibit 57). The policy letter further states that:

"Staff members should point out this policy to an executive who has issued an illegal order, along with the Flag-authorized issue to show why the order is illegal. In this way a staff member can get the illegal order changed and prevent further upset. Any refusal to withdraw a provenly illegal order may be reported by any means available to any LRH Comm, Flag Rep, or to Flag, with copies of the evidence."

As previously stated, the staff is required to study the OEC Volumes, as a part of their on the job training. Included within the OEC checksheets under the section "COURSE APPRENTICESHIPS", we note that the new staff members are reminded of the authority of the policy letters. The following instruction is given to the new staff member:

"If a student on an apprenticeship finds off-policy actions in the area or receives an off-policy order, he must not comply, but must produce the correct policy letter for the area and do what the policy says. He should write up outnesses with specifics to the Div. Head via his course supervisor."

Because the staff member signed a contract (2½ or 5 years) with Scientology, if he/she breaks the contract or is dismissed then he/she is required to "pay a sum to the Church equal to the full cost of all services received while a contracted staff member." The administration of the collection of this

"debt" is done by the Director of Income. CALIFORNIA has submitted samples of collection letters for this administrative activity (Exhibit 58).

Another aspect of the administrative responsibility is the routing or directing of individuals <sup>through</sup> the administrative procedures (registration, course decisions, payment, etc.) enroute to their training or counselling session. CALIFORNIA has submitted the routing forms for "the San Francisco Church", "the Los Angeles Church", "the Advanced Organization", and "American Saint Will Organization" (Exhibit 59). From CALIFORNIA'S submissions, we were able to determine that the administrative aspects of SFO, LAO, AOLA and ASHO were similar.

The administration of the legal affairs of CALIFORNIA and various United States Churches is provided by "The United States Guardian Office (USGO)" (Exhibit 60). CALIFORNIA alleges that "USGO" exists exclusively for the defense, propagation and dissemination of the religion of Scientology and for the carrying out of the several religious and charitable purposes of Scientology." (Exhibit 60). Funding for USGO is provided by ASHO at a rate of 10-15% of the "corrected gross income" of ASHO's income and the United State Churches on a weekly basis in addition to payments for specific legal services.

USGO also provides assistance to CALIFORNIA and other "Churches" "in an overview of financial planning to ensure that each branch can keep solvent thereby continuing to assist the parishioners, continue in the social reform activities and do the good works of the Church." (Exhibit 60).

The administration of the Liaison between FLAG and other Churches of Scientology

is performed by the Flag Operations Liaison Office (FOLO). FOLO is composed of several divisions as are the other branches of CALIFORNIA, however, Division IV performs the function of relaying of communication of the "FLAG CHURCHES" administrative guidance activity (Exhibit 61).

CALIFORNIA'S submission (Exhibit 61) states the function of Division IV as follows:

"Division IV is an 'external' Division. Here FOLO administrators relay communication (and clarify it where necessary) from the Flag 'bureaux' concerned with Church activity, to the various branches of the Church of Scientology of California and other Churches of Scientology. These are advices and observations concerning the operations of these Churches, with particular emphasis on the Los Angeles Branches of the Church of Scientology of California. In this way, the excellence of the delivery of the religious services is maintained and strengthened, and the back-up to that activity is given attention and assistance. This concept is based on the fact that often times an individual at a distance can notice things (of a general nature) which are not readily apparent to 'the person on the scene'."

The highest administrative branch of CALIFORNIA is "FLAG". The relationship of "FLAG" to other Scientology Organizations is outlined in "FLAG ORDER 3302" (Exhibit 62).

CALIFORNIA'S submission (Exhibit 63) states that the administrative responsibility of "FLAG" is as follows:

- "The bulk of the Flag operation exists solely for the purpose of delivering a high excellence of counselling and ministerial training."

(7)

Some 25-35 staff members at the Flag operation have, as a specific duty, the receipt, review and correlation of various information reports forwarded from the various Churches, especially the Church of Scientology of California.

Informational reports received from the Church of Scientology of California are broken down into the various 'branches' (or, in our terminology, 'orgs').

The information is compared with other data, past successful events and/or programs and the like that have been done by or held by the 'org' and, from this distant viewpoint (out of the day to day activity of the various Churches and the various involvements) advice of quite a helpful nature is given to allow the local Executive Director to pick up the ball and run with it.

Most importantly, a constant review of the religious service and the excellence of that service is maintained by review of the informational reports, with alerts given to the local Church executive where there are indications that the precise exactness of the religious doctrine as it is applied is, to any degree, in deviation from what has proven workable standardly.

The review of the quality of the counselling and ministerial training is of paramount importance and the advices issued to the various Church executives are generally very well received and gratefully accepted.

Additionally, the Flag unit 'compares notes', they review information from various Churches and issue advices as to various Church programs which have gone well (resulting in increased Church attendance at the Sunday Service, a flood of new members, or a good method of dissemination, or (even) a successful and workable means of keeping track of some administrative difficulty). In short, they serve as a coordination and relay point for information which will most likely be useful to the local Churches in their interest to expand the faith of Scientology.

There is particular emphasis on the Church of Scientology of California, as the Mother Church, as the focal point of Scientology in the United States. On occasion, when a Church is experiencing difficulty, a team of individuals is sent to the Church unit 'on Mission' to assist in remedying whatever difficulties are being experienced."

One of the monitoring devices or information report used by FLAG is the Form AC-2 or its predecessor Form AC-1. The Form AC-1 was evolved from "HCO POLICY LETTER OF 19 SEPTEMBER 1962" and subsequently modified by other policy letters (Exhibit 64). During this examination, we worked with Forms similar to the Form AC-1 which were entitled FBO No. 1 Account, FBO No. 2 Account and FBO Weekly Report-Form AC-2 (Exhibit 65). No other summarizing records were furnished except the Accountant's workpapers because CALIFORNIA'S representatives stated time and time again that no other records existed.

The FBO evolved from "HCO POLICY LETTER OF 29 JANUARY 1971 - Finance Series I - FINANCE BANKING OFFICERS" (Exhibit 66). The policy letter, in part,

states:

"Nothing in this policy letter disturbs in any way existing Finance Policy except to modify the cashier's and Dir Income's actions in turning over all income properly accounted for to an FBO and receiving, via FP and the Treasury Sec. of the Org and the Treasury Bureau application, from the FBO the allocation passed upon by the FBO."

Thus, from this policy letter we see the evolution of the Form AC-1 to the FBO (Finance Banking Officer) Forms. Also included with the above cited policy letter are other Finance Series up to Series 13.

The "Finance Series 3" (Exhibit 66) established the various bank accounts to be used by CALIFORNIA. The "Finance Series 3", in part, state:

"Finance Banking Officer (International Management) Account No. 1.

Signatories: FBO of the org and A/G of the org as well as International Officers. No org officers. Transfers only. Requires both signatories.

Finance Banking Officer (International Management) Admin Expense Account.

Account No. 2. Signatories: FBO of the org, A/G of the org and International Officers. No org officers. Int Management Expenses, no org expenses. Requires both signatories.

Org Main Account. Receives only monies transferred from FBO Account No. 1, never from Cashier. Usual org signatories. The allocation received from the FBO goes into this account. All Org Expenses, salaries, etc are paid from this account.

Org Reserve Account. Receives any funds like building fund org is holding as reserve for the org as saved from allocations. Hold by and signed on by the org officers.

HCO Book Account. Used as per Pol.. Any monies belonging to it collected by FBO, into his No. 1 Account and transferred to HCO Book Account by him. Usual org signatories.

NO OTHER BANK ACCOUNTS."

In "Finance Series 6" (Exhibit 66) we learned that the Finance Banking Officer is located in the org board in the office of LRH and that the FBO authority stems from the corporate authority of FLAG not the local org's corporation or the C of S. "Finance Series 6" also states that the FBO purposes are as follows:

1. To collect all org income.
2. To summarize and know the org's income sources and those necessities required to produce org products and the product of increased income.
3. To intelligently and wisely allocate sums to the org so that the approved FP results in increased org solvency and increased allocation-production ratio.
4. From increases of allocation-production, to forward large and increasing sums to management reserves.
5. To wisely handle Flag solvency in the area.
6. To expedite company (Flag) projects in the area.
7. To fully and adequately report to Flag via CIOs."

In "Finance Series 8" (Exhibit 66) sole signatories for the FHO No. 1 and No. 2 account were established as (1) The Founder, (2) The Controller,

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(3) The Guardian WW and (4) The Treasurer WW. Our examination of CALIFORNIA'S minutes disclosed that at a special meeting of the Board of Directors of CALIFORNIA held on July 7, 1971, sole signatories were established for all of CALIFORNIA'S bank accounts (Exhibit 67). The sole signatories established were:

L. Ron Hubbard	-	The Founder
Mary Sue Hubbard	-	The Controller
Jane Kember	-	The Guardian
Denny Gorgery	-	The Treasurer

At a special call meeting of the Board of Director of CALIFORNIA which was held on April 24, 1973, it was "resolved that L. Ron Hubbard is hereby removed as signatory on all accounts of The Church of Scientology of California." (Exhibit 68).

In "Finance Series 8" under the heading TAX AND BALANCE SHEETS, the ownership of the FBO No. 1 and No. 2 accounts was explained as follows:

"TAX AND BALANCE SHEETS"

The FBO No. 1 and No. 2 Accounts are part of org records as regards tax and balance sheet preparation; the No. 1 account representing all org income receipts and transfers for org expenses, WW 10% and Management fees, and the No. 2 account representing partial payments of Management fees by means of local funds placed at the disposal of Central Management.

While they are org accounts in this regard, both accounts are used entirely at the discretion of Central Management, under whose corporate



authority the FBO operates. They have no part in Org Cash/BL11s figures, and are not considered to be org funds in any other sense than for accounting purposes."

CALIFORNIA has stated that approximately 42% of its time is spent in the delivery of Administrative support services as described in this section (Exhibit 32).

FINANCIAL ASPECT

The examination of CALIFORNIA was initiated at a meeting with CALIFORNIA'S representative on June 20, 1975. We presented a formal request for information we deemed would be required for the upcoming audit, which would cover the years 1971 through 1974. We discussed the items on a specific basis and no substantial disagreements arose. In response to a request for copies of the annual returns, Form 990, for 1973 and 1974, (1971 and 1972 annual returns are in our files (Exhibit 69)) we were informed that returns were not filed subsequent to 1972, the explanation being that churches are not required to file annual returns under current law. The representative explained that tax working papers would be supplied to us for the years 1971 through 1974. Therefore, the information on such work papers would contain the same information for 1973 and 1974 as would have appeared on annual returns had they been filed (Exhibit 69).

A subsequent review of the tax working papers supplied to us disclosed that CALIFORNIA operated under a five division concept during the years 1971 and 1972. Such divisions consisted of the Los Angeles Organization (LAO), San Francisco Organization (SFO), American Saint Hill Organization (ASHO), Advance Organization Los Angeles (AOLA), and the United States Liaison Office (USLO). USLO was changed to Flag Operations Liaison Office (FOLO) in 1972.

In 1973, there were two additional divisions, Estates and FLAG. Estates division was formed only to isolate the operation of a newly acquired building located at 5923 Franklin Avenue. In Los Angeles. The FLAG division did not

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constitute a major deviation in activities. In substance, CALIFORNIA changed its flow of funds to Operation Transport Corporation, Ltd., OTC/OTS, a Panamanian corporation. During the years 1971 and 1972, CALIFORNIA sent funds direct to OTC/OTS. Some time in 1973, CALIFORNIA opened up one or more bank accounts in Luxembourg through which funds flowed to OTC/OTS. The 1973 and 1974 combined statements reflect this change. OTC/OTS and FLAG will be covered later in this report.

In 1974, CALIFORNIA operated under a nine division concept consisting of the seven operating in 1973, plus the addition of the United States Guardian Office (USGO), and the Excalibur. Additionally, the Estates division referred to in the previous paragraph was changed to the Hotel division in 1974. The USGO division is a spin-off of an activity pursued by the Los Angeles Organization (LAO) in years prior to 1974. The Excalibur is a ship operating along the coast of Western United States. CALIFORNIA conducted some of its training activities on this ship and created the Excalibur division to segregate the financial transactions relating thereto.

#### San Francisco Organization

Our audit of financial records began on July 21, 1975, with the receipt of the data pertaining to the San Francisco Organization (SFO). We conducted an in-depth examination of the SFO records so that we could become familiar with the record keeping method employed, learn the terminology inherently used, and to judge the accuracy and reliability of the records. We felt the knowledge gained would enable us to more accurately determine which areas required the most attention and the degree that we could limit our examination to test checking of the financial records would be dictated.

(57)

Exhibit 70 contains the tax working paper summaries for each of the years 1971 through 1974. Thus, the summaries (Exhibit 70) combine the financial activities of the various divisions referred to previously. Note that the summary schedules contain an elimination column. We found that the eliminations were internal transfers, i.e., payments made by one division to another. We will comment on these transfers in those instances where clarification is deemed warranted.

We found that CALIFORNIA did not maintain a formal set of books of original entry, such as general ledgers, cash receipts journal, cash disbursements journal, or sales journal. We therefore substituted the tax working papers supplied to us as substitutes for books of original entry. The source of entries on the tax working papers were invoices or deposits for income, disbursement vouchers (D.V.s) or cancelled checks for expenditures, and journal entries. The invoices and disbursement vouchers referred to are CALIFORNIA<sup>6</sup> internally generated documents. The disbursement vouchers (D.V.s) and invoices consist of multi-copy, serially numbered documents. One or more copies are retained by the organization, and accumulated on a weekly basis in packets. In general, packets are stapled together, with an adding machine tape, or tapes, with a pen or pencil notation on the tape identifying a category of expense, income, or non-cash items.

The accountant supplied us with a work sheet designating the source of the figures used on the tax work papers. The source of disbursements were either checks or disbursement vouchers (D.V.s).

Our audit disclosed that CALIFORNIA utilizes the cash method of accounting for receipts, with the exception of deferring certain advance payments

~~As described~~ described later in this report. It appears expenditures are also reflected on a cash basis, although we noted sporadic small journal entries for accounts payable.

The tax summary work papers disclose the following income for the San Francisco organization for the years 1971 through 1974:

<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
\$263,229.22	\$240,919.74	\$476,509.30	\$676,373.20

Our analysis of the records revealed the following breakdown for the years indicated:

<u>Description</u>	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Training and Processing	\$113,694.96	\$ 56,994.71	\$ 70,524.61	\$ 63,805.51
Advanced payments	105,313.12	151,365.22	374,370.89	557,252.25
Book income	39,595.68	33,632.17	28,505.47	31,924.41
E Meters	5,134.68	-0-	4,953.33	7,397.37
Sales Tax (net)	(\$ 1,051.01)	(\$ 1,315.61)	(\$ 1,744.95)	(\$ 3,625.25)
* FSI Received	573.19	243.25		
Donations				9,528.91
<b>Total Income</b>	<u>\$263,229.22</u>	<u>\$240,919.74</u>	<u>\$476,609.33</u>	<u>\$676,373.21</u>

\* Eliminated on combined work sheet as internal transaction (Exhibit 7C).

Training and processing constitutes the major portion of the activities, as explained in the OPERATION section of this report. The amount of training and processing represents a net amount, that is, after making a reduction for refunds. We noted that refund checks carried a disclaimer provision over the payees signature (Exhibit 71).

Advanced payments, as the term implies, represents cash receipts from individuals who have subscribed for future services. We questioned the organization's representative, Martin Greenberg, C.P.A. (Greenberg), who stated he would be unable to identify the type of services represented by the advanced payments. However, he indicated virtually all represents training and processing. We were also advised that there are no contracts executed in connection with advanced payments. We did note instances of advanced payments being returned. Such returns are differentiated from refunds explained previously since there is no disclaimer above the payee's endorsement (Exhibit 72).

A review of the records established that advanced payments were reduced each year to the extent of the increase in advance payments. Therefore, the advanced payments above represent those used during the year. This treatment is technically incorrect under the "claim of right theory". Following are the amount of advanced payments deferred each year by reason of the adjustment as reflected in the accountant's year end journal entry:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Balance end of year	- \$56,595.97	\$118,393.22	\$237,330.37	\$287,157.72
Balance beginning of year	- 25,095.64	56,595.97	118,393.22	237,330.37
Reduction for unused portion	- \$31,500.33	\$ 61,797.25	\$118,937.15	\$29,837.35

Based upon the representatives acknowledgment that substantially all of the advanced payments are training and processing, the following breakdown of income, and percentages are applicable: (Sales taxes paid are also netted against sale of books and E Meters).

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	<u>1971</u>	%	<u>1972</u>	%	<u>1973</u>	%	<u>1974</u>	%
Training and Processing	\$219,008	(83%)	\$208,360	(86%)	\$444,896	(93%)	\$631,054	(93%)
Book income	38,623	(15%)	32,317	(14%)	27,092	(6%)	28,988	(4%)
E Meter sales	5,025	(2%)			4,621	(1%)	6,698	(1%)
FSM Received	573	-	243	-				
Donations							9,629	(2%)
Total (100%)	<u>\$263,229</u>	<u>(100%)</u>	<u>\$240,920</u>	<u>(100%)</u>	<u>\$476,609</u>	<u>(100%)</u>	<u>\$676,370</u>	<u>(100%)</u>

Our initial phase of the audit of <sup>the</sup> San Francisco Organization's records consisted of preparing adding machine tapes of all cancelled checks submitted for the four years under audit. We noted some checks were missing, and there were some number sequences broken. However, we concluded that the discrepancies were not of significant importance to warrant further action. We reviewed expenditures by the San Francisco Organization and found nothing deserving of comment with the exception of the accounts below.

The following accounts were selected by us for in-depth analysis and deemed worthy of comment.

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Missionary expenses	\$ 9,464.23	\$13,218.34	\$23,381.02	\$29,675.91
Trustee account	23,235.52	25,439.85	51,107.80	60,650.94
Staff training	23,977.01	52,336.29	96,260.48	20,918.--
OTS	783.82			
FOLO				73,929.13

Missionary expenses constitute payments made to various individuals and other Scientology organizations. They represent a 10% commission to the payee on the amount of services procured for the San Francisco Organization.

We analyzed the expenses designated as Trustee Account and noted that the combining work sheet schedules designate this account as the "Cont. Def. Fund."

Translated, this is the Central Defense Fund. Our audit of this account disclosed that the payee was designated as HCOOW\* until September of 1971, after which the checks were made payable to the U.S. Churches of Scientology Trustee Account. Our inspection of the endorsement of the cancelled checks disclosed that all were deposited in one or more bank accounts in Switzerland. An inspection of the Disbursement Vouchers revealed that the payments were described as a 10% of Corrected Gross Income Payment to World Wide until July 6, 1973. After that date, the payments were described as a Contribution for Week Ending. Our analysis disclosed that checks were issued to the payees described above on a weekly basis.

Our examination of the expenditures with respect to the Trust Account described above, included the preparation of schedules indicating dates, payees, check number, and amount, for the years 1971 through 1974. We also made copies of the cancelled checks and disbursement vouchers.

Facts as to the purpose of the trust account, disposition of the funds, discussions with California representative, will be covered later in this report.

\* HCOOW refers to Hubbard Communication Office World Wide. See Exhibit 73 which contains policy letters issued by L. Ron Hubbard pertaining to HCOOW.

Our examination of staff training expenses revealed that the substantial portion of such expenditures constituted payments to the Flag Operations



Union Office (FOLO) division for the years 1971, 1972, and 1973. Staff training expenses not paid to FOLO for the years indicated (1971 through 1973) were made up of small checks payable to individuals. For 1974 the Staff training expense of \$20,918 constituted small checks paid to individuals and the FOLO payments of \$73,929.18 are designated as such, i.e., FOLO.

For purpose of reconciling Staff training expenses to the combining schedule (Exhibit 70), we note that for some years the account titles were changed and there was some combining of accounts, which were reflected as inter-organization transfers. The combining work sheets eliminate the internal transfers, which primarily represents payments to the FOLO division. We will explain these transfers in our discussion of the audit of the FOLO division.

The account reflected as OTS in 1971, in the amount of \$788.82, represents a payment to Operation Transport Corporation, Ltd., (OTS/OTC). Although the amount is insignificant, the OTS/OTC relationship creates a situation of an unusual nature. This relationship will be covered in the portion of the report pertaining to the FOLO division since there is a direct connection between the Staff training expenses sent to FOLO and OTS/OTC.

#### Los Angeles Organization

A review of the records of the Los Angeles Organization (LAO) disclosed similarities to those of the San Francisco Organization (SFO). Following is a breakdown of the Los Angeles Organization (LAO) income for the years 1971 through 1974:

eliminated on the combining schedule as noted above. We reviewed the activities of the Guardian Office, with emphasis on the year 1974. Those activities will be described later in this report.

The following schedule is presented to reflect a correct breakdown of income, and percentages of each category. Internal transfers noted above are eliminated, advance payments are correctly included as training and processing, sales taxes paid are applied against E Meter and book income.

	<u>1971</u>	<u>%</u>	<u>1972</u>	<u>%</u>	<u>1973</u>	<u>%</u>	<u>1974</u>
Training and Processing	\$364,031	(96.6)	\$554,992	(92.63)	\$ 866,662	(84.1)	\$691,026
Book sales	30,428	( 3.2)	44,492	( 7.30)	157,175	(15.2)	80,968
E Meter sales	668	( 0.2)	493	( 0.07)	-	-	25,735
Miscellaneous	-	-	48	-	7,452	( 0.7)	8,595
Donations	-	-	-	-	-	-	11,235
<b>Totals</b>	<b>\$365,127</b>	<b>(100%)</b>	<b>\$560,025</b>	<b>(100%)</b>	<b>\$1,231,273</b>	<b>(100%)</b>	<b>\$817,559</b>

The expense accounts reflected in the Los Angeles Organization's statements are similar to those described for the San Francisco Organization.

The following are the expense accounts we deemed were deserving in-depth analysis:

(Note: the schedule below reflects the accounts in the Los Angeles Organization records. In some instances there were reclassifications on the combining schedule (Exhibit 7D).

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
FSM	\$15,174.72	\$ 22,152.98	\$ 39,909.19	\$ 44,496.23
10%	46,656.33	\$ 52,546.77	93,549.91	91,921.46
OTS/Charter Mission	11,945.14	5,000.00	-	-
Legal and Professional	26,842.46	55,131.29	29,762.03	34,935.32
Staff training	79,755.18	111,742.69	2,922.55	4,218.00
Inter-Church of Scientology	-	-	-	-
Accounts	-	-	318,746.20	409,774.03
Flay Lux	-	-	15,600.00	22,750.00

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The FSM account referred to above is the same as the Missionary expense account described with reference to the San Francisco Organization. We referred to these expenses as 10% commissions remitted to payees for services procured for the organization. This account is called Missionary expenses on the combining work sheet schedule (Exhibit 70).

The account in the above schedule, reflected as "10%" on the Los Angeles Organization's work sheets, constitute the payments to the trustee account as described in the San Francisco Organization report section. This account is designated as "Cent. Def. Fund," or Central Defense Fund on the combining schedules. The cancelled checks are endorsed by a foreign (Swiss) bank. The Los Angeles Organization disbursement vouchers described the payments as "10% CGI LW" until January 18, 1974. (We assume 10% CGI LW means 10% of corrected gross income to HCO World Wide). After that date, it is described as "Donation" or "Contribution" for dissemination and defense.

Staff training expense is of the same nature as that described in the SFO portion of the report. Again, as in SFO, the substantial portion of Staff Training expenses is sent to OTC/OTS via Flag Operation Liaison Office (FOLO). It was noted that LAO reclassified the Staff Training expenses sent to FOLO as "Inter-Church of Scientology Accounts" in 1973 and 1974. Such Staff Training expenses are included as inter-organization items on the combining schedules (Exhibit 70) and eliminated. Beginning in 1973, the combining work sheets (Exhibit 70) reflect a "Flag Lux account" in the expense section, and a "Flag" division. We have referred to the flow of funds to OTC/OTS previously. We explained previously that our examination of LAO and SFO made systematic payments of ten percent (10%) of the weekly "corrected gross income" to "HCO LW"

(C)

(Hubbard Communication Office World Wide) (Exhibit 72). We have reviewed policy letters dated in 1959 which discussed the "HCO WW" payments and the use of the funds (Exhibit 73).

United States Churches of Scientology Trust

The trust instrument was signed on June 25, 1973, and purports to memorialize an existing oral trust that was established on July 18, 1962 (Exhibit 74). The stated purpose of the trust is to devote and apply the "Trust Fund" exclusively for the defense, propagation and dissemination of "the religion of Scientology," and for other religious, charitable and educational purposes. Paragraph 5 of the trust expressly prohibits any activity that would violate the descriptive language of Code Section 501(c)(3), Subparagraph (a) prohibiting political activity; Subparagraph (b) prohibiting inurement, and Subparagraph (c) prohibiting the trust from engaging in unrelated trade or business as a "primary purpose."

Paragraph 6 lists the duties and powers of the Trustee, among which is the power to accumulate income, providing that the accumulation not be unreasonable in amount or duration in order to carry out the purposes of the trust.

Paragraph 17 provides that on the termination of the trust, the principal and income then undistributed shall be paid over to the trustors in proportion to their contributions to the trust.

The instrument is signed by L. Ron Hubbard as trustee.

On July 18, 1973, the trust was amended by a document entitled "First Amendment To United States Churches of Scientology Trust." (Exhibit 75). The amendment purports to accomplish three things: (1) names additional trustees, the Hawaii

Church among them; (2) accepts L. Ron Hubbard's resignation as trustee and (3) appoints a new Board of Trustees. The new Board of Trustees is composed of Mary Sue Hubbard-chairman, Henning Heldt-member and Herbert G. Parkhouse-member. The chairman is appointed for life and the members are appointed for two-year periods on a staggered basis. When a vacancy occurs on the board, Mary Sue Hubbard appoints a successor. On December 31, 1974, Henning Heldt, a resident of California resigned and in his place, Duke Snider, another resident of California was appointed by Mrs. Hubbard. This is reflected by minutes of a Board of Trustees meeting dated September 1, 1974 (Exhibit 76).

On April 21, 1975, the trust was amended by a document entitled "Second Amendment To United States Churches of Scientology Trust". (Exhibit 77). The amendment included the following:

- "1. Upon acceptance of a Petition of Entry by the Board of Trustees, other Churches of Scientology may become Trustees of the United States Churches of Scientology Trust, for all purposes stated therein."

The payment made to the Trust by CALIFORNIA reflects the following payees:

(1) HCO WW, Trustee Account and (2) U.S. Churches Scientology Trustee Account (Exhibit

The payments made from the San Francisco Organization and the Los Angeles Organization are as follows:

<u>Year</u>	<u>San Francisco</u>	<u>Los Angeles</u>
1971	\$23,235.52	\$44,656.08
1972	\$25,439.85	\$52,546.77
1973	\$51,107.00	\$93,540.91
1974	\$60,650.94	\$91,921.45
	<u>\$160,433.11</u>	<u>\$282,675.02</u>
Total of SFO & LA)	<u>\$443,107.13</u>	

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CALIFORNIA has submitted financial statements for 1971, 1972, 1973 and 1974, which were prepared by H. A. Ross & Co., Chartered Accountants (South Africa) (Exhibit 77). The following net proceeds and accumulated funds were reflected on the statements:

<u>Year Ended</u>	<u>Net Proceeds</u>	<u>Accumulated Funds</u>
Dec. 31, 1971	\$ 254,034.71	\$ 930,400.08
Dec. 31, 1972	\$ 376,837.18	\$1,307,237.26
July 18, 1973	\$ 631,106.02	\$1,938,343.03
Dec. 31, 1973	\$ 123,646.16	\$2,126,989.44
Dec. 31, 1974	\$1,240,884.17	\$3,367,873.61

Each of the above net proceeds reflect adjustments for interest expense and differences arising on currency conversions.

Each report contains the statement by H. A. Ross:

"We have examined the Bank Accounts and have verified the Receipts and Payments thereof and certify that the attached Balance Sheet and Receipts and Payments Account are in accordance therewith and with the other books of account.

In accordance with the terms of our appointment and directives given us, we now report as follows:

All tithes (sic) due to the Trustee Account have been properly accounted for and reported in the Receipts and Payments Account. All Expenditures and Loans have been made for the purposes of Scientology and have, in our opinion, been properly expended within the authorized (sic) headings of 'Defense, Propagation and Dissemination of Scientology.'

We further report that, in our opinion, and to the best of our information and according to the explanations given to us, the Balance Sheet gives a true and fair view of the state of affairs at date."

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Notes were made to the financial statements by H. A. Ross & Co. for the four years submitted. The notes stated the following:

1971 - "Bank Accounts are maintained in Swiss Francs and have been converted at the rate of Swiss Francs 3.916 to the US \$."

1972 - "Portion of the Cash Balance was held in Swiss Francs and this has been converted at the 31st December, 1972, at the rate of Swiss Francs 3.77 to the US \$."

1973 - "Portion of the Cash Balances was held in Swiss Francs and this has been converted at 13th July, 1973, at the rate of Swiss Francs 2.84 to US \$."

"Part of the Cash Balance was held in Swiss Francs and this has been converted at 31st December 1973 at the rate of Swiss Francs 3.25 to US \$."

1974 - "The Cash Balance at 31st December, 1974 was substantially held in Swiss Francs and Deutsche Marks which have been converted at the following rates:

Swiss Francs	2.55 to US \$
Deutsche Marks	2.4085 to US \$."

During our examination, we learned that a large portion of the "United States Churches Scientology Trust" funds were emptied out of a Swiss Bank Account and held as cash on board the Appollo from mid 1972 until October 13, 1975. Our first indication of this situation arose when Martin J. Greenberg, C.P.A., in a letter dated March 1, 1976, in part, stated:

"Attached is the credit advice and the bank statement showing 12,169,586.12 SwFr being deposited to the Church's accounts. This included the 'cash on board' at the end of 1974 and also included 4,221,115.64 of cash belonging to the 'United States Churches of Scientology Trust'. This was cash that had been held on board the Ship since mid-1972 when the Trust's Swiss Bank account had been 'emptied out' to avoid the threat of 'the Swiss' 'negative interest' charge." (Exhibit 80).

When asked about this highly unusual situation, CALIFORNIA'S representative stated that in "1972 the Swiss Government passed legislation that would charge 'negative interest' of 2% per quarter on all new deposits made into accounts owned or controlled by 'Non-Swiss' entities. Mr. Hubbard, who was the Trustee at the time, decided that it would not be viable for the Trust to continue operations in a Swiss Bank Account. However, even had he not reached this decision the Church would not have had the option of keeping their funds in the Swiss Bank Corporation. On the basis of unfavorable magazine articles written about the Church and its Founder, the Bank issued a letter to the Church (copy attached) requesting that the Church and its Founder close out their accounts at the Bank." (Exhibit 81). (The Bank letter was dated October 11, 1972.

CALIFORNIA also submitted a letter written by L. Ron Hubbard (July 30, 1972) authorizing Mr. Hare and Mrs. Polimeni to withdraw the cash from the Swiss Bank (Exhibit 82).

From the time that the funds were withdrawn as cash until October 13, 1975, CALIFORNIA has alleged that "The funds were counted, packaged and sealed and



placed in a lock room aboard the Ship in a heavy, locked filing cabinet with an additional bay lock. Only Mr. and Mrs. Hubbard had keys to the various locks. None of the funds were used during the period that they were held aboard the Ship." (Exhibit E2).

In our analysis of the disbursement to the Trustee Account, we determined that the last checks paid to the SWISS BANK CORPORATION were as follows:

<u>Date</u>	<u>Ck#</u>	<u>SFO</u>	<u>LAO</u>	
12 July 1972	3417			(Exhibit E3)
16 July 1972	4345	5400.19	51,445.36	(Exhibit E4)

Subsequent disbursements to the Church of Scientology Trustee A/C were made to the SWISS-ISRAEL TRADE BANK (Geneva) (Exhibit E5). These particular checks appear to have been deposited beginning around December of 1972.

During the period that the cash portion of the Trust Funds were held aboard the APOLLO no income was earned thereon. CALIFORNIA has alleged that the Trust cash was not re-deposited into another bank that would handle Swiss francs because (1) "some refused to handle the amounts involved" and (2) "others the insurance for transferring the funds from the Ship to the bank were exorbitant."

American Saint Hill Organization (ASHO)

We continued our examination into the records of the American Saint Hill Organization (ASHO). The following schedule reflects the following breakdown of income of ASHO: (Reconciles to the organizations schedules)

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Training and Processing	\$ 175,998.24	\$139,756.54	\$ 461,132.66	\$ 328,089.
Advanced Payments	824,789.00	303,979.79	990,013.84	1,409,535.
Total Training and Processing	- 1,000,787.24	443,736.33	1,451,146.50	1,737,624.
Books	190,203.36	323,928.75	521,155.06	834,594.
E-Meters	151,295.52	101,142.13	162,470.04	203,525.
Mimeos, Tapes, Packs, etc.	18,415.31	4,654.42	1,065.25	
Services	11,797.53			
Vending machine	333.31	1,207.58	2,184.14	1,079.
FSM Commission	3,166.10	344.12	4,529.57	7,329.
Unreconciled item		186.00	( 184.66)	
Internal receipts			62,593.01	( 50.
Donation			15,380.82	8,269.
Foreign currency exchange gains			69,903.19	21,505.
TOTALS	\$1,375,998.17	\$915,144.33	\$2,310,247.02	\$2,211,722.

The nature of the above income, and explanations, are substantially as discussed for S&C and LAO.

The amount of advanced payment receipts reduced each year for ASHO, for the unused portion is as follows:

<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
\$64,514.69	\$578,471.90	\$414,380.02	\$1,289,019

We noted a comparative increase in book and E-meter sales in ASHO as compared to S&C and LAO. Our examination disclosed that ASHO has a publication division (pub.), which is the distributor for these items. The major portion of book and E-meter sales carry L. Pan Hubbard's trademark, upon which he directly

or indirectly is paid royalties. This aspect will be covered in greater detail below.

The foreign currency gain represents a year-end journal entry reflecting an increase in the value of foreign currency held.

Certain income categories, such as FSM and internal receipts, have been eliminated on the combining schedule (Exhibit 70).

After eliminating the "paper currency" gains, and internal items, the following schedule is presented to reflect the percentage for each category:

	<u>1971</u>	<u>%</u>	<u>1972</u>	<u>%</u>	<u>1973</u>	<u>%</u>	<u>1974</u>
Training and Processing-	\$1,000,787	(72.9)	\$443,776	(50.7)	\$1,451,147	(66.8)	\$1,737,625
Booksales	190,203	(13.9)	323,929	(37.1)	521,155	(24. )	834,594
E Meter sales	151,296	(11. )	101,142	(11.6)	182,470	( 8.1)	203,526
Mimeos, Tapes	-	-	-	-	-	-	-
Etc.	18,715	( 1.4)	4,654	( .5)	1,065	( .1)	-
Services	11,798	( .8)	-	-	-	-	-
Vending Machine	20,333	-	1,208	( .1)	2,184	( .2)	1,080
Donations	-	-	-	-	15,381	( .7)	-
<b>TOTALS</b>	<b>\$1,372,839</b>	<b>(100.0)</b>	<b>\$873,607</b>	<b>(100.0)</b>	<b>\$2,173,407</b>	<b>(100.0)</b>	<b>\$2,776,825</b>

We examined ASHO expense accounts and selected those we deemed worthy of an in-depth analysis. Based on the results, the following are worthy of comment:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Payments to USGO-LA	\$156,452.88	\$104,181.37	\$249,189.14	\$
Charter Mission Expenses	- 242,736.30	278,811.76	162,270.82	39,335.95
Flag Lux	-	-	159,031.29	591,158.56
Royalty Expense	10,649.22	104,618.27	119,881.36	185,061.85

The payments to USGO-LA constitute an internal transfer to the LAO. The initials USGO refer to the United States Guardian Office, which carried on a distinct function as part of LAO. We mentioned previously that the USGO was spun-off and reflected as a separate division in 1974. Payments to USGO were eliminated

on the combining work sheet schedules since they constitute internal transfers (Exhibit 70).

The payments above designated as Charter Mission Expenses and Flag Lux, are related in that they represent funds flowing to Operation Transport Corporation, Ltd., OTC/OTS, as indicated previously.

The audit of royalty payments consisted of preparing schedules reconciling payments to royalty expenditures per the work papers supplied to us. We found such items were properly reflected in ASHO royalty accounts, except for 1971, where the substantial portion of the \$10,649.22 was included in book purchases.

All royalty payments were sent to Scientology Publications Organizations in Denmark, with the payee generally designated as SPO A/S OK and deposited in a Danish bank (Exhibit 76). We found some royalty payments in 1971 and 1972 were paid by cash utilizing cashier checks.

Royalty checks were paid on a weekly basis beginning in August of 1971. Royalties due for the period in 1971 prior to August of 1971 were paid intermittently on later dates. We were informed that back royalties were paid up by the end of our audit year 1974 (Exhibit 87, question 1). A schedule dated April 29, 1972, made available to us, indicated back royalties due in the amount of \$17,167.70 (Exhibit 88).

The basis of the royalty payments were 10% of the retail price of items sold (Exhibit 87). Such payments were reflected on weekly reports supplied to us. A copy of one of the weekly reports, for the week ended March 1, 1973, plus applicable royalty checks, is included as Exhibit 87. Line 3A of such report indicates, "10% of Retail Book Value to SPOAS", \$1,470.78. Line 3B

reflects a back royalty of \$1,414.74. Checks 1212 and 1214 per Exhibit are payable to SPO A/S Denmark for the amounts indicated above. The 15% designation refers to L. Ron Hubbard (Exhibit 27, question 1, ~~and~~ Exhibit 28, question 5, Exhibit 27, question 6).

Royalties are paid under two agreements dated Jun. 3, 1975, between the Danish Scientology Organization and CALIFORNIA. Exhibit 28 contains provisions relative to the sale of printed material and Exhibit 27 contains the agreement relating to sale of E Meters. Exhibit 27 contains an agreement addition dated June 17, 1975 which states that, "all royalties paid to AOSHOE Publications Dept. A/S as stipulated are in fact and always been for L. Ron Hubbard, an individual, a citizen of the USA". (The agreement also indicates that such royalty payments are held in trust until such time as the full amount is transferred and paid to the order of L. Ron Hubbard).

Summing up the pertinent provisions of the two royalty agreements referred to above, they are retroactive to January 1, 1972. (The agreements indicate there was an oral agreement in effect. Additionally, one of CALIFORNIA'S representatives, Martin Greenberg, stated that the correct retroactive starting date was January 1, 1971). Royalties on E Meters are based on 15% of retail, and published material royalties vary from 10% to 15% of retail price, depending on quantity sold. These percentages are to take effect on sales made beginning January 1, 1975. (The royalty base was a straight 10% for years 1971 through 1974).

To complete the agreement picture, the representative supplied us with a copy of an agreement relating to mechanical recordings (Exhibit 27). Martin Greenberg;

Informed us that ASHO paid no royalties under the contract. He further stated that royalties for sale of recordings were paid by the Denmark Scientology Organization.

In response to our request for records and computations supporting the royalty payments, we were informed that no detailed documentation was available. (~~Exhibit~~ 70 ; question 4 and ~~Exhibit~~ 92 , question 2 ). The method of computing royalties consisted of an employee preparing an adding machine tape from the cash receipts invoices. This required raising the amount on the invoice to the projected retail price because ASHO usually discounted the items sold as noted previously. Mr. Greenberg supplied us with adding machine tapes for weeks ending October 21, 1971 and May 11, 1972 (Exhibit 70). He stated that very often such tapes were not retained.

We conducted various test checks which satisfied us that the basis was computed with reference to 100% of retail price. For this verification purpose, we were supplied with a list of "L. Ron Hubbard" copyrighted material upon which the royalty computation applied (Exhibit 93). The majority of ASHO sale of the subject royalty items were to the other California divisions, and other Scientology organizations. During the years under audit, items distributed carried discounts from 10% to 50%. Individuals were required to pay retail price, unless they were Scientology members, in which case, a 10% discount applied (Exhibit 22). We noted that most of the items shipped to other California divisions, and to other Scientology organizations, carried a 40% discount until 1974 at which time a 50% discount factor was noted (Exhibit 94). A policy letter issued by the Hubbard Communication Office on October 19, 1964 discusses discounts. Paragraph 7(2) states, "Other discounts on tapes, books and meters to be arranged from time to time." (Exhibit 22).

We made cursory inspections of income invoices of other CALIFORNIA divisions with a view to ascertaining actual selling prices of books and material. We intended to compare the actual retail prices to the price list made available to us (Exhibit 93). However, the other divisions reflected "book store sales," without detailing items sold.

Responding to our request regarding factors utilized in arriving at the 10% royalty rate, attorney Joel Kreiner, one of CALIFORNIA'S representatives stated; "The royalty percentage was determined by agreement between the parties. As stated before, the basis of the payment is 10% of the retail price. Comparisons with publishing houses and general industry practice were made with the conclusion that the 10% retail price figure was below what an established author with proven sales could expect."

A review of a publication, 'The Writers Market 76', indicates that a 10% royalty on certain books is correct (Exhibit 94). The conclusion is based on an excerpt from 'The Writers Market 76,' which states, "Generally speaking trade books - the kind that are sold in book stores: novels, nonfiction books, etc. - have a standard minimum royalty payment of 10% on the first 5,000 or 10,000 copies, 12½% on the next several thousand copies, and 15% thereafter. This percentage is based on the retail price for the book." Another excerpt from the aforesaid publication states; "In the textbook field, college textbooks have a royalty based anywhere between 8% and 12% of the net price the publisher receives. Although a book is listed at \$6.00 for example, no one pays the \$6.00 for the book since the school is given a bulk order price. The author receives his royalty then based on the net amount of money that the publisher has received for his book." With respect to paperbacks, the Writers Market

Indicates a standard minimum royalty of 4% on the first 150,000 copies and 6% thereafter. We compared the Writers' Market 76 with the 1971 and 1975 editions and noted no difference in percentage amounts quoted.

An inspection of the list of L. Ron Hubbard material subject to royalties indicates some of the items fall within the categories described above (Exhibit 93). The principal nonfiction book sold in book stores is "Dianetics: The Modern Science of Mental Health" (DMSNH). The paperback version of this book can usually be found in book stores. Thus, a 10% royalty would be excessive when comparison is made to the 6% quoted in the 'Writers Market'. Reviewing the list of L. Ron Hubbard books we were not sure whether a substantial portion of the materials falls in the college textbook category, or in study material of value only to those participating in Scientology processing and training. (E-meters also fall in the latter category) Any L. Ron Hubbard published material falling in the "college" textbook category should carry a royalty rate of 8% to 12% on net proceeds, (ASBO selling price), using the percentages quoted in 'The Writers Market'. However, most of the L. Ron Hubbard material could not be categorized as set forth in the Writers Market, we have been unable to locate a comparable which would establish that a 10% royalty on the retail price is reasonable. To the extent that some of the L. Ron Hubbard material can be compared to the Writers Market, notably paperbacks and that falling within a textbook category, the 10% royalty on the retail price exceeds the percentages quoted in 'The Writers Market'.

In the absence of detailed sales records, relating to royalty items, and Mr. Greenberg's reluctance to reconstruct same, we prepared schedules of sales of "Royalty" items for the week ending December 12, 1976. The schedule was prepared utilizing ASBO Publ. Invoices and the list of L. Ron Hubbard material



subject to royalties (Exhibit 93). This computation reflected a retail value of \$48,632.60, and the royalty payment for this week was \$4,802.44, indicating we had accounted for a substantial portion of the items. The \$48,632.60 included retail value of E-meters sold in the amount of \$9,675.00. Scrutinizing the titles from the list of L. Ron Hubbard material (Exhibit 93), we concluded that only thirty of the first thirty-one items constituted the type of books which could fall within the definitions in 'The Writers Market', and therefore subject to royalty computations. (The excludible publication in the first thirty-one being, "Handbook for Preclears"). The balance represents substantially material which would be of value only to those individuals involved with Scientology processing and training. The retail value of the items defined in the previous sentence was approximately \$33,041, which included E-meters sales with a retail value of \$9,675.00. These latter items do not fall within the description of books or published material on which royalties are computed, and therefore, the comparable royalty factor is not applicable.

Our audit revealed that ASMO distributes a few books not carrying L. Ron Hubbard copyright. However, there was no evidence that books and material utilized in training and processing was other than that copyrighted by L. Ron Hubbard. Although such material carries his copyright, we have not verified that he is the actual author. L. Ron Hubbard has issued policy letters to copyright and trademark anything and everything (Exhibit 96). We have noted policy letters in the "Org Exec Course Books" (OEC), which were authored by individuals other than L. Ron Hubbard. The OEC set sells for \$300.00 on which the 10% payable to L. Ron Hubbard applies.

During the audit we noted that L. Ron Hubbard received salary payments, expense reimbursements, lived on a ship, the Apollo, which is supported by CALIFORNIA funds, noted instances of food being delivered to the Apollo for his personal benefits (Exhibit 97). We requested information regarding specific L. Ron Hubbard activities relating to an expense reimbursement. Attorney Kreiner's response, in part, was as follows: "Indeed the research is a continuing action and it thus has continued to produce benefits for the Church. Thus, the submitted policy letters and bulletins dated after this return are a sampling of the fruits of his labor. It is further noted that during the period in question Mr. Hubbard also continued to advise and assist the Church in the same basic relationship as he had previously and since". (undersecoring supplied) (Exhibit 98). During this audit, we have not been able to distinguish between materials produced by L. Ron Hubbard, an author, and materials produced by L. Ron Hubbard, a consultant. We believe that L. Ron Hubbard may have received both a salary and royalty on materials produced for CALIFORNIA. We have found policy letters in, "The Organization Executive Course" (OEC) referred to previously, copyrighted during the years 1971 through 1974 (Exhibit 99).

In the previous paragraphs, we have discussed the royalty payments made for the benefit of L. Ron Hubbard by ASHO. To complete the picture, we found that in 1974 the U.S. Guardian's Office (USGO) made similar payments of \$7,582.80, AOLA made similar payments of \$1,000.00, and FLAG made similar payments of \$1,042.71. Therefore, the total royalty payments made for the benefit of L. Ron Hubbard in 1974 were \$194,687.37, of which \$185,061.86 was made by ASHO.

United States Guardian's Office (USGO)

An earlier reference was made to the United States Guardian's Office (USGO). From 1971 through 1973 the Guardian's Office financial activities were included with the LAO division. In 1974 (Exhibit 70) this branch was reflected separately on the organization's work papers. The examination of the Guardian's Office activities was concentrated primarily to the year 1974.

The Guardian's Office receipts in 1974 were \$649,549, of which approximately \$536,586 was support payments from other divisions (primarily ASHO), and other Scientology organizations. Disbursements for 1974 totalled \$536,701.

The principal activity of the Guardian's office involves legal and investigative projects. Legal expenses were \$135,054 in 1974. Included in legal expenses were weekly payments to T.M. Investigative Services. A request was submitted to the organization regarding additional information relative to certain Guardian Office disbursements. Included in the request was for all statements, invoices, and memorandums to TMS for purposes of substantiating the type of investigative work requested of TMS, with respect to five checks issued in January of 1974. The organization's response was that Terry Illner, a licensed private investigator operates TMS, and works exclusively for the church doing whatever investigative work was needed. The response did not include supporting data requested, i.e., statements, invoices, memorandum (Exhibit 100).

In addition to the TMS payments described above which were included in legal expenses, there were other checks, primarily at the end of the year, issued to legal firms as follows:

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Silk, Slonim and Young	\$ 2,969.70
Williams Connelly & Califano	5,876.60
Levine & Kiom	4,170.00
" " "	1,133.70
Tobias Tolzmann	29,344.55
Karno, Rudnick & Fisher	<u>24,309.17</u>
Total paid December 31, 1974	\$67,803.72

We did not ask the representative to explain why the above legal expenses were paid from the USCO funds rather than from the trust funds. The trust fund, discussed perviously, was ostensibly created to provide funds for the defense and dissemination of "Scientology".

Advanced Organization Los Angeles (AO/AOLA)

An audit of the Advanced Organization Los Angeles (AO/AOLA) disclosed the following breakdown of receipts:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Training and processing -	\$ 227,675.23	\$195,568.40	\$ 244,026.80	\$ 275,464.93
Advance payments (net) -	<u>872,029.00</u>	<u>247,563.43</u>	<u>883,013.28</u>	<u>1,848,635.06</u>
Total training and processing -	\$1,099,704.23	\$443,131.83	\$1,127,040.08	\$2,124,099.99
Books & Meters	13,358.62	22,279.89	38,379.52	37,157.21
Sales Tax paid on books, meters -		(1,215.55)	(1,999.18)	(2,899.99)
WFSM Commission		1,134.14	15,112.78	390.37
Vending		159.68	509.48	1,079.60
Unidentified		153.29		
Rent			624.20	
Donations			20,715.38	8,347.48
<b>TOTAL</b>	<u>\$1,113,062.85</u>	<u>\$465,643.25</u>	<u>\$1,200,382.26</u>	<u>\$2,168,174.65</u>

\* Eliminated on combining schedules as an internal transaction.

No unusual income items were noted, not previously explained in our discussions of SFO, LAO, and ASHO.

We have previously mentioned that ASHO is the distribution for books and meters. Thus, from an internal accounting standpoint, there is a certain amount of duplication in this area. California's accountant made no eliminations for inter-division book and meter sales and purchases.

The deferred income with respect to advanced payments is in the following amounts:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
	\$553,053.04	\$539,302.20	\$623,747.57	\$410,525.81

After eliminating F&M commissions, the following schedule reflects the percentage breakdown of income by category.

	<u>1971</u>	<u>%</u>	<u>1972</u>	<u>%</u>	<u>1973</u>	<u>%</u>	<u>1974</u>
Training and processing -	\$1,099,704	(98.8)	\$443,132	(95.2)	\$1,127,040	(.95)	\$2,124,100
Books and meters -	13,359	(1.2)	21,064	(4.8)	36,380	(.03)	34,257
Vending			160		509		1,030
Unidentified			153				
Rent					624		
Donations					20,715	(.02)	8,347
<b>TOTALS</b>	<b>\$1,113,063</b>	<b>(100%)</b>	<b>\$464,509</b>	<b>(100%)</b>	<b>\$1,185,268</b>	<b>(100%)</b>	<b>\$2,167,784</b>

Our examination of AOLA expenditures disclosed no unusual items with the exception of the flow of funds to CTC/OTS, either direct, through FOLO, or through the Flag Luxembourg bank account, as we touched on previously. Following is a schedule of the amounts and accounts utilized in the flow of funds to CTC/OTS:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Charter Expenses -	\$312,993.19	\$249,754.59	\$306,399.87	\$ 33,523.49
USLO	492,401.80			
Flag Lux			213,119.67	510,938.69

We will follow the flow of these funds later in this report.

Flag Operations Liaison Office (FOLO)

In our discussions of expenditures by the other California divisions, we referred to certain payments made to OTC/OTS via FOLO. Such funds to be utilized by the FLAG division of California.

We will discuss OTC/OTS, and financial transactions related thereto later in this report. However, prior to discussing FOLO transactions, some background information is required in the interest of maintaining clarity. Some of the background information is based on explanations by California's representatives. Documentation, to the extent applicable, will be indicated in the portion of the report covering OTC/OTS.

California leases a ship, the Apollo, from Operation Transport Corporation Ltd, (OTC/OTS) a Panamanian corporation, which is contended to be an unrelated, third party entity. This ship operates in the Mediterranean Sea, and docks in various foreign countries in this area. The founder of Scientology, L. Ron Hubbard, his wife Mary Sue, and one or more of their children, live on the Apollo. We have covered L. Ron Hubbard's relationship to California briefly in prior sections of this report, and will comment on it later. Individuals involved in Scientology "processing and training" frequently go to the Apollo to obtain further services. California refers to this foreign operation as FLAG, with the Apollo being the focal point. California also carried on some land based activities in this foreign area during the years under review. OTC/OTS acts in the capacity of an agency, whereby it receives funds from California, which are expended later to support the Flag operation.

(Exhibit 101, questions 1, 7, 8, 10)

FOLO receipts were substantially from other CALIFORNIA divisions, other "Scientology" organizations, and individuals, which were relayed to OTC/OTS. We found this was the primary financial function performed by FOLO. Amounts from other divisions of CALIFORNIA were eliminated on the combined work sheet schedules as representing internal transactions (Exhibit 70). The amounts relayed by FOLO to OTC/OTS, either directly or indirectly (through a foreign bank account, designated as FLAG LUX), is as follows: (Descriptive accounts per combining work sheet schedules, Exhibit 70).

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Charter Mission Expenses	\$555,564.57	\$1,125,555.85	\$901,940.75	\$ 198,955.68
Flag OTS			( 11,821.94)	( 87,199.31)
Cefs Lux			705,978.00	1,673,125.12

Our audit disclosed that the \$555,564.57 in 1971 consisted of checks and cashiers checks, sent to OTC/OTS. In 1972, checks in the amount of \$86,449.64 were sent to OTC/OTS, the balance, to arrive at the \$1,125,555.85 above, results from a year end journal entry as follows:

To record Flag expenses by others.

1970	\$ 26,940.60
1971	132,563.01
1972	<u>99,602.60</u>
	<u>\$259,106.21</u>

Mr. Greenberg stated that the \$259,106.21 <sup>was</sup> payments made by the English and Danish Churches on behalf of California (Exhibit 102, FOLO 1971-2, response to question 5).



In 1973, the \$901,940.75 represented checks of \$804,672.99 and cash (cashier checks) of \$97,267.77, sent to OTC/OTS. The \$11,821.04 in brackets represented receipts from OTC/OTS. The \$705,978.00, indicated as "CofS Lux", represents transfers to a foreign bank in Luxembourg. All checks were payable to Church of Scientology of California and deposited in the foreign bank account. Notations on the front of the checks reflected either, transfers of funds received, or Charter mission expenses (Exhibit 103).

Our audit disclosed that the first transfer to the Luxembourg account (Lux), was August 1, 1973. As we indicated previously, the combined work sheets for 1973 and 1974 reflect a FLAG account. This Luxembourg FLAG account is nothing more than one more stop before funds reach OTC/OTS. We will follow the funds from the Luxembourg account to OTC/OTS later in this report.

The \$1,673,125.13, indicated as CofS Lux, represents substantially transfers to the Luxembourg account as described above. We noted some cashier checks and direct payments for services. This latter category consisted primarily payments to various travel services with a disbursement reference indicating it was a FLAG expense.

The 1974 account above designated as FLAG O/S, represents cash payments of \$145,035.80 direct to OTC/OTS, and payments of \$53,919.88 via New York.

The amount of \$87,199.34 in brackets represents primarily FSM commissions sent to FOLO on behalf of FLAG. We have previously discussed FSM commissions. In the review of the other divisions, we noted that FSM commissions appeared in the income section, and were eliminated on the combining work sheets since they constitute internal transactions. The FSM commissions are included in OTC/OTS reports as expenditures made on behalf of FLAG. The

OTC/OTS reports referred to will be explained in the portion of the report covering Operation Transport Corporation Ltd., relationship to CALIFORNIA.

We have referred to FOLO disbursements to OTC/OTS in cash and via New York. After reviewing all checks, we posed numerous questions to Mr. Greenberg relating to transfers made in this manner. He responded with a variety of reasons, among which he referred to currency restrictions in foreign countries, the desire to keep the location of the Apollo secret because of fear of harassment by the U.S. Government, and because the ship was in a location where banking facilities were not yet established (Exhibit 104).

A review of FOLO receipts indicated that funds received by FOLO, which were to be relayed to OTC/OTS, were deposited, and a check issued to OTC/OTS to cover the amount received. The general practice was to issue one check to OTC/OTS to cover one or more days receipts. For illustration purposes Exhibit 105 contains a series of January receipts of \$15,590.65. FOLO deposited the funds and issued three checks made payable to OTS, totalling \$15,590.65.

We were informed that a portion of the receipts being relayed to OTC/OTS represented payments from other Scientology organizations, including CALIFORNIA's divisions, in satisfaction of training debts. This can be more clearly explained by the following example. The Church of Scientology of Hawaii sends one of its members to FLAG for further staff training courses which cost a total of \$20,000. Hawaii will be required to remit a percentage of its gross income each week, to liquidate the debt.

The review of all records relating to the payments to OTC/OTS (including such records with respect to SFO, IAG, ASHO, and AOLA), raised questions which

① we felt required additional records and classification. We were interested in subsidiary accounts receivable ledgers or comparable records relating to the training debts discussed in the immediate preceding paragraph. Notations on the checks and disbursement vouchers referred to percentage payments, payments for training, management fees, to central management, which indicated that payments to OTC/OTS were for various services. We were interested in reviewing contracts or agreements relating to individuals and other Scientology organizations involved in the payments to OTC/OTS. These questions, and the responses thereto are contained in Exhibit 102. Mr. Greenberg did not produce the records requested, i.e., liabilities for training debts. He did not choose to answer whether payments covered different services. He felt that the reason for the payments to OTC/OTS should be of no interest, but rather attention should be directed to ultimate disposition of the funds. Additionally, he indicated that OTC/OTS was merely acting as a "bank" or "agent" for CALIFORNIA (Exhibit 102, General question 2C).

② During a subsequent meeting with CALIFORNIA'S representatives, we queried Mr. Greenberg on his statement above that we should only be concerned with actual disbursements. We wondered why the payments to OTC/OTS were reflected on the Forms 990 for 1971 and 1972 (Exhibit 69) as expenses, i.e.; Charter Mission Expenses. We continued our query by asking why there were not actual expenditures by OTC/OTS reflected on the returns. His response was that when the returns were due he did not know the amount of the expenses and I.R.S. would not grant an extension to file the returns. Our records show that for both years extensions to file were granted. The 1971 Form 990 was received by the Service Center on August 21, 1972 and the 1972 return on

October 7, 1973 (Exhibit 69). Additionally, as will be developed in the OTC/OTS portion of the report, expenditure statements were available, and maintained contemporaneously.

FLAG/LUX

Within the FOLIO section of this report, we mentioned that CALIFORNIA opened a bank account in Luxembourg in August of 1973. This account was opened on the 4th day of August 1973, with the following sole signatories: (1) Mary Sue Hubbard, (2) Jare Kember, and (3) Danny Cogerly. The joint signatories were Anne Burgess and Michael Goldstein (Exhibit 106).

On February 3, 1974, additional signatories were added to the Lux account as follows: (1) Anne Burgess, (2) Fred Hare, (3) Susan Walker, (4) Pat Broeker, (5) Lynn Georgius and (6) Hugh Harrison. Any two jointly were given unlimited power of attorney with Banques Lambert (Exhibit 107).

Our analysis of the FLAG/LUX workpapers (Exhibit 108) disclosed that the major activity was the receipt of Scientology organization funds and disbursement thereof to Operation Transport Corp., LTD.

The workpapers disclosed two types of accounts: (1) Swiss Franc Account and (2) U.S. Dollar Account. The U.S. Dollar Account appears to have been substantially closed out by the end of 1973 and the 1974 activities with regards to the receipt and disbursement occurred in the Swiss Franc Account.

To verify that the funds from CALIFORNIA were deposited to the Lux account, we selected a number of deposits and received the details thereof (Exhibit 109). We were satisfied that the funds from CALIFORNIA were properly deposited into the Lux accounts.

Operation Transport Corp., LTD.

The examination disclosed that CALIFORNIA made substantial payments to an organization called "Operation and Transport Services Limited" (OTS/OTC), hereinafter referred to as OTC. These payments were designated "Charter Mission expense" on Accountant's workpapers supplied by the Organization. The amounts paid were \$1,143,928.02 in 1971, \$1,400,015.99 in 1972, \$1,341,626.93 in 1973 and \$4,041,388.18 in 1974 (Exhibit 110).

In response to our request #11, Mr. Martin J. Greenberg, the Organizations' CPA representative, describes the OTC relationship with the Church, in his letter dated December 18, 1975 (Exhibit 111). The following excerpts from that letter indicate the nature of the relationship:

"In regard to your queries on OTS/OTC, to the best of my knowledge there is no meaningful difference between OTS and OTC and I will just refer to OTC in the remainder of this response.

1) The basic relationship of the Church with OTC during the years 1971-74 was as follows: The Church chartered the ship Apollo from OTC for \$2,000 per month. In addition, OTC acted as the Church's agent in the financial matters relating to flag's operations. OTC received funds on behalf of the Church, and at the Church's instructions would pay all of the Church's expenses. OTC would issue a monthly statement of each individual disbursement made and an annual statement showing the receipts and disbursements for the year and the balance that the Church still had to its credit.

"6) As pointed out earlier, OTC is a separate corporation from the Church of Scientology of California. The financial records which the Church of Scientology of California has in relation to OTC are checks, disbursement vouchers (dvs or internal invoices) paying funds over to OTC and monthly billings from OTC detailing how the funds were expended on behalf of the Church. All of these records have been turned over to you with the exception of the cancelled checks to OTC from the Church's Lugoburg account. This was due to the fact that it is not the practice of the Lugoburg bank to return the cancelled checks. I have requested the Church to request the bank to forward these and they will be passed on to you as soon as they are received." (under-

The basis for this arrangement is a "Management Agreement" (Exhibit 114) entered into between the Church and OTC. The following two paragraphs of that agreement appear to specify the mechanics of the operation of the arrangement:

"7. Manager shall establish and maintain one or more bank accounts, as it deems appropriate, for the deposit of the monies paid by the Charterer. Charterer shall deposit into one of these accounts, or send to Manager for its deposit into one of these accounts, such amounts as are reasonably adequate for Manager to discharge any liabilities or obligations reasonably anticipated to be incurred from time to time pursuant to this Agreement. Manager shall have the authority to draw on these accounts for any payments which Manager must make to discharge any liabilities or obligations incurred pursuant to this Agreement, and for the payment of Manager's fee, all of which payments shall be subject to the limitations of this Agreement.

"8. Manager shall organize and maintain a system of controls designed to insure the authenticity of bills paid, and the fairness (sic) of the price charged. In furtherance of this goal, Manager shall authorize all purchasing and hiring of services only by supervisory personnel at Manager's office. The Charterer may choose to submit to Manager a list of suppliers and service-men from whom Manager must order goods and services for the property." (underscoring added)

The agreement submitted is unsigned but Mr. Greenberg asserts in his letter of December 10, 1976 (see Exhibit 101) that it is the document which actually controlled the relationship. In addition, the minutes of the Board of Directors of the Church submitted for the audit do not disclose any authorization or notification of the agreement by the Board.

Mr. Greenberg further defines the connections between the Church of Scientology of California and OTC in his letter of February 9, 1976 (see Exhibit 102).

The letter was in response to our request #25. The following two paragraphs express his view of the relationship:

"2c) The first point that should be made is that ALL payments to OTC/OTC from any branch of the Church of Scientology or California are essentially internal transfers to Flag to run their religious activities aboard the Ship. That is the exact purpose and the ONLY purpose of every single penny sent to OTC - NO EXCEPTIONS! OTC merely acted as a 'bank' or 'agent' for the Church and the only funds actually paid to

OTS for them to keep were the Charter fees and the finance charges. In light of this it does not make much sense to put a lot of attention on 'how' the Church computed the amount of money sent, when all of the money sent, regardless of the significance put on it, went for the one purpose of running the Flag Mission. Only the ultimate disposition of the funds would have any real relevance to the audit and I believe that so far it has pretty well been shown that running the Mission is all that the funds were used for.

"2d and 2e) I am not quire (sic) certain wht(sic) is being asked for in these two requests. The Churches have no 'liability' to OTS for management fees, training or any other service (except as noted in 2b). OTS, when acting as the Church's agent is in effect acting as a bank. There is no 'liability' to deposit funds in the bank. As long as you maintain a credit balance the 'bank' will make whatever disbursements you authorize out of the 'account'. They have no say at all in telling you what you have to deposit. That is basically the relationship of the Church to OTS. All that OTS got to keep as its own were the charter fees and finance charges. The auditing and training was delivered by the Church of Scientology and they were the ones who were paid for delivering these religious services.

(underscoring added)

According to Mr. Greenberg's letter, OTC was merely performing an agency and/or banking function for the Church.

In response to our request #52, Item 29, an undated, unsigned document titled "DESCRIPTION OF THE RELATIONSHIP OF OTC AND THE CHURCH OF SCIENTOLOGY OF CALIFORNIA" was submitted on behalf of the Church (Exhibit 113). The following three paragraphs from that document give an indication of the nature of OTC:

"Interested Scientologists formed OTC in order to aid the Church in this endeavor. Their intent was to (among other things) assist by handling the financial dealings, part transactions, supplies, etc. These individuals were more familiar with such things.

"In early 1968, as reflected in the Panamanian records, OTC was incorporated. From accounts of the time period, the original intention was to incorporate as a non-profit corporation, but there were difficulties encountered (and complex procedures involved with the Panamanian procedure) and the incorporation was completed as a profit corporation.



"While subscription rights were issued, they were immediately transferred from the original 'holders' and the corporation has issued no shares of stock ever, nor does it intend to. (This was covered in a statement from OTC, submitted earlier.)" (underscoring added)

The <sup>OK?</sup> first meeting of Incorporated and subscribers of Operation Transport Corporation, Ltd. was held on <sup>1 27 1968</sup> ~~1968~~ 17, 1968 (Exhibit 144). The Incorporators were L. Ron Hubbard, Mary Sue Hubbard and Leon Steinberg. They resigned as directors at that meeting. Brian Alexander Livingston, Joyce Popham and Barry Nelson Watson were elected as Directors. In addition, the minutes indicate that L. Ron Hubbard transferred ninety-eight subscriptions of the capital stock of the company, Mary Sue Hubbard and Leon Steinberg each transferred one subscription. The one-hundred subscriptions were transferred as follows: Twenty each to Brian Alexander, Joyce Popham, Barry Nelson Watson, Delwyn Sanderson, Catherine Costa Cariotaki.

CALIFORNIA submitted a statement from Joyce Popham (Exhibit 145) who is an Officer and Director of OTC LTD. The statement asserts that she is and has been an Officer and Director of OTC since the first meeting. It further asserts that neither L. Ron Hubbard or Mary Sue Hubbard or any relative, member of the family, or relation of any kind have been an officer or director of OTC LTD subsequent to the first meeting of the Board of Directors. Joyce Popham also states that the officers and directors of OTC LTD are natural persons who have no relationship to Mary Sue Hubbard or L. Ron Hubbard including but not limited to any fiduciary or trustee relationships.

As we stated above, CALIFORNIA made substantial payments to OTC. These payments were cleared through banks located overseas. We presume they were deposited to OTC bank accounts located overseas, however, we did not have access to the

deposit slips and could not verify by test checks that all payments went to an OTC account.

In Item (2) of our request No. 17, we asked CALIFORNIA for all cancelled checks and bank statements which OTC maintained pursuant to paragraph 7 of the Management Agreement (supra). This request was dated December 29, 1975. In Mr. Greenberg's letter dated January 19, 1976, in response to this request, he stated that "Request #2 cannot be complied with as OTC did not maintain a single bank account to handle Church activities solely." (Exhibit 116).

On March 30, 1976, we again requested (our Request No. 47) bank statements, cancelled checks and deposit slips regarding OTC bank accounts in which CALIFORNIA funds were deposited. On May 2, 1976, Mr. Greenberg submitted summaries of all OTC bank accounts listing each individual deposit and the applicable bank statements (Exhibit 117). In addition, a statement from Joyce Poptan, Treasurer of OTC, was submitted listing all of the OTC bank accounts in which CALIFORNIA funds were deposited. The statement, dated May 1, 1976, also listed the account numbers (Exhibit 118).

We traced the deposits listed on the Summaries to the copies of the bank statements submitted. Essentially, all of the deposits on the bank statements were listed as CALIFORNIA activity. Mr. Greenberg affirms this contention in his letter dated May 2, 1976 (supra) wherein he states, "There is very little money coming into these accounts for OTC, however. I did verify each and every item so signified as properly belonging to OTC." This statement contrasts markedly with the earlier statement in the January 19, 1976 letter (supra) wherein it was contended that OTC did not maintain bank accounts to handle Church activities solely.

The summaries submitted covered the receipts to the OTC bank accounts. They list the receipts by source. The bulk of the receipts came from CALIFORNIA. They represent the substantial payments made by the various divisions of CALIFORNIA to OTC and which were designated "Charter Mission Expense". And, as previously stated, we have not been able to verify that the payments made to OTC and the scheduled out deposits to the OTC bank accounts are the same since we did not have access to the deposit slips, remittance advices, acknowledgements or other documents which evidence the detail composition of each deposit.

An understanding of the mechanical aspects of the modus operandi has been difficult. Mr. Greenberg, in his response letter dated December 18, 1975 (supra) stated the following:

"1d) During the years 1971-74 the method used to transport funds to the 'Flag' operation was primarily to forward (sic) checks to the Ship made out to OTC. Occasionally the ship would be located in a place where OTC's facilities could not easily acquire the cash necessary for the daily operations and at such times cash would be couriered (sic) from LA to the ship by a church staff member. The cash would then be turned over to OTC on board the ship."

Unfortunately, this explanation does not describe the mechanical process utilized. How are the checks forwarded to the ship? Is it by mail or parcel post with a cover letter, a copy of which is retained by CALIFORNIA, to a specified individual or designated recipient of OTC authorized to receive funds for deposit? Or are the checks and cash physically couriered by a specifically named individual who obtains a receipt from the person to whom he delivered the checks and funds? Checks and cash would not be delivered to a "ship" but to a "person" on the ship.

In a letter dated June 16, 1976, (Exhibit 03) Mr. Greenberg gives a brief run-down of the income flow of the Flag. From that letter it appears that

the money is received by the Director of Income, who was a church staff member. After preparing an income invoice, they would be turned over to an OTC person for banking.

Our review of the receipt summaries submitted by CALIFORNIA disclosed, in our opinion, some difficulties to be encountered in test checking and verifying that the amounts disbursed to Charter Mission expense were in fact deposited to OTC accounts in accordance with the terms of the Management Agreement.

We will describe several examples to illustrate this.

Check No. 155 (Exhibit 120) dated January 8, 1971, drawn on account #7370 at Crocker-Citizens National Bank, Wilshire-Westlake Office was for \$50,914.00 and was labelled Charter Payment to OTS. The payee was Crocker-Citizens National Bank. The check was cashed, apparently, at the Wilshire-Westlake branch of the bank and a notation on the back indicates, apparently, that cash was issued in the following denominations:

25,000	-	100
25,000	-	50
900	-	20
14	-	1

We take this to mean 25,000 in 100 dollar bills, 25,000 in 50 dollar bills, 900 in 20 dollar bills and 14 one dollar bills.

Page 2/7 of the OTS LTD Swiss General a/c #295.728 summary for 1971 (Exhibit 121) shows a deposit on Mar. 11 in the amount of 218,866.55 Swiss francs which is equivalent to 50,914.00 U.S. dollars. We do not know whether the January 8 disbursement and the March 11 deposit are the same transaction or not. If they are, the physical aspects of the transaction are perplexing. Over \$50,000.00 in cash is obtained in the Los Angeles area on January 8, 1971. These funds are deposited in a bank account in Switzerland 63 days later. Flag income invoice No. 00264 (Exhibit 122) dated February 24, 1971, indicates there is a receipt of \$50,914.00 composed of a cashiers check from Crocker Citizens National Bank, check #021521. Why this transaction was handled in this way has not been satisfactorily resolved in our minds. Why was a check converted to cash and then apparently the cash used to purchase a cashiers check which is sent to a snip and then deposited into a Swiss bank account? Why wasn't the check just sent as was check No. 162 which was dated just about two weeks latter? How long was the cash held before the purchase of the cashiers check? If the cashiers check was purchased immediately, January 8, 1971, why was it received by Flag so much later, February 24, 1971?

CALIFORNIA contends that the bank account is OTC's, a separate entity apart from the Organization, and consequently the account is not subject to inspection by us. Mr. Greenberg, in his letter dated March 11, 1973, responding to our Request #41 (Exhibit 122) stated, "It is questionable whether the IRS is rightfully entitled to access to any of OTC's bank statements, but in

this instance they are willing to overlook any technicalities in order to ensure that you are sufficiently satisfied as to the propriety of the Church's activities." We presume that in any relationship wherein a separate entity is given the responsibility to handle and process several millions of dollars of CALIFORNIA's funds, there would be considerable correspondence or written communications between the two entities concerning the day to day operations of the business relationship.

Factually, in this instance, we are limited to stating that CALIFORNIA made a disbursement of \$50,914.00 on January 8, 1971, and that we have viewed a Swiss Bank Corporation Statement of Account, (Exhibit 124) Account Number 295.728 of Operation and Transport Services LTD. Panama showing a deposit on March 11 of 218,866.55 Swiss francs which CALIFORNIA, on its summary of deposits, asserts represents 50,914.00 U.S. dollars.

As a second example, check #162 (Exhibit 125) dated January 21, 1971, drawn on the same account as check No. 155 above, was for \$60,379.81 and was for Charter Mission Expenses. The payee was OTS. The check was endorsed "Order Swiss Bank Corporation for deposit to OTS". The check appears to have been cleared through the Swiss Bank Corporation, New York Branch and the Chase Manhattan Bank in New York City on or about February 18, 1971. The check was cleared through CALIFORNIA's bank account on February 22, 1971.

Again, on Page 2/7 of the OTS LTD Swiss General a/c #295.728 summary for 1971 (supra) there is listed a deposit on Feb. 16, 1971 in the amount of 259,258.80 Swiss francs which is represented as equivalent to 60,379.81 U.S. dollars. We do not know whether the January 21, 1971 and the February 16, 1971

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deposit are the same transaction or not. It is apparent that the disbursement check was either deposited or cashed at the Swiss Bank Corporation. The only conclusive evidence that the disbursement on check #162 and the deposit on February 16, 1971 are the same would be the remittance advice or deposit slips from Swiss Bank Corporation detailing the composition of the deposit.

The summary of receipts submitted is composed of a format which shows the source of all the deposits on the bank statements. The deposits are shown in the account currency (Swiss francs, Dirhams, Escudos, dollars, etc.) and in the U.S. dollar equivalent. We have scheduled out the yearly summaries (Exhibit 124) and it shows the composition of the total yearly deposits and the total deposits for the four year period.

The total deposits represented as from California, \$8,201,771.76; on the schedule approximate in total the sums paid to OTC, \$8,240,322.49, listed on our schedule of those sums (Exhibit 110). California submitted to us essentially all of the Flag Invoice-ins. We have scheduled these income invoices. On our Request #39 (Exhibit 127) we queried California regarding differences in income per our schedules and that reported on the OTC yearly statement. Mr. Greenberg responded to our request by letter dated February 26, 1976 (Exhibit 128).

In his response, Mr. Greenberg submitted reconciliations, which disclosed debt payments to OTC, and theorized on the remaining difference. Regarding the debt payments to OTC from AOSH UK and AOSH DK, California submitted substantially all of the invoices pertaining to those debts. The invoices

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submitted disclosed that those items were essentially for services. Of the invoices submitted, only those attached (Exhibit ) indicated "loan repayment". In support of the debt to OTC contention, CALIFORNIA submitted letters from the Accountant for the UK Church and from the Directors of the Danish Church (Exhibit 130).

On the OTC receipt summaries, CALIFORNIA reduces the Other Church income figure manifested as deposits to the OTC bank accounts and Ship Board cash by the amount of those debts.

It appears to us that the following representation is being made by CALIFORNIA in this instance. On the OTC receipt summary for 1971 (Exhibit 131), CALIFORNIA indicates that OTC bank accounts received \$340,476.99 of "Other Church Income" as deposits. There is an adjustment reducing this amount by \$499.40 which is essentially a reclassification adjustment. In effect, CALIFORNIA is stating that \$499.40 of those deposits listed as Other Church income are actually funds coming from CALIFORNIA (Church of Scientology of California).

Next, CALIFORNIA reduces this Other income figure by \$76,497.24 which it claims are U.K. payments to OTC and are not CALIFORNIA<sup>S</sup> income. Mr. Greenberg, in his affidavit (Exhibit 132), states that the amount represents a bona-fide debt to OTC. He also indicated in his affidavit that he satisfied himself that payments invoiced in by the Church were properly allocated to these debts. The affidavit states only the total amount of the payments and not the individual payments composing the total.

We have scheduled out the Flag income from U.K. for 1971 (Exhibit 133) and came up with a total of \$110,413.09. By eliminating payments of \$32,995.10,

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which represent payments we presumed to be from other than the U.F. Church, the figure is reduced to \$77,423.59. This is approximately \$1,000.00 more than the claimed U.K. debt payments for that year. Included in that figure of \$77,423.59 is invoice No. 011295 dated 9/8/71 (Exhibit 44) which is for \$3,000.00 and which is labelled "for Central Management fees".

On our schedule of Flag income for 1971 (Exhibit 35) we came up with a total of \$1,606,790.66 for the year. Included in that figure is invoice No. 00507 dated Sept. 8, 1971 (Exhibit 36) recorded as 6,490.60 in U.S. dollars. The \$3,000.00 check from AOUK is included on that invoice. On Page 4/7 of the OTC receipt summary (Exhibit 37) there is listed a deposit to the OIS LTD Swiss General a/c #295.728 on Oct. 6 in the amount of 13,962.41 Swiss francs which is listed as equivalent to 3,422.16 U.S. dollars. On invoice No. 00507 (supra) there is listed a check from SHUK in the amount of 13,962.41 Swiss francs which is noted as equivalent to 3,422.16 U.S. dollars, this amount then is crossed out and 3,490.00 is listed beneath it. We do not know if the Oct. 6 deposit and the amount on invoice No. 00507 is the same transaction or not. We have been unable to determine where the \$3,000.00 check from AOUK is listed on the schedule of deposits.

Irregardless of our inability to trace the \$3,000.00 into the schedule of deposits, we cannot understand how a payment of \$3,000.00 labelled "For Central Management Fees for W/E 26/8/71" constitutes a payment to OTC for a debt incurred.

To sum up our review of the income or receipt portion of the OTC operations, California through its several divisions, transfers funds by check, cashiers

check and cash couriered to the vessel "Apollo". CALIFORNIA performs that portion of its activities and operations aboard the Apollo which it refers to as the "Flag Church". The funds transferred to OTC are to be utilized to carry out the activities of CALIFORNIA's "Flag" operations. OTC in effect merely receives CALIFORNIA's funds and disburses them to carry out CALIFORNIA's activities. OTC also receives funds generated by the Flag operations aboard the Apollo.

CALIFORNIA submitted monthly billings from OTC which listed the individual disbursements covering the Flag operations aboard the Apollo. For 1971, there were about 195 pages of disbursements listed. The billings and annual statement of account were headed Operation and Transport Services Limited, Panama. The Total monthly billing statements give a summary of expenses for the month in the various currencies utilized, the 1% monthly Finance Handling Charge which rate is applied to the total disbursements for the month, the charter fee for the Apollo and rental payments for any properties rented from OTC. Credit was given for Personal repayments, Canteen Receipts and returned expenses to SBO (we believe this means Ship Banking Office) cash.

In response to our Request #52, CALIFORNIA submitted, among other things, an undated, unsigned document titled "Church of Scientology of California Day to Day Operations of The Church". (Exhibit #39). The document states the nature of the activities carried out on board the Apollo. Essentially, they were ship operations, religious training and Pastoral counselling mostly for staff members sent from other Churches of Scientology and administrative guidance.

In our request #17 dated 12/29/75 (Exhibit #27) we asked CALIFORNIA to submit all original invoices and D.V.'s for one selected month out of each year in support of the disbursements listed on the OIC billings. CALIFORNIA submitted to us two cartons of paid bills for the four months requested. In addition, Mr. Greenberg, in his letter dated January 27, 1976 (Exhibit #40) stated:

"I would like it noted here that your original request #17 asked for all 'invoices' for the four month test sample. I believe that I properly and reasonably interpreted this as meaning the invoices the Church writes up when it receives funds. It was only a week ago that you called me to indicate that there had apparently been a breakdown in communication and that what you had actually meant when you asked for 'invoices' were the bills and receipts that we had previously been referring to as 'third party invoices'. The reason I am making this point is that I am growing a bit concerned with the sudden rush of voluminous requests that have been sent by you and your staff and want to ensure that the Church is not put in a position of looking as if they are withholding data or being uncooperative. I do not know if you were fully aware of it when you made request #17, but you were asking the Church to supply over 3,000 check-up bills and receipts...."

The letter is a lengthy discourse on allegations that the U.S. Government and the IRS were the main reasons why the Church was forced into the position of working through cash than through checks. Mr. Greenberg concludes his letter with the following comments:

".....By asking for excessive amounts of substantiation and data you make the Church appear as if they are evasive when they respond that getting that data would be an enormous job, or that they do not understand why you want to see all of this or all of that when it would fill a room, and is of little relevance anyway.

I hope that you will be able to review the circumstances under which the Church was operating and in light of that narrow substantially the scope and volume of your requests.

I have delivered to you all of the receipts and bills that were to hand and were easily traceable to the OIC billings for the four months you have asked about. If after going over these bills there remain any

specific items about which you have further questions, please let me know and we will work towards supplying what is needed." (underscoring added)

We do not know whether requesting 4 months out of 48 months, or less than 10% of the disbursements made by a Panamanian Corporation overseas, essentially in cash, (See Mr. Greenberg's letter dated January 19, 1976) is unreasonable or not. However, we fail to see why these records could not be supplied since they document actual transactions which are fixed and completed. These are records and documents the organization should maintain. In addition, the documents supplied were in two cartons and represented possibly 50% of the items requested. It should also be stated that the documents submitted were those selected by the Organization. The documents we reviewed did corroborate an expenditure listed.

In addition to the four months of disbursements on which we requested substantiation, we submitted Request #36 (Exhibit 141) to CALIFORNIA. In that request, we asked for supporting documentation on selected expenditures listed on the OTC billing statements for the other 44 months. Our schedule listed the date, Payee listed, D.V. #, amount and type of currency used in payment. Mr. Greenberg responded to our request in his letter dated February 10, 1976 (Exhibit 142). In his reply he states:

"....The specific MEA/LPA payments on the OTC billings would be virtually impossible to back-up on an individual basis as they were usually advances for a week's or month's estimated expenses for the unit...."

also states the total compensation paid to Mr. and Mrs. Hubbard for the years under audit. The payments to V. Polemini were labelled as Staff allowance.

Mr. Greenberg concludes his letter of February 10, 1976 (supra), with the following comment:

"The items in this request, specifically MEA, LPA, TRC, AOSH UK and DK, LRII's research project and LRII's compensation were all items that also came up for the four test months of request #17. I believe that with these items now filled in, you should have a pretty complete substantiation of all 48 months. If there are any items left that you feel you need further back-up on please let me know."

We do not feel that we have had complete substantiation of all 48 months. What we were confronted with in this audit was to independently test the representations made on the OTC billing statements. We were told that these expenditures on the OTC statements were cash expenditures and that, only rarely would OTC pay one of California's bills by check. It appears to us that considerable amounts of cash were retained on board the Apollo. No records maintained by the person accounting for these funds listing the cash turned over to him and his listing of all the cash disbursements were made available to us. The situation, in effect, is that a separate Panamanian Corporate entity has physical custody of California's funds, makes selected disbursements for California in cash, and retains any unexpended funds, which in this case are sizable, in its continued custody. The minimum we would expect under these circumstances would be that the specific disbursements listed on the billings that we randomly selected would be fully documented as to actual payment and the nature and purpose of it. It is possible that all the disbursements are correct as represented. However, we hesitate to

make this contention since in essentially all of our requests for selected items, not all of the items we selected were supplied.

As was stated above, it appears that California's activities aboard the Apollo (the Flag Church) are funded essentially through cash expenditures. The OTC bank statements were reviewed. There were no cancelled checks submitted. The following statements from Mr. Greenberg's letter of January 19, 1976 (supra), explain the reason:

".....In actual fact, the great majority of the checks written from these OTC bank accounts on behalf of the Church were to provide 'cash' for the ship to spend. Only rarely would OTC pay one of the Church's bills by check. It is possible, if you requested, that copies of these cancelled checks could be obtained, however, due to the foreign bank policy of not returning cancelled checks, it would probably be at least a 4-6 week cycle to reach these banks and obtain the checks or copies of them. Please let me know if there is anything further you want done on this." (underscoring added)

The summary of receipts submitted appears to confirm this. The largest internal transfers and exchange receipts are to the SBO cash. In his letter of May 2, 1976 (supra), Mr. Greenberg states; "Transfers represent internal transfers from one OTC account to another or between on board OTC cash and OTC bank accounts." We take this to mean that funds in OTC bank accounts are converted to cash and turned over to SBO cash. Presumably, SBO cash could be deposited to OTC bank accounts but we have no hard evidence on this. In addition, we see no useful purpose in converting banked funds to cash and then converting the cash back to banked funds.

Apparently, OTC maintained a representative aboard the Apollo who handled the cash funds in its custody. Mr. Greenberg, in his letter of December 18, 1975 (supra), stated, "The persons handling the money for OTC and the persons

authorizing the expenditures for the Church were always on board the ship and so no correspondence was required." He further affirms this in his letter of June 16, 1976 (supra). In addition, in his letter of May 2, 1976 (supra), Mr. Greenberg states, "So transfers and exchanges is strictly an internal OTC action and doesn't effect the Church." In effect, the checks on OTC bank accounts for cash resulted in cash turned over to the OTC representative on board the Apollo.

Mr. Greenberg further states in his letter of May 2, 1976:

"I believe that this accounts for 'Church monies received'. The OTC Billings totally cover all of the disbursements made on behalf of the Church and these have been checked out fairly extensively..."

As we stated previously, the specific items we requested concerning specific disbursements on the OTC billings were not all supplied to us. For instance, on the schedule of selected expenditures on Request No. 26 (supra), we requested documentation on specific expenditures. In his letter of February 10, 1976, Mr. Greenberg states:

"The payments relating to TEC, in addition to those designated by the initials TEC, include dds made out to the following people; Meredith Thomas, Margo Clarke, S. Patterson, R. Eckelberry, L. Bezeret, B. Vick, H. Mohamed, K. Moore and A. Harrison. Again, it is hard to trace these individual payments as they were usually an estimate for a weeks or months expenses. I have included all of the 1971 TEC bills including a separate folder for Meredith Thomas who was on mission to set up the operation and be the 'OTC representative'. As samples I have also included TEC bills for November 72, December 73 and the minimal (sic) bills for 1974.

"Another large area of queries revolved around bills paid by AOSH DK and AOSH UK. As mentioned before, the DK bills were mostly related to the 'translation Project'. The UK bills were mostly fuel bills for the Apollo and parts for the ship. I have included a goodly sample of the DK and UK bills."

Granted that the documents submitted did corroborate an expenditure, it is apparent that what we requested was not supplied to us in all instances. It is possible that all the expenditures we requested documentation on are proper, however, we can not say that the disbursement claimed on 9/23/73, to C. Adams on Disbursement Voucher 7578 in the amount of \$12,000.00 and listed as "Land based mission expenses", for instance, has been documented as to actual payment and purpose. As was stated previously, the majority of these expenditures are made in cash. C. Adams would have obtained cash from the OTC Representative on the Apollo in the amount of \$12,000.00 and would have used it for some authorized CALIFORNIA purpose.

We reviewed the OTC Billing statements regarding the disbursements. The statements do not present a breakdown of expenses by category in total but merely list each claimed expense. For example, in order to determine the total expense of a particular category for the year, it would be necessary to go through all the billing statements for the year and pick out all the expenditures listed under that category and total them up. The expenditures listed are various and pertain to maintaining the ship, etc. We have enclosed the Annual Statements of Account, total summary of expenses for the months of January and the billings for the months of January issued by OTC for the four years 1971-1974 to indicate the nature and manner of the OTC disbursements procedures (See Exhibit 145).

It has been difficult to establish in our minds what constitutes a mission activity. Included in documentation submitted by CALIFORNIA is a disbursement voucher from OTC, an EPO (Estimated Purchase Order) and a statement outlining the reason for the expenditure (Exhibit 146). Included in the statement is the following comment:



"Mission is doing well. 5000 sets of DEC volumes are being printed. Cost is \$190,000. Sales value is 1.5 million exchange."

It appears that this mission's objective was to negotiate the printing of DEC volumes. In addition, the sales of these volumes were to generate considerable funds. 7

We do not know what the nature of all the other mission activity is but the land based missions were concerned with communications relay and logistics. TRC also carried out a translation project in which translators were brought in and translated books and tapes into foreign languages. The translators were paid a bonus if they produced translations in excess of a certain number.

The OTC annual statements of account (Exhibit 46) disclosed that at January 1, 1971, OTC owed to CALIFORNIA \$1,491,997.17. The statement for 1971 shows expenditures per billings of \$1,817,457.50. Had CALIFORNIA declined to make any payments to OTC in 1971, OTC would still have had enough funds to make all the expenditures for the year.

A review of the OTC annual statements of account for the four years indicates that the balance OTC owed to CALIFORNIA increased each year except 1974. However, in that year, OTC took credit for \$2,864,037.96 which it had in its custody in cash aboard the Apollo since 1972.

To illustrate the 1974 situation, the OTC annual statement of account for that year shows that OTC owed CALIFORNIA \$2,241,995.49 at the beginning of the year. The statement further shows that CALIFORNIA made payments to OTC of \$4,286,905.20 during the year. Expenditures per billings for the year were \$2,255,522.50. In addition, the statement shows that OTC

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payments to the Church of \$2,864,037.96 in 1974.

Mr. Greenberg's second letter of February 10, 1976, (Exhibit #7) describes the payment to CALIFORNIA in 1974. The following paragraph from that letter gives the details:

"2) (1) Attached are copies of the cash counts made by myself, Nikki Freedman and Vicki Livingston on February 23, 1975 aboard the ship Apollo. There were three separate counts and at the top of each count is the name of the OTC Bank account that the cash came from. What had happened was that in 1972 the Swiss indicated that they were going to start charging 'negative interest' on all foreign monies being banked in Swiss banks. This apparently was an attempt to discourage the sudden stampede of foreign funds into Switzerland, which was having a disruptive effect on the rest of the world money market. OTC responded by taking all of their funds out of the Swiss banks and storing the cash aboard the ship in a locked safe in a locked room. The funds remained in the safe until they were turned over to the Church at the end of 1974 as a partial payment against the amount OTC owed the Church." (underscoring added)

In addition, Mr. Greenberg furnished an affidavit (Exhibit #5) disclosing the funds OTC had available through bank accounts or cash on hand at the end of each of the four years. It showed that OTC had cash on Board the Apollo of 6,875,803.22 Swiss francs and 162,534.87 U.S. dollars.

The cash count submitted by CALIFORNIA (Exhibit #9) indicate that 6,681,642.19 Swiss francs came from the OTS General Account #295,728 and 194,161.03 Swiss francs came from the OTS Ship Account #295,728.1. The \$162,534.87 came out of the OTS Dollar Account #295,728.2.

CALIFORNIA submitted copies of the OTS General Account #295,728 and the OTS Dollar Account #295,728.2 statements. We have not seen the OTS Ship Account #295,728.1 bank statement. The General Account statement indicates that 6,681,642.19 Swiss francs were withdrawn on August 4, 1972, the balance in

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the account at that date. The Dollar Account statement indicates that \$162,534.87 was withdrawn from the account on August 3, 1972.

It appears that CALIFORNIA's funds are commingled with OTC's. For instance, the balance in the OTC General Account #295,728 at the end of 1970 was 7,434,651.45 Swiss francs. At the conversion rate of 4.316 for 1970, this would be equivalent to about \$3,209,000.00. Since OTC had only \$1,493,897.17 of CALIFORNIA's funds at December 31, 1970, it is obvious that only about half the funds in the account could be considered as attributable to CALIFORNIA.

It also appears that the 6,875,803.22 Swiss francs and \$162,534.87 stored aboard the vessel Apollo at the end of 1972 exceeded the amount owed to CALIFORNIA at that time. In effect, OTC was storing part of its own funds aboard the Apollo. At the conversion rate of 3.774 for 1972, the Swiss francs would be equivalent to about \$2,595,000.00 while OTC owed CALIFORNIA only \$2,127,802.94 as of December 31, 1972.

To sum up the CALIFORNIA-OTC relationships during the four years, CALIFORNIA transferred \$8,240,322.49 of its funds to OTC during the period. In addition, OTC had possession of \$1,493,897.17 of CALIFORNIA's funds prior to the transfers. The statements also show that OTC received other Church income of \$747,853.19 over the four year period. OTC had possession and control of \$10,482,072.85 over the four year period.

OTC's statements show total expenditures per billings for the four years of \$6,118,343.81. In addition, OTC remitted back to CALIFORNIA \$14,062.57 in 1973 and \$247,476.94 in 1974. OTC in effect disbursed on behalf and returned

to CALIFORNIA \$6,379,883.32. In addition, OTC took credit for the payment of \$2,864,037.96, which it had stored on board the Apollo, as funds returned to CALIFORNIA. As we understand it, these funds remained on board the Apollo but they were considered to be in the possession of CALIFORNIA as of December 31, 1974. Finally, OTC indicates on its statement that it still owes CALIFORNIA \$1,447,297.90. It is difficult to reconcile to an exact figure since the OTC statements apparently do not reflect payments from California in transit. It is apparent, however, that CALIFORNIA had \$2,864,037.96 in cash on board the Apollo and additionally had \$1,447,297.90 of its funds in the possession and custody of OTC as of December 31, 1974.

As was mentioned in the United States Churches of Scientology Trust section of this report, a large amount of cash was withdrawn from various Swiss Bank accounts in mid-1974. Of the various accounts closed and converted to cash (both Swiss francs and U.S. dollars), CALIFORNIA'S representatives allege that \$162,534.87 (U.S. dollars)(account #295,728.2) and 6,875,803.22 (Swiss francs)(account #295,728 & #295,728.1)(Exhibit 149) belonging to OTC was stored aboard the ship in a locked safe in a locked room until the end of 1974 at which time it was turned over to CALIFORNIA as a partial payment against the amount OTC owed CALIFORNIA (Exhibit 150).

When the cash was "turned over" to CALIFORNIA at the end of 1974, the amount credited to CALIFORNIA from OTC was \$2,864,037.96 (U.S. dollars) (Exhibit 145). The \$2,864,037.96 represents \$162,534.87 U.S. dollars and 6,875,803.22 Swiss francs. The 6,875,803.22 represents \$2,701,503.09 U.S. dollars at a conversion rate of 2.545 Sw Fr. to U.S. dollars. CALIFORNIA submitted a cash audit to verify that the cash was aboard the ship at the end of 1974, that

Since we were concerned with the timing of the payment, we analyzed the impact of the OTC financial statements with the following points in mind: (1) Payment made to CALIFORNIA in mid-1972; (2) Payment made to CALIFORNIA at the end of 1972 and (3) Payment made back to CALIFORNIA at the end of 1973.

Our analysis disclosed the following:

<u>Sv Fr</u>	<u>Rate</u>	<u>U.S. Equivalent</u> <u>Mid-1972</u>	<u>12/31/72</u>	<u>12/31/73</u>
6,875,803.22	3.774	\$1,321,037.46		
6,875,803.22	3.774		\$1,821,897.46	
6,875,803.22	3.244			\$2,119,544.77

Restating OTC's financial statements to reflect the payment of cash at the end of 1972 and 1973, utilizing the conversion rate above, the following is the result:

	<u>1972 Payment</u>		
	<u>1972</u>	<u>1973</u>	<u>1974</u>
Balance owing to CALIF. on January 1	\$1,662,873.80	\$ 203,380.61	\$ 257,573.16
Add: Payments-CALIF.	\$1,320,105.15	\$1,451,056.35	\$4,286,905.20
Other Church Income	\$ 240,932.55	\$ 202,445.22	\$ 40,957.67
	\$3,223,911.50	\$1,856,882.18	\$4,585,436.03
Less: Expenditures	(\$1,036,109.56)	(\$1,585,245.45)	(\$2,259,522.50)
Payments			
(a) U.S. Dollars	(\$ 162,534.87)	(\$ 14,062.57)	
(b) Swiss Francs	(\$1,821,897.46)		
BALANCE owing CALIF.	<u>\$ 203,380.61</u>	<u>\$ 257,573.16</u>	<u>\$2,326,913.53</u>

	<u>1973 Payment</u>	
	<u>1973</u>	<u>1974</u>
Balance owing to CALIF. on January 1		
Add: Payments-CALIF.	\$2,187,802.94	(\$ 40,084.15)
Other Church Income	\$1,451,056.35	\$4,236,905.20
	<u>\$ 202,445.22</u>	<u>\$ 40,957.67</u>
	\$3,841,304.51	\$4,287,778.72
Less: Expenditures	(\$1,595,246.45)	(2,258,522.50)
Payments to CALIF.		
(a) per statement	(\$ 14,062.57)	
(b) U.S. Dollars	(\$ 162,534.07)	
(c) Swiss Francs	(\$2,112,534.77)	
<b>BALANCE owing to CALIF.</b>	<u>(\$ 40,084.15)</u>	<u>\$2,029,255.22</u>

The 12/31/74 balance owing, as restated, when compared to the OTC statements disclose the following:

	<u>1972 Payment</u>
	<u>12/31/74</u>
Balance owing to CALIFORNIA restated	\$2,326,913.53
Less: Balance per OTC statements	(\$1,447,297.90)
<b>UNRESOLVED DIFFERENCES</b>	<u>\$ 879,615.63</u>

	<u>1973 Payment</u>
	<u>12/31/74</u>
Balance owing to CALIFORNIA restated	\$2,029,255.22
Less: Balance per OTC statements	(\$1,447,297.90)
<b>UNRESOLVED DIFFERENCES</b>	<u>\$ 581,957.32</u>

It would appear from the above, that had CALIFORNIA maintained separate bank accounts then the gain from the currency conversion would have been properly reflected in CALIFORNIA'S statements. From the OTC statement presentation (1974), it would appear that OTC received the benefit of the currency conversion. The above computation was not submitted to CALIFORNIA, however, the theory of conversion was discussed with CALIFORNIA'S representative (Greenberg). We have not been able to resolve this difference with CALIFORNIA'S representatives (Exhibit <sup>151</sup> ).

In his letter of February 10, 1976, (supra) Mr. Greenberg discusses the payments to L. Ron Hubbard for reimbursement of research expenses in the following paragraph:

"In 1973 there were payments to L. Ron Hubbard for reimbursement of research expenses he incurred on his 7 month research project in the US along with two other Church staff members. The total amount of the reimbursement was for \$22,805.02 (68,500 SwFr). The Church spread their repayment over a period of about 2 months. For security reasons they used other names while working on the project and the names most commonly on the bills and receipts are Mr. Morris, Mr. Harris and Mr. Thomas. The need for "security" is borne out by the IRS' later attempt to serve Mr. Hubbard when they were alerted that he might be entering the country. The full accounting for this project is in the smaller carton. If you wish, the bulletins and policy letters that were an outgrowth of this research can be supplied you. Mr. Hubbard paid the money out of his own pocket and was then reimbursed by the Church."

We requested copies of the bulletins and policy letters resulting from the research. We were presented copies of the bulletins, which we were not permitted to duplicate, and the Policy letters, copies of which we have in our files. Several Policy letters submitted are attached (Exhibit 152) as a sample of the product of the research. It should be noted that they are all copyrighted by L. Ron Hubbard. Mr. Kreiner, in his letter dated March 30, 1976, (Exhibit 153), discusses the reason that some of the policy letters and bulletins submitted are dated beyond the period Mr. Hubbard was away from Flag.

Mr. Greenberg states the following in his letter of May 3, 1976, (Exhibit 452)

"3 -- A statement of where Mr. Hubbard was doing his research and who was paying for what during the years 1971-1974 has been requested and will be forwarded to you immediately upon receipt."

In a letter dated May 13, 1976, (Exhibit 453) Mr. Greenberg indicates where Mr. Hubbard was located and doing his research for the years 1971-1974. From the information disclosed in that letter, it appears that Mr. Hubbard was at the following locations during the four years:

January 1, 1971 to Sept. 14, 1972	Apollo
Sept. 15, 1972 to Nov. 30, 1972	Villa Laure
Dec. 1, 1972 to Dec. 5, 1972	Lisbon
Dec. 6, 1972 to Sept. 15, 1973	United States
Sept. 17, 1973 to about Nov. 23, 1973	Apollo
Nov. 24, 1973 to about Dec. 7, 1973	Madeira
Dec. 8, 1973 to Dec. 31, 1974	Apollo

It appears that Mr. Hubbard was away from the Apollo for about a year. In his letter of February 17, 1972, (supra) Mr. Kreiner describes Mr. Hubbard's relationship to CALIFORNIA as follows:

"10. L. Ron Hubbard is the Founder of Scientology. He developed and discovered the various religious doctrines underlying Scientology as well as the procedures of auditing and training. Prior to 1966, L. Ron Hubbard held various executive positions, in various Churches and was on the Board of Directors of various Churches. In 1966 these positions were all resigned. Since that time his advice and guidance has been sought and given to the Church. During the period of 1971-1974, Mr. Hubbard was retained by the Church of Scientology as an independent contractor. He primarily operated aboard Flag giving guidance and assistance to the Church and continuing his research. Your understanding of this relationship as set forth in Request No. 33 is correct."



To summarize, CALIFORNIA transferred approximately \$3,200,000.00 of its funds to OTC, a Panamanian Corporation, which already had about \$1,500,000.00 of CALIFORNIA'S funds in its possession. OTC was incorporated under the laws of Panama. L. Ron Hubbard, Mary Sue Hubbard and Leon Steinberg were the incorporators. They immediately transferred their subscription rights to other individuals, three of whom became directors. Although subscription rights were issued, it has been asserted that no shares of stock have been issued and there are no shareholders. The funds CALIFORNIA transferred to OTC were sent to the vessel Apollo on which CALIFORNIA conducted its "Flag Church" activities. It is asserted that the OTC representative charged with the responsibility of receiving the funds was also located on the Apollo. The OTC representative had custody of these funds on board the Apollo. For the four year period, we have no knowledge of which, if any, of the directors, officers or employees of CALIFORNIA were charged with the responsibility of directing the activities aboard flag and authorizing the OTC representative to disburse funds.

L. Ron Hubbard, who is considered an independent contractor retained by CALIFORNIA, was aboard the Apollo for about 3 out of the 4 years. In essence, CALIFORNIA contracted with a Panamanian Corporation to have the Corporation place a representative aboard a vessel on which CALIFORNIA, the sole tenant, was conducting its activities, for the purpose of receiving CALIFORNIA'S funds and disbursing them in accordance with CALIFORNIA'S wishes. For this service, CALIFORNIA pays OTC 1% (1 cent out of each dollar) of the amount OTC disburses on behalf of CALIFORNIA.

Profit Or (Loss) Restated

Based upon our analysis of the income & disbursement, we have adjusted the profit or (loss) reported by CALIFORNIA to include (1) payments from UK and DK, (2) FLAG income and (3) FLAG expenses.

	<u>1971</u>	<u>1972</u>
Net Profit or (Loss) per workpapers (Exhibit 70) -	(\$ 940,711.29)	(\$1,044,574.86)
UK Payments	\$ 76,497.24	161,018.38
DK Payments	\$ 77.52	53,609.76
OTS-Charter Mission payments -	\$1,143,928.02	\$1,659,122.20
Other Church Income (OTC) -	263,557.87	240,932.55
FLAG Expenses (OTC)	<u>(\$1,238,466.30)</u>	<u>(\$1,036,108.56)</u>
Net Profit or (Loss) as Adjusted -	<u>(\$ 694,934.94)</u>	<u>(\$ 225,106.72)</u>

	<u>1973</u>	<u>1974</u>
Net Profit or (Loss) per workpapers (Exhibit 70) -	\$ 608,137.05	\$1,370,676.83
UK Payments	\$ 93,231.79	-
DK Payments	\$ 9,933.30	-
Payments from OTC	(\$ 14,062.57)	(\$ 247,496.94)
" " " "		(\$2,864,037.96)
OTC-Charter Mission	\$1,367,511.44	\$4,288,865.15
Other Church Income	\$ 202,445.22	\$ 40,957.67
FLAG Expenses (OTC)	<u>(\$1,585,246.45)</u>	<u>(\$2,011,025.56)</u>
Net Profit or (Loss) as Adjusted -	<u>\$ 741,945.77</u>	<u>\$ 577,939.19</u>

The net income figure as presented does not include advance payments received, but does include the payments from UK and DK and FLAG net income.

*advance*

The previous net income when adjusted to include <sup>advance</sup> payments received appears as follows:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Net Profit or (Loss) as adjusted	- (\$694,936.94)	(\$ 225,106.72)	\$ 741,945.77	\$ 577,939.19
Advance Payments deferred	- <u>\$788,704.71</u>	<u>\$1,198,763.86</u>	<u>\$1,635,786.45</u>	<u>\$2,194,588.07</u>
Net Profit or (Loss) as adjusted for advanced payments	- <u>\$ 93,767.71</u>	<u>\$ 973,657.14</u>	<u>\$2,377,732.22</u>	<u>\$2,772,527.26</u>

Our analysis of the accumulated surplus is as follows:

	<u>1971</u>	<u>1972</u>	<u>1973</u>	<u>1974</u>
Net Worth per W/P	(\$ 842,555)	(\$1,858,784)	(\$1,166,811)	\$ 191,193
Due from OIC	\$1,662,874	\$2,187,803	\$2,241,995	\$1,467,298
Adjust differences of OTC paid and rec. - UK and UK payments	\$ 223	\$ 80,134	(\$ 3,411)	(\$ 1,451)
	<u>\$ 75,573</u>	<u>\$ 291,203</u>	<u>\$ 394,368</u>	<u>\$ 394,368</u>
Net Worth of CALIFORNIA	<u>\$ 507,117</u>	<u>\$ 700,336</u>	<u>\$1,466,141</u>	<u>\$2,031,408</u>

NOTE: The above net worth does not include the advance payments.

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