

Scientology

Flynn

Report

CITY CLERK

PRELIMINARY REPORT TO THE CLEARWATER CITY
COMMISSION RE: THE POWER OF A MUNICIPALITY
TO REGULATE ORGANIZATIONS CLAIMING
TAX EXEMPT OR NON-PROFIT STATUS

Copies to:
Commission
Press
City Attorney
City Clerk
Date **SEP 14 1981**

RECEIVED

SEP 14 1981

CITY CLERK

(*)

SUBMITTED BY:

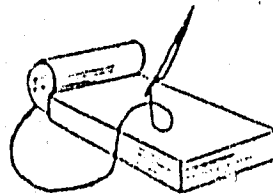
MICHAEL J. FLYNN, ESQUIRE
THOMAS G. HOFFMAN, ESQUIRE
THOMAS GREENE, ESQUIRE
WILLIAM SHERIDAN, ESQUIRE
PAUL JENKINS, ESQUIRE
* KEVIN SULLIVAN, ESQUIRE
KEVIN FLYNN

* MEMBER OF THE FLORIDA BAR
Master of Law Degree in Taxation

(VLPFF1)

Margorie Wakefield - T

not need report
at this time



From the desk of
CAMILLE MOTLEY

Oakfield

Scientology Office
911 W. 11th Ave #713

1000 1st St. N. #11

Copies to
Tate

Scient - Flynn
Rpt.

8/28/91

Holding for
Margorie Oakfield
Tpa 989-2468

Let message on her
recorder for her to
call us to arrange to
review report.

(Cm)

Hold for reasonable
period of time - till
9/1/91

NOTES

1:40 8-16

Margorie Wakefield of
Tampa 989-2468

Subject of Scientology
Preliminary Report
by Michael Flynn (lawyer)
prepared for the City
in 1982 or 1983.

This report led to a
series of special
hearings.

She needs a copy for
a lawsuit.

She is not a Scientologist.

In need of official copy.

RECEIVED ADDENDUM

CORRECTIONS TO THE REPORT

SEP 16 1981

NOTE: When locating line number for correction, count only those lines on which there is something written.

<u>Page Number</u>	<u>Line</u>	<u>Correction</u>
Table of Contents	Under V-A	porposed <u>to</u> proposed.
17	19	dismissed <u>to</u> discussed
29	12	"T" <u>to</u> "t"
29	32	th <u>to</u> the
38	28	Commissioner <u>to</u> Commission
40	12	1960's <u>to</u> 1950's
48	12	VII-4 <u>to</u> X-4
53	20	covened <u>to</u> convened
60	26	1958 <u>to</u> 1955
66	4	Fron <u>to</u> From
81	5	seduously <u>to</u> sedulously
82	19	behaior <u>to</u> behavior
90	29	refernce <u>to</u> reference
108	8	signed <u>to</u> served
108	9	server <u>to</u> signer
127	21	U.s. <u>to</u> U.S.
128	30	threat <u>to</u> thrust
140	1	some of which were <u>to</u> one of whom was
141	5	Jonestwon <u>to</u> Jonestown
150	4	if <u>to</u> it
152	25	1970-72 <u>to</u> 1970-74
172	5	his <u>to</u> this
173	17	insert "Court" after Supreme
191	26	insert "pay" after proselytes
59	39	agin <u>to</u> again
59	40	aksi <u>to</u> also
88	5	hundred <u>to</u> hundreds
182		Strike entire page (is identical to page 181)
184	8	ordinance <u>to</u> ordinance

PRELIMINARY REPORT TO THE CLEARWATER CITY
COMMISSION RE: THE POWER OF A MUNICIPALITY
TO REGULATE ORGANIZATIONS CLAIMING
TAX EXEMPT OR NON-PROFIT STATUS

SUBMITTED BY:

MICHAEL J. FLYNN, ESQUIRE
THOMAS G. HOFFMAN, ESQUIRE
THOMAS GREENE, ESQUIRE
WILLIAM SHERIDAN, ESQUIRE
PAUL JENKINS, ESQUIRE
* KEVIN SULLIVAN, ESQUIRE
KEVIN FLYNN

* MEMBER OF THE FLORIDA BAR
Master of Law Degree in Taxation

TABLE OF CONTENTS

	<u>Page</u>
I. INTRODUCTION.....	1
II. ISSUES PRESENTED AND CONCLUSIONS.....	5
A. 1. Municipal authority to regulate the solicitation of funds by an organization holding itself out to be a religion	5
2. Municipal authority to regulate unfair and deceptive practices by an organization holding itself out to be a religion	6
B. Municipal authority to tax organizations claiming tax exempt status	6
C. Municipal authority to limit expansion of purported "Church" facilities in the "Downtown Development Area" through zoning regulation	7
D. Municipal authority to regulate the practice of psychology or psychotherapy	7
E. Municipal authority to regulate education	8
F. Municipal authority to regulate in areas of public health, safety, lodging, fire and building	8
G. Organizations operating in Clearwater in violation of law	9
III. APPLICABLE PRINCIPLES OF LAW.....	10
A. Municipal authority to regulate solicitation of funds by an organization holding itself out to be a religion	10
B. Municipal authority to regulate unfair and deceptive practices	15
C. Municipal authority to tax organizations claiming tax exempt status	25

	<u>Page</u>
D. Municipal authority to limit expansion of purported "Church" facilities in the "Downtown Development Area" through zoning regulation	36
E. Municipal authority to regulate the practice of psychology and psychotherapy	39
F. Municipal authority to regulate education	45
G. Municipal authority to regulate in areas of public health, safety, lodging, fire and building	45
IV. FACTUAL DESCRIPTION, HISTORY AND ANALYSIS OF SCIENTOLOGY ...	47
A. General history and description of Scientology	47
1. The founder and promoter - Lafayette Ronald Hubbard	48
a. His background	48
b. Creation, operation and control of Scientology	61
2. Structure of Scientology	66
B. Factual account of Scientology policies, practices and business methods	68
1. Marketing and sales policies	68
2. The effect of Scientology practices on the mind and personality	75
3. Enforcement policies	85
a. Security check	85
b. Freeloader's debt	87
c. Disconnect	89
d. Blown student	91
e. Attack the attacker	92
f. Fair game	93
g. R-2-45	93
4. Commercial, profit-oriented activities of Scientology	96

	<u>Page</u>
C. Scientology and the courts	106
1. Lawsuits by the Scientologists against private Citizens	106
2. Lawsuits by private citizens against the Scientologists	113
3. Litigation between the Scientologists and government agencies	121
a. Tax litigation history of Scientology	121
b. Enforcement of criminal and regulatory laws	127
D. Scientology operations in Clearwater	130
1. General description	130
2. Scientology origins in Clearwater	131
3. Clearwater, the communications link for criminal activity	135
4. Clearwater "RPF"- physical and mental abuse of private individuals	139
5. Commercial activities of Scientology in Clearwater	143
V. APPLICATION OF MUNICIPAL LAW TO SCIENTOLOGY ACTIVITIES, POLICIES AND PURPOSES.....	147
A. Application of the ^{proposed} perposed Charitable Solicitation Ordinance to the Church of Scientology	147
B. Application of proposed Consumer Protection Ordinance to operations of the Church of Scientology	166
C. Standards for Determining Tax-Exemption as applied to Scientology	183
VI. CONCLUSIONS AND RECOMMENDATIONS.....	191

I. INTRODUCTION

Within the framework of limited time and cost, this preliminary report is intended to provide the Clearwater City Commission initial research and review of legal questions relating to the authority of the City, as a Florida municipality, to regulate organizations operating within the City and claiming tax-exempt status. The Report also provides the City Commission relevant and material facts concerning the operations of the Church of Scientology within the City. The Church of Scientology has been investigated by this firm in connection with numerous law suits presently pending in many state and federal courts in the United States. The facts established by our investigation support the position that Scientology is engaged in systematic, widespread violations of state and federal, civil and criminal laws.

Since the Report is preliminary in nature, it is designed to give the City Commission an initial grasp of the legal authority and factual basis to begin drafting regulatory measures or to begin planning for the institution of appropriate legal proceedings. Any decision of the Commission to enact specific regulatory measures, or to pursue specific avenues of legal redress, should be based upon a more particularized analysis of the specific measures or procedures. The Report does, however, provide the basis, if the Commission so chooses, to proceed to the drafting, preparation and implementation stage. Although preliminary examples of proposed ordinances are con-

tained in the Report, it is recommended that a more thorough and exhaustive analysis, and a more detailed drafting process should be followed, before actual enactment of such ordinances.

This Report is divided into three Sections. Section I contains a general legal analysis of applicable statutes and case precedents in seven primary areas of public domain. These areas are:

1. Solicitation of funds by purported "religious", "charitable", or "non-profit" organizations;
2. Unfair and deceptive practices by purported "charitable", "religious", or "non-profit" organizations;
3. Taxation of organizations claiming tax-exempt status;
4. Zoning regulation of "Church facilities" in a "Downtown Development Area";
5. The unlicensed practice of psychology or psychotherapy by a purported "religion";
6. Education
7. Public health, safety, lodging, fire and building.

The legal analysis of these areas is based upon Florida statutory and municipal codes, Florida case decisions, and where deemed appropriate state, federal and United States

12
Supreme Court decisions and state and federal statutes. Since the Report required preparation within very limited time and cost constraints, the legal analysis is not intended to be exhaustive in either citation of authority or factual analysis. It is, however, a preliminary survey with recommendations and conclusions based upon the most applicable decisions and statutes.

Section II of the Report contains a general description and analysis of the creation, structure, policies and purposes of Scientology. The history of Scientology involvement in the Judicial process, consisting mostly of failure, abuse, delay, harassment and attack, is recited together with a detailed outline of Scientology's tax litigation history. An historical outline of the background of Hubbard, the founder of the Organization, is included along with a description of his sales techniques and enforcement policies including "Disconnect", "Fair Game", and "R-2-45".

The "schizophrenic" nature of Scientology which exists between the image it presents to the public that it proselytizes, and in most instances deceives, and its internal operating goals and policies is also discussed. The doctrinal or belief structure of Scientology is presented in the perspective of its confrontation with traditionally accepted mental health techniques and treatments. The commercial vis-à-vis religious motivation and operation of Scientology is briefly discussed. Finally, the actual operations of Scientology within Clearwater are set forth.

Again, this Section of the Report is not intended to be either exhaustive or comprehensive in fact or analysis, but merely serves to highlight those areas which have become a matter of public concern and arguably fall within the domain of municipal review and regulation. The facts presented have been collected from thousands of documents, publications, and the eyewitness testimony of hundreds of individuals. The documents and publications are primarily internal materials of Scientology, many of which reveal a systematic pattern of criminal activity, harassment, abuse, breach of confidentiality, fraud, extortion, suppression of free speech, and deprivation of human rights and dignity.

Similarly, the eyewitness accounts of Scientology activities and policies disclose and illustrate a sustained scheme of commercially motivated, anti-social, deceptive and fraudulent practices which compellingly warrant community review and regulation.

Section III of the Report provides a limited analysis of the applicable law contained in Section I as applied to the factual basis of Scientology policies and practices contained in Section II. The rational basis for the conclusions and recommendations made in the Report are to a limited extent set forth in this Section. A preliminary analysis of proposed ordinances and possible proceedings to regulate and prohibit specific policies injurious to the public welfare is presented in this Section.

The Report is summarized with final conclusions and recommendations including an opinion concerning the projected im-

pact of enacting regulatory measures and anticipated litigation.

The various appendices to the Report contain miscellaneous materials in support of those portions of the Report where references were deemed necessary. References are made to the appendices by numerical correlation of the material in the Report to the appropriate appendix. Thus, a footnote number such as I-3 refers to Appendix I, item 3.

II. ISSUES PRESENTED AND CONCLUSIONS

A. Issue 1:

Does the City of Clearwater have the legal authority to regulate the solicitation of funds or property by a purported religious organization where there is evidence of systematic, unfair, deceptive and fraudulent practices in the solicitation of said funds?

Conclusion:

1. The City has the authority, under state and federal law, to enact an ordinance regulating the solicitation of funds by a purported religious organization through the enactment of a narrowly drawn ordinance with specific regulatory measures. The ordinance must meet the requirements of the recent United States Supreme Court case of Schaumburg v. Citizens, Etc. The Florida Court of Appeals has upheld a more broadly drawn ordinance enacted by the City of Jacksonville than that recommended by this Report.

2. The City has the authority, under state and federal law, to enact an ordinance regulating consumer fraud, which ordinance is applicable to all organizations, including purported religious corporations. The Florida Supreme Court has upheld the power of Pinellas County to enact a Consumer Protection Ordinance.

B. Issue 2:

Does the City have the power to tax an organization which holds itself out to be a religion, but which systematically engages in activities, practices and policies indicative of a commercial, profit-motivated enterprise, and which activities fail to meet the requirements of the "operational test" for organizations claiming tax-exempt status under Section 501(c)(3) of the Internal Revenue Code?

Conclusion

Although the City has limited taxing powers under Florida law, it should seek to have the County and State initiate appropriate action. Primary authority to tax a religious "front" organization lies within Pinellas County and the State. The County has the authority to impose real estate, personal property and occupational taxes. The State has the authority to impose sales, and miscellaneous taxes. The Church of Scientology has lost every major court test in both state and federal courts with respect to its qualifying for exemption under the "operational" test as applied by the Internal Revenue Bureau. The operational practices of Scientology in Clearwater disqualify it for exemption under both state and federal standards. The City should conduct public hearings in connection with the proposed ordinances, as to the operational practices

of Scientology within the City, and turn over its findings to the appropriate state and county taxing authorities, for the purpose of obtaining redress from those authorities.

C. Issue 3:

Does the City have the authority to enact a zoning regulation limiting expansion of purported "Church facilities" in the "Downtown Development Area"?

Conclusion

The City has the authority to enact a zoning regulation limiting expansion of "Church facilities" in the "Downtown Development Area" provided that the regulation is reasonably related to legitimate public interests. The City should prepare a list of defined goals for the "Downtown Development Area" which reasonably warrants the enactment of the suggested regulation.

D. Issue 4:

Does the City have the power to enact an ordinance regulating the practice of psychology or psychotherapy?

Conclusion

There is uncertainty under Florida law as to whether a municipality may enact such an ordinance. Florida repealed its statutes regulating the practice of psychology. There are no existing precedents treating potential First Amendment problems in this area. Thus, municipal regulation is

questionable at this time. Exigent circumstances, however, such as the unlicensed practice of medicine, suicide, or clear and flagrant psychological abuses, may warrant an effort to regulate. The founder of Scientology, L. Ronald Hubbard, has specifically stated that Scientology is a method of "psychotherapy", and "the world's largest mental health organization". Foreign nations such as Australia have enacted regulatory measures specifically in response to investigations concerning harmful psychological practices of Scientology.

E. Issue 5:

Does the City have the power to enact any regulatory measures governing education?

Conclusion

The time and cost restraints for this Report did not allow sufficient time to adequately research this issue. However, the presence of numerous small children within Scientology in Clearwater suggests that this issue should be fully explored, particularly where there is strong evidence that minors living within the City are not receiving minimal educational requirements.

F. Issue 6:

Does the City have the power to enact regulatory measures governing public lodging, public health and safety, fire and building codes.

Conclusion

Time and cost constraints for this Report did not allow

sufficient time to adequately research this issue. However, there is evidence of overcrowding, beds in corridors and other violations of public safety type ordinances, within Scientology-operated buildings to warrant further investigation and review.

G. Issue 7:

Has the Church of Scientology operated within Clearwater with activities, policies, practices and business methods which are in violation of local, state and federal law, and which activities and practices have caused, directly or indirectly death, physical, mental and emotional abuse and financial loss to individuals within and without the City?

Conclusion

The Church of Scientology has engaged in a pattern of independent criminal activity, fraud, and deceptive sales practices, and vicious personal attack and abuse, all violative of fundamental human rights. The City should seriously deliberate and consider taking appropriate action to protect individuals within its jurisdiction from policies and practices causing loss of labor, money and property and deleteriously affecting the physical and mental health of those within the City. The City should conduct a public hearing as to fraudulent and criminal activities within the City and thereafter, enact ordinances similar to those proposed, in order to prevent such activity. The City should not undertake to regulate any of the doctrines, beliefs or religious activities, if any, of Scientology. Scientology, on its face, embraces a non-theistic, compilation of doctrinal beliefs, written by Lafayette R. Hubbard, which are arguably religious

in the broadest legal definition adopted by the U.S. Courts. However, there is substantial evidence to warrant the conclusion that Scientology (1) does not encompass belief in a deity, which is one of the traditional tests for religion; (2) does have a structure of authoritative precepts fundamentally opposed to the laws and ethics of our society which precepts condone and encourage the commission of crimes and fraud; and (3) employs a "religious front" for the sole purpose of obtaining money and power. Despite these latter conclusions, the City should not interfere with those beliefs and practices which arguably fall within the ambit of "religious activity" in the broadest legal interpretation. The specific regulatory measures proposed would safeguard legitimate First Amendment free exercise of religion, while protecting the community, and individuals from many of the fraudulent, deceptive and criminal practices of Scientology which appear to be widely employed within and without the City.

III. APPLICABLE PRINCIPLES OF LAW

A. A FLORIDA MUNICIPALITY HAS THE POWER TO REGULATE TAX-EXEMPT ORGANIZATIONS SOLICITING MONEY OR PROPERTY

In most states and in many cities and towns in the United States, ordinances have been enacted which, in varying ways, regulate organizations which are or hold themselves out to be benevolent, civic, educational, fraternal, voluntary health, philanthropic, humane, patriotic, or religious organizations. In most instances, regulation is accomplished by requiring registration, application for and issuance of permits before the organization is allowed to solicit money

or property. The purpose of such an ordinance is generally considered to be that of protecting the public from fraud. See Village of Schaumburg v. Citizens, Etc., 100 S. Ct. 826 (1980) and cases cited therein. The compelling interest of the state or municipality to protect fraudulent practices by organizations operating under the pretext of a charity or a religion is universally recognized in the law. Village of Schaumburg, supra; Cantwell v. Connecticut, 310 U.S. 296 at 306 (1940). League of Mercy Association, Inc., v. City of Jacksonville, 376 So2d 892 (1972); Gospel Army v. City of Los Angeles, 163 P2d 704 (1945); see generally, Delgado, Religious Totalism: Gentle and Ungentle Persuasion Under the First Amendment, 51 Southern California L. Rev. 1 (1977). Societal interests in protecting against such fraud are compelling because there are few fraudulent schemes more easily contrived and executed than those conducted under the aegis of charity or religion.

Florida has enacted a statute entitled "Solicitation of Charitable Funds", Section 496.01 et seq, of the Florida Code, which requires registration, payment of a fee, maintenance and availability of financial records, prohibited acts, enforcement procedures and penalties. The statute has not yet been constitutionally tested, but the Department of State has been regulating "Charitable Organizations", as defined in the statute, pursuant to the provisions thereof. Under the Florida Regulatory Reform Act, the statute is currently being reviewed, and as originally drafted, the statute is being repealed effective July 1, 1982.

The Florida Statute provides that it does not
"preempt any more stringent county or municipal
provision to restrict local units of government

from adopting more stringent provisions, and, in such case, such provisions shall be complied with if the registrant desires to solicit within the geographic district of the local unit of governance" (Emphasis supplied). F.S.A. 496.132

In fact, the City of Jacksonville has adopted such an ordinance, the First District Court of Appeals in Florida has upheld the ordinance, and the Florida Supreme Court has denied further appeal. League of Mercy, supra. In the League of Mercy case, the City of Jacksonville successfully shut down a commercial enterprise operating as a racket religion with enforcement of its ordinance.

In England, an ordinance regulating the taxation of purportedly "religious" property through the use of a permit was specifically upheld against the Church of Scientology. Although the ordinance involved taxation of property as opposed to the regulation of charitable funds, there is analogous application of the principles in that case because a permit was required. In the case of R.v. Registrar General, 3 All ER 886 (1970), a local public official denied a permit to the Church of Scientology which would have exempted from taxation the "Saint Hill Manor", a Scientology-owned property. The English Court upheld the ordinance in that case and the power of the official to refuse the permit in finding that the Scientology property was not "a place of meeting for religious worship" as required by the ordinance. This case is discussed in Section IV C (3) of this Report.

We have carefully reviewed the Florida statute and the Jacksonville ordinance in light of most, if not all, of the pertinent decisions of the United States Supreme Court as well as many of the decisions of other appellate courts

throughout the United States treating the First Amendment problems of free exercise of religion.

Based upon our analysis of these decisions, and of many different ordinances, including the Florida statute and Jacksonville ordinance, it is our opinion and recommendation that the City should enact an ordinance drafted with more "narrow specificity" than those enacted in most jurisdictions, including Jacksonville. We have proposed such an ordinance in Section V (1) of this Report.

The proposed ordinance is recommended to the City based upon the conclusion that it is unwise to enact an ordinance with broad discretionary powers delegated to a public official to issue or not issue permits to "charitable organizations" engaged in solicitation. Such ordinances may be described as "Permit Approval" ordinances as illustrated by the Jacksonville ordinance. Although the Florida Court of Appeals in the League of Mercy case, supra, upheld such an ordinance, and the Florida Supreme Court denied certiorari, the United States Supreme Court has traditionally struck down such ordinances as overly broad. Schneider v. State, 308 U.S. 147 (1979); Cantwell v. Connecticut, 310 U.S. 296 (1970); Jamison v. Texas, 318 U.S. 413; Murdock v. Pennsylvania, 319 U.S. 105 (1943); Martin v. Struthers, 319 U.S. 141 (1943); Thomas v. Collins, 323 U.S. 516 (1945); Hynes v. Mayor of Oradell, 425 U.S. 610 (1976); Village of Schaumburg v. Citizens, Etc., 100 S. Ct., 826 (1980).

The result in the League of Mercy case suggests that enactment of an ordinance similar to the Jacksonville one would

be upheld by the Florida Supreme Court. However, there is a significant probability of an appeal to the United States Supreme Court and a questionable risk as to the result, particularly in light of the cases cited above. There are Justices in the Court, such as Justice Rehnquist, who advocate states' rights, specifically the right of a municipality to regulate the solicitation of charitable organizations with a "permit approval" ordinance. (See his opinion in the Schaumburg case, supra.) The recent appointment of Justice O'Connor, a states' rights advocate, would bolster this view on the Court.

The Schaumburg case and previous cases cited above, and Heffron v. International Society for Krishna Consciousness 49 Law Week 4762 (1981) dealing with this issue, have consistently viewed the First Amendment principles of Free Speech and Free Exercise of Religion to be of such importance that ordinances such as that in the League case, must be drafted with very "narrow specificity". The Court in Schaumburg encouraged proscriptions against fraudulent misrepresentation and detailed disclosure requirements in such ordinances as opposed to the broadly discretionary "permit approval". We have adopted this approach in the proposed ordinance. Compare U.S. v. Church of Scientology, 520 F 2d 818 (9th Cir. 1975); Bourgeois v. Landrum 396 So. 2d 1275 (1981) and Surinach v. Pesquera de Busquets, 604 F 2d 73 (1979).

The Florida "Solicitation of Funds" statute, Section 496.01, has both permit requirements and it has broad disclosure requirements requiring "charitable organizations" to provide financial records and relevant information to the Department of State. The statute contains various prohibited acts and provides for administrative proceedings for:

"purposes of enforcing the provision...(of the statute) and in making investigations relating to any violation thereof, for purposes of investigation of character, competence or integrity of any organization, and for purposes of investigating practices and business methods thereof."
Section 496.021 (6)

Although the statute has never been constitutionally tested, one of its sections (Section 496.11[8]) appears to be in violation of the Schaumburg case. Portions of the statute could be enacted by the City of Clearwater which would, based on existing precedent, pass constitutional muster, and also provide significant local regulatory authority. This power would include identification of those soliciting funds, maintenance and availability of the organization's records, and public hearings to determine whether the organization is violating the criminal law or engaged in fraudulent practices, with attendant penalties. The Supreme Court in Cantwell, supra, and Schaumburg, supra, suggested that such measures are constitutionally valid.

We have incorporated narrowly drawn measures of this type in the proposed ordinance set forth in Section V (1).

B. MUNICIPAL AUTHORITY TO ENACT A CONSUMER PROTECTION ORDINANCE

The Federal Government, most states and many municipalities have enacted what have been commonly referred to as "consumer protection" laws. Although there is a limited body of case decisions interpreting these laws because of their relatively recent origin, the underlying rationale for such laws is to prevent fraud and to provide for governmental action against such fraud.

The Federal Trade Commission Act, 15 U.S.C §45, serves as the model for many of the state and municipal laws. Both the federal act and state statutes are designed to prohibit false and misleading representations in the sale of goods or services, preventing unfair competition and prohibiting the use of a "bait and switch" scheme to lure unwitting consumers into higher-priced transactions. See generally 89 A.L.R. 3rd 399 and 449 (1979).

In 1973, Florida enacted a "deceptive and Uniform Trade Practices" act which is modeled upon the Federal Trade Commission Act. F.S.A. 501.201 et seq. Florida refers to its act as the "Little FTC Act". In the case of Department of Legal Affairs v. Rogers, 329 So2d 257 (1976), the Florida Appellate Court held that the "Little FTC Act" properly proscribed unfair methods of competition and unfair or deceptive acts or practices; that "great weight" should be given to interpretations of the Federal Trade Commission Act; and that the "Little FTC Act" did not constitute an unlawful delegation of legislative authority to the administrative agency enforcing the act according to federal trade law standards.

The "Little FTC Act" gives to the State Attorney and the Department of Legal Affairs the authority to enforce the act through various remedies set forth in the act. These remedies include the power to obtain a declaratory judgement, injunctive relief, to recover actual damages on behalf of victims, and the power to hold administrative hearings to investigate violations of the Act.

The "Little FTC Act" specifically provides that the Act "is supplemental to and makes no attempt to preempt, local

consumer protection ordinances not inconsistent with the Act. F.S.A. 501.213 (2). (Emphasis supplied) The Florida Supreme Court in the case of Pinellas County, Etc. v. Castle, 392 So 2d 1292 (1981) specifically held that Pinellas County was constitutionally authorized to enact its own consumer protection law and that the changes made by the Pinellas consumer protection law did not violate due process. Thus, it appears that under the provisions of the "Little FTC Act" and by case decision of Florida's highest court, the City of Clearwater could properly enact a consumer protection ordinance designed to prohibit fraud and unfair competition.

The fact that a local consumer protection ordinance might be applicable to the acts or conduct of a non-profit, charitable or religious organization, as well as to any other individual or entity, does not render the ordinance unconstitutional. The law certainly does not give special protection to a religious organization committing crimes, torts or deceptive practices, which consumer protection laws are designed to prevent. See U.S. v. Ballard, 322 U.S. 78 (1944) ^{dismissed} ~~dismissed~~ infra.

A consumer protection law such as that proposed in Section V of this Report, has been made applicable to a religion. In the case of F.E.L. Publications v. National Conference of Catholic Bishops, 466 F. Supp. 1034 (1978), a Federal District Court in Illinois held that the Illinois deceptive trade practices act applied to alleged unfair competition and deceptive acts by a conference of Catholic bishops. The court in that case rejected the bishops' claim of First Amendment protection for the alleged wrongful acts holding that the case did not involve an intra-church dispute, but whether the copyright,

unfair competition and consumer protection law were violated.

In numerous lower court cases, some of which are still in litigation or on appeal, the Church of Scientology has moved to dismiss claims brought by individuals alleging violation of consumer protection laws, as well as fraud, the unlicensed practice of medicine, intentional infliction of emotional distress, violations of minimum wage laws, violations of racketeering laws, and other miscellaneous claimed wrongs. In all of those civil cases, in a variety of court proceedings involving criminal indictments and convictions, the Church of Scientology has attempted to dismiss the case or proceeding on the grounds of freedom of religion. The courts have almost unanimously rejected this defense. The cases set forth in Section IV (C) of this Report outline most of these cases.

Appellate or reported case decisions involving the relationship between a purported religious organization, the right of the state to protect its citizens from crime or fraud and the free exercise clause of the First Amendment have been rendered by many American courts.

The protection provided by the First Amendment to the U.S. Constitution to organizations claiming religious status is not absolute. Where representations are involved, a party is immune to liability only if his representations are (1) religious in character and (2) made in good faith. Where actions are involved, a party always remains subject to judicial review to achieve sufficiently important state objectives, and cannot cloak himself with the First Amendment

to commit otherwise tortious acts.

Fraudulent Misrepresentations

The U.S. Constitution gives every person the absolute right to believe what he or she wants, but does not create a license to do or say anything in the name of religion. In Cantwell v. Connecticut, 310 U.S. 296, 303-4, the Supreme Court stated:

"The Amendment embraces two concepts, --- freedom to believe and freedom to act. The first is absolute but, in the nature of things, the second cannot be."

In Cantwell, the Court struck down a state criminal statute barring the solicitation of money by a religious organization without the prior approval of the Secretary of a state agency. The Court, however, made it very clear that its decision did not apply to fraudulent practices:

Nothing we have said is intended even remotely to imply that under the cloak of religion persons may, with impunity, commit frauds upon the public...the state is...free to regulate the time and manner of solicitation generally, in the interest of public safety, peace, comfort, or convenience.

In U.S. v. Ballard, 322 U.S. 78 (1944) the Supreme Court specifically dealt with the issue of a First Amendment "religion" defense in a fraud case. In Ballard the "I Am" movement was charged with mail fraud for soliciting funds through false representations. The defense was that the representations were religious in nature and therefore immune from inquiry. The Federal District Court had ruled with the acquiescence of all counsel that the representations were religious in nature and that the standard to be applied in instructions to the jury was not the truth or falsity of the assertions

made by the defendants but:

"Did these defendants honestly and in good faith believe those things?" (322 U.S. at 81)

On review the Supreme Court approved and adopted this "good faith" standard. The Court stated:

"...We conclude that the District Court ruled properly when it withheld from the jury all questions concerning the truth or falsity of the religious beliefs or doctrines of respondents." (322 U.S. at 88)

The Court approved the following jury instructions:

"You are not to be concerned with the religious belief of the defendants, or any of them. The jury will be called upon to pass on the question of whether or not the defendants honestly and in good faith believed the representations which are set forth in the indictment, and honestly and in good faith believed that the benefits which they represented would flow from their belief to those who embraced and followed their teachings, or whether these representations were mere pretense without honest belief on the part of the defendants or any of them, and, were the representations made for the purposes of procuring money, and were the mails used for this purpose." (322 U.S. at 82)

This "good faith" standard has stood for thirty-five years and been applied in a variety of contexts, notably selective service litigation. See U.S. v. Seeger, 380 U.S. 163 (1964). The rule means simply that where a religious defense is interposed, the jury may not look into the truth or falsity of a religious belief but only the question of whether the belief is sincerely held. Conversely, a defendant raising a "religion" defense may be required to show that he holds his beliefs sincerely and not as a mere pretext for some other purpose.

In Ballard, as noted, there was no factual controversy

whether the representations were religious in nature. It is clear, however, that before a defendant can interpose a "religion" defense he must establish that his representations were religious and not secular. U.S. v. Carruthers, 152 F2d 512 (7th Cir., 1946). Carruthers was also a mail fraud case. The decision stresses the importance of distinguishing between religious and secular representations. The defendant's representations included both secular and religious promises. He claimed to be a Doctor of Medicine and Divinity and to have studied in Tibet and England. He administered to both religious and physical needs of the Foundation's "students" and made numerous representations in both categories. The Court of Appeals, in affirming the conviction, held that a jury could properly determine into which category the representations belonged, secular or religious. If the representations were of a religious nature, the "good faith" test of Ballard would apply; if they were secular the jury would judge them by ordinary common law standards of fraud. The jury instructions in Carruthers stated, in part:

You are further instructed that representations of the defendants, or any of them, concerning or relating to the subject of breathing, silence, and positions of persons during sleep, if you believe that they are matters within the field of religion, as taught the defendant Carruthers, and the truth or falsity of such representations, if any, may not be questioned in any way by you in arriving at your verdict in this case. (152 F2d at 517)

Thus, Ballard and Carruthers, taken together, clearly state that when a "religion" defense is raised, a jury may first determine whether the particular representations are religious, and if they are, may further question whether they are sincerely held. Both these factual hurdles must be cleared before First Amendment immunity attaches. Only the truth or falsity of sincerely held religious beliefs are immune from inquiry under the First Amendment.

The activities and representations of a purported religion, namely the Church of Scientology, have been tested under the Ballard and Carruthers standards in two related cases decided in the District of Columbia, Founding Church of Scientology v. U.S., 409 F. 2d 1146 (D.C., 1969), and United States v. Article or Device, 333 F. Supp. 357 (D. Ct. D.C., 1971).

Founding Church involved an effort by the Federal Government to condemn the "E-Meter" under the Food and Drug laws, (the "E-Meter" is a crude lie detector used by the Scientologists during auditing). The issue was one of "mislabeling", and the government was required to show false secular representations regarding the uses and benefits of the device. In the course of the trial a great many representations were proven and submitted to the jury. The Court of Appeals found that some of these were clearly secular, but that some were of a religious nature. The Court concluded that in view of the manner in which the evidence was submitted to the jury, there was a possibility that they had rendered a verdict based on an evaluation of the truth or falsity of some of the religious representations. This was held to violate the Ballard doctrine. It should be noted that in Founding Church, the government made no effort to attack the "good faith" of the religious representations involved. Thus, the Court expressly refrained from making certain holdings:

(1) We do not hold that the Founding Church is for all legal purposes a religion. Any prima facie case made out for religious status is subject to contradiction by a showing that the beliefs asserted to religious are not held in good faith by those asserting them, and that forms of religious organizations were erected for the sole purpose of cloaking a secular enterprise with the legal protections of a religion.

(2) We do not hold that, even if Scientology is a religion, all literature published by it is a religious doctrine immune from the act.
409 F. 2d 1162.

The Court thus made it clear that on retrial the government could secure a conviction by showing either secular misrepresentations, or religious representations not held to be in good faith.

The case was then retried, and an opinion issued by the District Court entitled United States v. Article or Device (supra). The Court's opinion directly and forcefully confronts the issue of claimed First Amendment protection by Scientology. The judge noted, initially, that Scientology representations are to some extent an admixture of secular and religious claims.

A few of these writings are primarily religious in nature. Others contain medical or scientific claims in a partially religious context. Most of the material, however, explains aspects of Scientology and Dianetics in purely matter-of-fact medical and scientific terms without any apparent religious reference. 333 F. Supp. at 361

On retrial the government again made no effort to attack the "good faith" of the defendant's religious claims. Thus, to comply with the Founding Church decision the trial court considered only those claims which were clearly secular. The trial court in Article or Device had no difficulty separating secular from religious claims. The Court stated:

The bulk of the material is replete with false medical and scientific claims devoid of any religious overlay or reference. 333 F. Supp. at 361 (Emphasis supplied)

The Court also stated:

...it is a gross exaggeration to insist that the energetic, persistent solicitation of E-Meter audited cures for a fee has all occurred in a spiritual setting without use of a secular appeals and false scientific promises made in a wholly non-religious context. 333 F. Supp. at 360

Finally, the Court set forth in an appendix to the decision

a listing of Scientology publications which it concluded to be secular misrepresentations.

Tortious and Illegal Acts

As noted above, the First Amendment confers absolute protection for religious beliefs, but does not necessarily confer immunity for actions, even if they are religiously motivated. See Cantwell v. Connecticut, supra. Over the years many restraints upon action have been upheld even though they run afoul of particular citizen's religious beliefs. These included laws restricting child labor, Prince v. Massachusetts, 321 U.S. 158 (1944)., compulsory blood transfusions, Jehovah's Witnesses v. King County Hospital, 390 U.S. 598 (1968). In short, action may be regulated whenever the state has a sufficiently important objective.

The guarantee of a judicial remedy for intentionally inflicted torts is clearly an important state objective. See Turner v. Unification Church, 473 F. Supp. 367 (D.C.R.I., 1978). In Turner, the Court stated:

In ruling on this motion, the Court initially finds that the free exercise clause of the First Amendment does not immunize the defendants from causes of action that allege involuntary servitude or intentional tortious activity. 473 F. Supp at 371

There appear to be no case decisions which hold that activity which is otherwise tortious is excusable simply because it was committed by a religious organization or for religious reasons. Nor would such a rule be compatible with established constitutional principles. In effect, a grant of such immunity for otherwise illegal activity would convert the First Amend-

ment, which is intended to be a shield against government interference, into an offensive weapon. Furthermore, the granting of such immunity would come dangerously close to the establishment of religion, also forbidden by the constitution, since it would give a significant legal advantage to those persons and entities claiming "religious" motive which it withheld from a non-religiously motivated person.

Therefore, a consumer protection ordinance, such as that proposed and discussed in Section V (2) of the Report, implemented and enforced to proscribe fraudulent practices should withstand constitutional attack.

C. MUNICIPAL AUTHORITY TO TAX ORGANIZATIONS CLAIMING TAX EXEMPT STATUS

Tax exemptions have existed since biblical times, and today all of the fifty states allow tax exemptions for places of worship. Walz v. Tax Commission of the City of New York, 397 U.S. 664 (1970). State and Federal Statutes and many state constitutions provide tax exemptions for various charitable, non-profit, religious, educational and scientific organizations. An applicant who seeks exemption from a state or federal tax bears the burden of demonstrating qualification. Dickinson v. United States, 346 U.S. 389, 74S. Ct. 152 (1953). This part of the Report requires an examination of the burden on those organizations which seek a religious exemption from state and federal taxation, and the criteria by which the taxing authority determines exemption.

Religious Exemption

The First Amendment forbids the federal and state governments from enacting legislation which prohibits the free exercise of religion or which tends to favor or establish one religion. U.S. Constitution Amendment 1. However, the Supreme Court has held that granting a tax exemption to a bona fide religious organization does not violate the establishment clause of the First Amendment. Walz v. Tax Commission of the City of New York, supra. The Supreme Court has not decided whether taxing religious properties would constitute a violation of the free exercise clause of the First Amendment. Walz, supra.

Keeping First Amendment considerations in mind, an organization must qualify as a religion to claim exempt status. Otherwise, any organization masquerading as a religious entity, could qualify for a tax exemption. The taxing authority is empowered to determine whether an organization qualifies for tax exempt status. Whether the taxing authority is the state or federal government, the criteria for determining religious exemption is contained in case and statutory law. The statutory schemes which regulate religious exemptions provide for administrative remedies for an aggrieved applicant. Assuming an applicant is denied exemption and has exhausted his administrative remedies, resort may be had to the courts. Many exemption-denied organizations have sought judicial relief which has created a body of federal and state case law concerning the necessary criteria for qualification for a religious tax exemption. This case law will serve as a useful guide when applying Florida's Statutory scheme in determining and granting tax exemptions for religious organizations.

Florida Law

The Florida Legislature has enacted statutes which create exemptions for various organizations and entities. See generally, Florida Statutes Annotated, Ch. 196. Section 196.19 creates an exemption for religious organizations and Section 196.192 exempts all property used exclusively for exempt purposes from ad valorem (property) taxes. Likewise, the Florida Constitution grants an exemption for religious organizations. FLA. CONST. art. VII, §3. Most critically, the exemption for religious organizations is based upon the purpose for which the property is held and the manner in which the property is used. 1963 Op. Atty. Gen. 063-138, Nov. 13, 1963. Central Baptist Church of Miami, Fla., Inc., v. Dade County 216 So. 2d 4 (1968). The mere fact that the title to real property is vested in a religious organization is not sufficient to show a right to tax exemption as the applicant must demonstrate that the property is used exclusively for religious purposes. Op. Atty. Gen. 066-17, March 11, 1966. An applicant seeking exemption for a religious organization must affirmatively demonstrate that the property is actually held and used exclusively for religious purposes. Moffett v. Ashby, 139 So. 2d 133 (1962); Dr. William Howard Hay Foundation v. Wilcox, 156 Fla. 704, 24 So. 2d 237 (1946); Op. Atty. Gen. 071-56, April 5, 1971.

A religious organization that seeks a tax exemption must file an application for exemption with the county tax assessor. The application must list the property for which the exemption is sought and certify its ownership and use. F.S.A.

196.011. Once the property appraiser receives an application for exemption, he shall determine the following:

- (a) whether the applicant falls within the definition of any one or several of the exempt classifications
- (b) whether the applicant requesting exemption uses the property predominantly or exclusively for exempt purposes
- (c) the extent to which the property is used for exempt purposes

See F.S.A. §196.193 (3) (a) - (c).

The property appraiser shall apply the following criteria in determining whether an organization qualifies for a religious tax exemption:

- (a) the nature and extent of the religious activity of the applicant, a comparison of such activities with all other activities of the organization and the utilization of the property for religious activities as compared with other uses.
- (b) the extent to which the property has been made available to groups who perform exempt purposes, at a charge that is equal to or less than the cost of providing the facilities for their use, or the extent to which services are provided to persons at a charge that is equal to or less than the cost of providing such services. Such rental or service shall be considered as part of the exempt purposes of the applicant.

See F.S.A. 196.196.

The property appraiser may not grant a tax exemption for a religious organization if it is a profit organization. F.S.A. 196.195 (4). The Florida Legislature has set the following criteria for determining profit or non-profit status of an applicant seeking a religious tax exemption:

- (a) the reasonableness of any advances on payment directly or indirectly by way of salary, fee, loan, gift, bonus, gratuity, drawing account, commission, or otherwise (except for reimbursements of advances for reasonable out-of-pocket expenses incurred on behalf of the applicant) to any person, company, or other entity, directly

or indirectly controlled by the applicant or any officer, director, trustee, member, or stockholder of the applicant;

- (b) the reasonableness of any guaranty of a loan to, or an obligation of, any officer, director, trustee, member or stockholder of the applicant or any entity directly or indirectly controlled by each person, or which pays any compensation to its officers, directors, trustees, members, or stockholders for services rendered to or on behalf of the applicant;
- (c) The reasonableness of any contractual arrangement by the applicant regarding rendition of services, the provision of goods or supplies, the management of the applicant, the construction or renovation of the property of the applicant, the procurement of the real, personal, or intangible property of the applicant. On other similar financial interest in the affairs of the applicant;
- (d) the reasonableness of payments made for salaries for operation of the applicant or for services, supplies and materials used by the applicant, reserves for repair, replacement and depreciation of the property of the applicant, payment of mortgages, liens, encumbrances upon the property of the applicant, or other purposes;
- (e) the reasonableness of charges made by the applicant for any services rendered by it in relation to the value of those services.

See F.S.A. 196.195 (2) (a) - (e).

In summary, the property appraiser's function is twofold: first, the appraiser must determine the nature and extent of the applicant's religious activities and the purpose for which the property will be used. F.S.A. 196.196; second, the appraiser must determine that the religious organization is a non-profit entity. F.S.A. 196.195.

Assuming the property appraiser determines that an applicant fails to qualify for a religious exemption, the appraiser must notify the applicant, who is entitled to an appeal to the property appraisal adjustment board. F.S.A. 196.193, 196.194. The board must review the decision of the property appraiser and apply the statutory criteria (supra) in reviewing the ap-

praiser's decision. F.S.A. 196.193.

The Florida Courts have considered laws in which the appraiser must determine the nature and extent of the applicant's religious activities and the purpose for which the property will be used. F.S.A. 196.196; secondly, the appraiser must determine that the religious organization is a non-profit entity. F.S.A. 196.195.

Assuming the property appraiser determines that an applicant fails to qualify for a religious exemption, the appraiser must notify the applicant, who is entitled to an appeal to the property appraisal adjustment board. F.S.A. 196.193, 196.194. The board must review the decision of the property appraiser and apply the statutory criteria (supra) in reviewing the appraiser's decision. F.S.A. 196.193.

The Florida courts have considered cases in which a religious entity was denied exemption from property tax. However, these cases address the character of the property use and not the nature and extent of the applicant's religious activities. The Florida courts have not addressed the issue of religious exemption based on the profit character of the applicant. Although the Florida courts may rely on the statutory criteria for determining the non-profit and religious character and use of property owned by entities seeking religious exemption, resort may be had to the case law of other jurisdictions. Some foreign courts, the Internal Revenue Service and the U.S. Tax Courts have examined the nature and extent of an organization's activities and the intended use of property in determining whether an applicant qualifies

for religious exemption. A limited examination of those cases is helpful.

Foreign Jurisdictions Consider
The Religious Exemption

As suggested, Florida courts may consider opinions of other courts in interpreting the definition of religious purpose as it pertains to the exemption granted by F.S.A. 196.19. Recently, the application of the Unification Church (Moonies) for a religious exemption was denied by the tax commissioner for the City of New York. Holy Spirit Association, Etc. v. Tax Commissioner, Etc., App. Div. 438 N.Y.S. 2d 521 (1981). New York's Supreme Court rejected the Church's contention that its primary purpose was religious. The Court stated:

By denying petitioner (Unification Church) tax exemption, this Court is not limiting petitioner's freedom to practice its beliefs and disseminate its doctrine; rather it is merely declaring that petitioner is not organized and conducted in the manner required by law to entitle it to a tax exemption. 438 N.Y.S. 2d at 530

The court noted that the Unification Church's primary purpose was not religious since its buildings were being used to espouse political and economic opinions. 438 N.Y.S. at 530. The Court reasoned that a denial of religious exemption for the Unification Church was "consistent with a legislative intent 'to stem the erosion of municipal tax bases by permitting local governments to terminate exemptions for non-profit organizations other than those conducted exclusively for religious, ... purposes' ". 438 N.Y.S. at 531.

The court was not reluctant in expressing its duty to scrutinize those entities claiming religious exemptions:

We are compelled to conduct a broad inquiry into petitioner's doctrine and activities in order to determine whether petitioner qualifies for the tax exemption provided by law... Courts can and will, however, examine such beliefs to determine whether they exhibit the minimum requirements of a religion. 438 N.Y.S. at 526

In the Unification Church case, Justice Birns applied the theistic definition of religion, a belief in a Supreme Being who is superior to all things in the universe, 526 N.Y.S. at 526, and found that the Unification Church met that minimal standard. However, the Court concluded that the Unification Church espoused political and economic doctrine which defeated any claim that the Church was organized for religious purposes. 526 N.Y.S. 528. Consequently, the Church was denied tax exemption.

Other courts have applied a more liberal definition of religion when interpreting "religious purposes" as the phrase pertains to religious exemption applicants. In Fellowship of Humanity v. County of Alameda, 153 Cal. App. 2d 693, 315 P. 2d 394 (1957) the Court considered a claimed exemption from property tax predicated upon religious use. The Court refused to consider the theistic definition of religion, i.e., belief in a Supreme Being, but defined religion in the following manner:

1) a belief, not necessarily referring to supernatural powers; 2) a cult, involving a gregarious association openly expressing the belief; 3) a system of moral practice directly resulting from an adherence to the belief; and 4) an organization within the cult designed to observe the tenets of belief. The content of the belief is of no moment. 315 P. 2d at 406

The Court recognized that the applicant lacked belief in a Supreme Being but reasoned that the applicant's activities were similar in all respects to those of a theistic religious

group.. The Court concluded that the property was used for religious purposes.

As demonstrated, Courts define the word religion differently for purposes of determining qualification for religious exemption. Apart from the concern for theistic or non-theistic belief, Courts will examine an applicant's activities to determine if the property is being used for "religious purposes". Many cases decided by the United States Tax Court and regulations issued by the Internal Revenue Service reflect this approach.

Internal Revenue Service and Application for
Religious Tax Exemption

The Internal Revenue Service has considered numerous applications for religious tax exemption, and has developed a two-prong inquiry to assist in the determination of qualification for religious exemption: the organizational test and the operational test.

A. Organizational Test

An organization seeking a tax exemption must first demonstrate that it is organized exclusively for a religious purpose, I.R.C. 501 (c) (3). The Internal Revenue Service has not rendered a definition of "religious purpose" and the Supreme Court has been reluctant to announce a constitutional definition of religion, as the Court refuses to inquire into the truth or falsity of one's religious beliefs. United States v. Ballard, 322 U.S. 78, (1944). Therefore, courts may not evaluate the content of an organization's doctrine to determine if the organization qualifies for a religious ex-

emption. Founding Church of Scientology v. United States, 409 F. 2d 1146 (D.C. Cir.), cert. denied, 396 U.S. 963 (1969). The Service or a state taxing authority may consider the "sincerity" of an organization's purported religious beliefs, United States v. Ballard, 322 U.S. 78 (1944); Teterud v. Burns, 522 F. 2d 357 (8th Cir. 1975). If the taxing authority finds that the applicant does not sincerely believe the espoused beliefs, the tax exemption may be denied.

B. Operational Test

The Internal Revenue regulations require that an organization engaged primarily in activities which accomplish one or more exempt purposes, Reg. §1.501 (c) (3) - 1 (6) (1), forbid the net earnings to inure to the benefit of a private shareholder or individual, Reg. §1.501 (c) (3) - 1 (c) (2), and forbid the organization from serving a private interest, Reg. §1.501 (c) (3) - 1 (d) (i) (ii). If the above regulations are violated the organization will have failed to meet the operational test, i.e. it was not operating exclusively for religious purposes.

The "primary activity requirement" requires that a substantial part of an organization's activities be in furtherance of an exempt purpose. Better Business Bureau of Washington, D.C. v. United States, 326 U.S. 279, 283 (1945). In The Church in Boston, 71 T.C. No 9 (1978), the Tax Court upheld the denial of an organization's application for religious exemption and held that the Church had engaged in substantial non-profit activities by granting substantial portions of funds to indi-

viduals. In Western Catholic Church, 73 T.C. No. 19 (1979), the Tax Court upheld the Internal Revenue Service's revocation of the Organization's religious exemption for failure to operate for an exempt purpose. After a review of the evidence the Court concluded that the Organization's primary activity was accumulating money and making investments.

The public interest requirement forbids an organization from serving a private rather than public interest. Reg. §1.501 (c) (3) - 1 (d) (i) (ii). An organization must demonstrate that it does not function for the benefit of the creator or his/her family, designated individuals or any person controlled by the creator, or his/her family. Unity School of Christianity, 4 B.T.A. 61, 69 (1926); Rev. Rul. 77-430 1977 - 2 C.B. 194.

Finally, organizations are prohibited from permitting inurement of their net earnings to any private individual. Courts will examine the following factors to determine if funds inure to the benefit of a private person:

- 1) the individual controls the disposition of the organization's funds;
- 2) the funds are transferred to the controlling individual or to persons controlled indirectly or directly by him; and
- 3) the fund transfer is not an ordinary and necessary expenditure of the organization, thus resulting in a benefit to the individual.

See Founding Church of Scientology, 412 F. 2d 1146, 1200.

The reasoning implemented by the Service when interpreting "religious purpose" and the opinions of the Tax Court, rendered upon review of the Service's rulings, may serve as a guide for the property tax assessor for Pinellas County

when reviewing an application for religious exemption.

D. MUNICIPAL AUTHORITY TO LIMIT EXPANSION OF PURPORTED
"CHURCH FACILITIES" IN THE "DOWNTOWN DEVELOPMENT AREA"

Florida law very clearly affords county and municipal authorities the right to reasonably regulate the location of churches and church facilities. See Town v. State ex rel Reno 377 So.2d 648 (Fla. 1980) appeal dismissed. 101 S. Ct. 48. Florida differs from several other states in this regard. While courts in some of these states have held that First Amendment considerations take precedence over zoning laws, the Florida Supreme Court has consistently taken an opposite view, and its decisions have not been disturbed by the United States Supreme Court. See Town v. Reno ex rel State, *supra*; Miami Beach United Luther v. City of Miami Beach 82 So.2d 880 (Fla. 1955); Pylant v. Orange County 328 So.2d 199 (Fla. 1976); see also Town of Hialeah v. Hebraia Community Center 309 So.2d 212 (D. Ct. App. 1975); Trachsel v. City of Tamarac 311 So.2d 137 (D. Ct., App. 1975) Board of Commissioners of Dade County v. First Free Will Baptist Church 374 So.2d 1055 (D. Ct. App. 1979).

These decisions approve a fairly broad range of zoning regulation of church buildings. In Board of Commissioners of Dade County v. First Free Will Baptist Church, *supra*, a regulation was upheld which permitted churches only in RV-3 zoning (4-unit apartment). In that case the Court upheld a zoning decision to deny a permit for a church in an agricul-

tural zone. In Town v. State ex rel Reno, supra, the Court upheld a zoning ordinance which excluded churches from single family residence zones. In the Pylant and Miami Beach cases, Courts approved zoning churches out of single family zones.

Other pertinent legal rules have developed. A new zoning ordinance, in order to withstand judicial scrutiny, need only be "fairly debatable". See the Trachsel case. Zoning ordinances may be justified by a change in a neighborhood. See Trachsel. Finally, zoning may be tailored with the intention of preserving existing property values, and there are many Florida cases which so hold.

With particular reference to churches, the Courts have been particularly unsympathetic to church groups which purchase properties in areas where zoning prohibited the location of churches prior to the purchase, and then attempted to overturn the zoning rule with a First Amendment argument. See Town v. State ex rel Reno. This is particularly so where there are other areas of the city in which churches are allowed. Furthermore, the Florida Supreme Court has not accepted the First Amendment argument as a basis for the "upset" of a comprehensive municipal plan. See Miami Beach.

The City of Clearwater has designated a Downtown Development District and is presently considering a revamping of its zoning laws which will, among other things, create a zoning corollary to the Downtown Development Area. This may be called the Downtown Development District. At the present time there is an unusually high and apparently growing

concentration of purported church facilities in the Downtown Development District. In deliberating on the adoption of a zoning ordinance for the Downtown Development District, the City should carefully consider the following factors:

- 1) What is the present concentration of church facilities in the Downtown Development District?
- 2) What has the effect of such concentration been on the business and commercial life of the area and on the property values of the area?
- 3) What is the projected expansion of church facilities in the area?
- 4) What effect would continued expansion of church facilities in the area reasonably be expected to have on the goals and objectives of the Downtown Development Area?

If the City were to adopt a zoning ordinance restricting expansion of church facilities in the Downtown Development Area (or conditioning it on a special permit or exception), it is likely that a church group or groups may attempt to test the validity of the ordinance with litigation. It is foreseeable that a group seeking to expand in contravention to the ordinance would allege that the ordinance is invalid because it constitutes ethnic, religious, or invidious discrimination. See Town of Hialeah v. Hebraia Community Center, supra. Where such an attack is mounted against an ordinance the Court will ordinarily make a close examination of the record of the deliberations of the body which adopted the ordinance. Accordingly it is important that the City Commissioner, in considering this issue, consider only those factors which are regarded as valid objects of zoning regulation (see above) and avoid irrelevant or inflammatory matters.

E. MUNICIPAL AUTHORITY TO REGULATE THE PRACTICE OF PSYCHOLOGY
AND PSYCHOTHERAPY

There are three possible approaches to the regulation of psychotherapy. These are 1) taxation, 2) registration, and 3) substantive regulation. The advantages and disadvantages are discussed, infra.

SCIENTOLOGY AS THE PRACTICE OF
PSYCHOLOGY AND PSYCHOTHERAPY

The practices of Scientology undoubtedly constitute psychotherapy. Among the various psychotherapeutic claims of Scientology are increased I.Q., increased interpersonal communication skills, improved memory, freedom from neurosis and anxiety, marital and family harmony, and cures for drug addiction and psychosomatic illnesses. All of these benefits are claimed to be achieved by a process of "auditing" identical to psychotherapy. An auditor, on a paid hourly basis, interviews a "pre-clear" intensively about the details of his emotional life, while using a lie-detector (the "E-Meter") to sharpen his questioning. The auditor keeps notes of everything that is said. He propounds various words to the pre-clear such as "sex", "excreta", "masturbation", "eating human bodies", "dirty words", "saliva", "semen", "urine", "bestiality", "homosexuality", "bowels", and "genitalia". If the auditor detects a response on the E-Meter at the suggestion of the word, he focuses in on it, as he believes that he has found an "engram". Basically, an "engram" is an imprint on the subconscious mind caused by a negative experience in this or a past life. For example, if one had a traumatic experience as a child with a dog, words such as "dog", "bark", or "bite", might trigger a response on the

E-Meter. Supposedly, engrams prevent us from "handling" certain situations effectively when they are triggered. The entire process is represented as having a scientific basis and stated to be the product of "research". The "pre-clear" is told that the process, if carried through, is guaranteed to achieve results. No appeal to faith or religious belief is involved. See discussion infra, Section IV B.

Hubbard himself has written that the process is a form of psychotherapy. He explains how Scientology is related to Freudian thought. At one point he described Scientology as the "world's largest mental health organization". Although Scientology very deliberately began calling itself a religion in the late 1960's in an effort to achieve certain legal and tax benefits, the nature of the "auditing" process has not changed since the time when Hubbard was aggressively selling his process as a science. Regardless of what Hubbard says or said, however, it is obvious that auditing is essentially psychotherapy.

1. TAX APPROACHES. Under present Florida law, it seems clear that the City has the power to levy an occupational tax on psychotherapists. Florida Statutes (1979) ch. 205 specifically grants municipalities the authority to levy occupational license taxes.

At the present time, however, the authors of this report do not recommend such an approach for the following reasons:

- a) Any such tax would have to be set at a reasonable, non-burdensome amount. Too large a tax would be subject to invalidation on the basis that it was a covert form of regulation and an improper use of taxing power. See Consolidated City of

Jacksonville v. Dusenberry, 362 So.2d 132

(D. Ct. of App., 1978).

- b) The tax would be politically unpopular with other practitioners.
- c) The Scientologists would simply refuse to pay the tax, claiming religious status under Fla. Stat. (1979) ch. 205, 191. A legal battle would ensue. Although the City would undoubtedly win in the end, the cost of litigation would certainly exceed expected revenues.

2. REGISTRATION APPROACHES. In 1979 the Florida legislature repealed then existing state statutes regulating the practice of psychology. Accordingly, the state preemption in this area has been removed. Whereas municipalities were formerly unable to enact ordinances in this area, (see Board of County Commissioners of Dade County v. Boswell, 167 So.2d 866 (Fla., 1964), they presumably are now free to regulate.¹

The least intrusive form of regulation, and the one most immune to constitutional attack, is registration. By this, we mean, "informational" registration. The City could require anyone intending to practice psychotherapy to register and provide, under pains of perjury, background information, including his name, address, employer, educational background, professional experience, previous names and address, criminal convictions, disciplinary actions, suspensions, and legal actions in other areas and states, etc. The disclosure of this type of information is common in most professions, is vitally important for the protection of the public interest, and is easily defensible as a course of action for the City.

¹ An argument could be made, albeit weak, that the state repeal now preempts any regulation at all.

In the case of Scientology, adoption and enforcement of such a provision would provide the public with vital information. Many Scientology "auditors" have backgrounds which belie their exaggerated claims of experience and expertise. Some of them have backgrounds which raise substantial questions about their moral character.

The information would inform the public about the background of "auditors". It would also assist members of the public who feel they have been wronged in seeking remedies at law by establishing facts regarding the whereabouts, affiliations, and histories of particular "auditors".

3) SUBSTANTIVE REGULATION. As noted, above, the City is now free to enact substantive regulations for the practice of psychotherapy (see footnote 1, above; see also, Bd. of Comm. v. Boswell, supra).

It is well-settled in American law that the regulation of psychological practice is a valid exercise of the state's police power. So long as the requirements relating to education, skill and certifying examination bear a direct, substantial and reasonable relationship to the practice of psychology, the state may set reasonable standards for determining qualification of those who hold themselves out as psychologists and may also grant to an administrative body the authority to enforce those standards. Oliver v. Com. Dept. of State, Pennsylvania Board of Psychologist Examiners, 404 A.2d 1386, 45 Pa. Comm'lth. 195, Nelles v. Bartlett, 145 N.W.2d 795, 5 Mich. App. 47, app. diss. cert. den., 88 S. Ct. 85, 389 U.S. 9, 19 L. Ed. 2d 791. Among the other regulated professionals are social workers, alcoholism counselors, and marriage and family counselors.

Licensing or certifying statutes, as typified by the repealed Florida statutes (Chapter 490), generally specify the qualifications for psychological practice:

1) Personal Characteristics such as being of "good moral character" and conformance to the "ethical standards of the profession as adopted by the board". Some statutes particularize certain disqualifying acts such as homosexual behavior.

2) Formal Education as manifested by "entry level professional degrees" such as M.A.'s, Ed. M's, or PH.D.'s. Statutory schemes that fail to exempt on "grandfather" practitioners who have substantial experience but lack the requisite degrees have been stricken as deprivations of economic interests. See Berger v. Board of Psychological Examiners, 521, F.2d 1056 (D.D.C. 1975); Whittle v. State Board of Examiners of Psychologists, 483 P. 2d 328 (Okla. 1971),.

3) Practical Experience under the supervision of or association with a licensed psychologist. Florida required two (2) years or 4,000 hours of full-time experience in the field of psychology.

4) Examination by a state licensing or certification board. The Florida State Board of Examiners of Psychology consisted of five (5) licensed psychologists empowered to adopt rules of professional ethics and to examine by written or oral examinations. Such boards have discretion in their administration of statutory standards, but they may not develop standards different from or inconsistent with the statute. Bloom v. Texas State Board of Examiners of Psychologists, 492 S.W. 2d (Tex. 1973).

With regard to the actual manner of practice, it should

be noted that, as with most professions, this is left to the common law or to the profession itself. Doctors and lawyers, for example, are ultimately subject to censure by their own profession or to malpractice suits. However, in the case of the medical profession, there are a number of specific acts which are subject to regulation. In most states, for example, a physician is prevented by statute from disclosing patient records without the patients consent; he must report occurrences of certain diseases to authorities; he must report the prescription of certain drugs, etc.

At the present time, the authors of this report do not recommend the enactment of general substantive regulations, although a caveat is given that these may become necessary in the future. There are several reasons for this recommendation. As noted above, there is some doubt, albeit weak, that the City has authority to do so. More significant is the fact that the regulation of professional practice has historically been left to professional bodies and the common law. There are, at the present time, a number of lawsuits pending around the United States regarding the practices of Scientology auditors. It is expected that these suits will result in a de facto standard of responsibility for Scientology auditors more effectively than could any form of municipal regulation.

At the same time, however, the authors of this report do recommend ordinances which regulate specific acts of psychotherapists. Primarily, practitioners should be prohibited from disclosing patient information without written consent of the patient. This is consistent with the dictates of common law and consistent with statutory regulation of the medical profession. There is a present need for such an ordinance in Clearwater.

F. MUNICIPAL AUTHORITY TO REGULATE EDUCATION

Chapter 232 of the Florida Statutes annotated regulates compulsory school attendance and child welfare with regard to education. The superintendent of schools for the local school district has the legal authority under F.S.A. Ch. 232.16 to enforce this statute. There is substantial evidence that many young children have lived in property owned by the Church of Scientology in Clearwater, who have not attended school as required. The City should initiate an investigation of this condition and take appropriate action. The time and cost limitations of this Report prevented further analysis.

G. MUNICIPAL AUTHORITY TO REGULATE IN AREAS OF PUBLIC HEALTH, SAFETY, LODGING, FIRE AND BUILDINGS

The time and cost limitations for this Report prohibited research and analysis in these subject areas. The First Amendment does not prohibit reasonable regulations in any of these areas.

There is evidence of conditions in buildings owned by the Church of Scientology which should raise legitimate concern with the City. These conditions include:

- hepatitis epidemics;
- people being prevented by force and intimidation from seeking medical attention;
- people being maintained on restrictive and unhealthy diets;
- people sleeping on a regular basis in hallways and on concrete floors;
- enforced loss of sleep used as a brainwashing technique; and
- deliberate deception of City Inspectors.

All of these conditions have been reported to us by clients who were present in Clearwater for varying periods of time and who are presently willing to testify before the City Commissioners in any investigative proceedings.

It should be noted, however, that this is primarily an enforcement question. Many of the conditions reported above are in violation of existing ordinances. There may be a need for additional legislation, however.

IV. FACTUAL DESCRIPTION, HISTORY AND ANALYSIS OF SCIENTOLOGY

A. General History and Description of Scientology

Scientology is an international cult created, operated and controlled by Lafayette Ronald Hubbard for the purported purpose of selling courses, publications and services, which claim to cure various physical and emotional ills, and which allegedly provide spiritual rewards. There is substantial, perhaps overwhelming evidence, to support the conclusion that, despite Scientology's attempted religious front, it is in reality a criminal, fraud-ridden, commercial, profit motivated enterprise engaged in the practice of psychotherapy with a military structure and operational methods designed to accumulate money, information and power.

Scientology's legacy of victims, who have been swindled, mentally crippled and sometimes killed by Scientology practices have caused many nations to convene formal inquiries into Scientology. These nations include England, Australia, New Zealand, Canada, South Africa and Rhodesia. France has convicted Hubbard of criminal fraud. The Reports from two of these inquiries, Australia and England, are contained in the Appendix to this Report.^I and I. It is fair to say that in general these inquiries have concluded that Scientology is a maze of intertwined corporations, claiming tax-exempt status, masquerading as a religion, and conducting anti-social, fraudulent, and psychologically harmful practices. The English and Australian reports and the facts established by this firm also support the finding that the above-cited practices are generally directed towards the weak, unbalanced, immature, unstable, rootless and often traumatized individuals, in our society.

Such individuals are generally more susceptible to false claims of promised cures. Scientology is adept at finding the person's "ruin" or problem, and making extravagant promises to solve the problem at exorbitant, and patently commercial fees.

The purported belief systems or dogma of Scientology are a hocus pocus menagerie of science fiction, the occult, magic and claimed physical and mental well-being. Scientology does not worship a God. It is rather a pseudo-philosophy of mental and physical health based on supposed scientific research and case studies. A Federal Court in Washington, D.C. found that the writings of Hubbard which embody Scientology "doctrine" or "dogma" are predominantly non-religious, false and fraudulent. VII- 4 The writings of Hubbard also contain vicious Scientology policies used against opponents including "Fair Game", "Disconnect", "R-2-45", the "Blown Student" and "Attack the Attacker". Hubbard's own mental illness and twisted perspective on fundamental human values is reflected in much of his writing. Hubbard's own falsified background is typical of the fraudulent representations made by his Organization. Thus, any inquiry into Scientology must begin with an inquiry into Hubbard.

1. The Founder and Promoter - Lafayette Ronald Hubbard

a. His background

L. Ron Hubbard was born at Dr. Campbell's Hospital on Oak Street in Tilden, Nebraska, on March 13, 1911. His mother, Ledora May Hubbard was also born in Tilden, Nebraska. Ledora's father, L. Ron Hubbard's grandfather, was Lafayette O. Waterbury, born in the State of Michigan on July 20, 1864. L. Ron Hubbard's grandmother was Ida Corinne DeWolf born in Illinois on August 6,

1863. L. Ron Hubbard's father, Harry Ross Hubbard, (U.S. Navy), was born Henry August Wilson in Fayette County, Iowa, on August 31, 1882. Harry Ross Hubbard's father died when Harry was a child, and he was adopted by Mr. and Mrs. James W. Hubbard, also of Fayette County, Iowa, and his name was legally changed to Harry Ross Hubbard. L. Ron Hubbard's birth data is verified by his certificate of birth in the Bureau of Vital Statistics in Lincoln, Nebraska, File No. 126-165-11. III-1

According to various biographies published in Scientology books, Hubbard was raised on a cattle ranch "one quarter the size of Montana", which was owned by his maternal grandfather. Here, Hubbard was said to have learned to ride a horse before he could walk, to have become friends with an Indian medicine man, and to have become blood brother with the "Blackfoot" (sic "Blackfeet") Indians. He refused to go to school, since schooling was unnecessary for him, and was more interested in exploring, breaking wild horses, and hunting coyotes.

Hubbard's grandfather (Waterbury) never owned a large cattle ranch in Montana. No records can be found showing that he owned any land at all in Montana. He did own a business several miles southeast of Helena, the Capital City Coal Company where the grandfather sold coal, feed, and was a practising veterinarian. Records indicate that Hubbard lived at 726 Fifth Ave., in Helena. This was the address of his father and mother and also of his maternal grandparents, as well as a number of aunts and uncles. III-1

The Scientology biographies state that Hubbard was able to spend several years traveling through Asia, China, Tibet, India, the South Pacific, the Philippines, etc., from 1925 through 1929,

living in the company of a magician descended from ancient masters, lamas, priests, and other wise men. Hubbard supposedly learned an entire dialect in one night (the Igoriti of the Philippines), and lived among native bandits who didn't harm him "because of his honest interest in them and their ways of life". Here, as a young man, Hubbard allegedly became interested in the "composition and destiny of man".

The facts are that during the years 1925 to 1929, Hubbard was a student at Union High School in Seattle, and Helena High School in Helena, Montana.

In 1925, when Hubbard was 14, his father was stationed at the Puget Sound (Washington) Naval Shipyards. The father and his wife lived in Bremerton, Washington as did L. Ron, which is where he went to high school. Hubbard's mother was a school teacher. Hubbard's father remained at the Naval Shipyards until 1927, when he was ordered to Guam as a Supplies Officer. The Navy allowed Hubbard and his mother to join him in Guam during the summer of 1927. A few months later, Hubbard returned to Montana and was enrolled at Helena High School in Montana. He subsequently dropped out of Helena High School because of poor grades, on May 11, 1928. After that he attended Swathely Prep School in Manassus, Virginia and then Woodward Prep School in Washington, D.C. Woodward was a school operated by the Y.M.C.A. for difficult students and slow learners. Hubbard attended Woodward from February to June, 1930. He graduated and was accepted into the School of Engineering at George Washington University. At the end of his first year, he was placed on probation because of poor grades, and at the end of his second year was asked to leave, again because of poor grades. III-1

21889248 on April 23, 1974. He presumably had a previous passport. Hubbard's claims to have been a teenager traveling in Tibet, China and India back in the 1920's are unlikely because of hostility to visitors, especially Americans. One of the first to be allowed to travel in these areas was Lowell Thomas, in the 1950's. Regarding his other purported expeditions, the Department Natural Resources in San Juan has no record of L. Ron Hubbard, nor does the U.S. Geological Survey, the Department of the Interior, the National Geographic Society, a number of prominent geologists who were working in Puerto Rico and Central American areas at that time, the Department of the Navy's Hydrographic Office, the University of Michigan, Princeton University, the State of Alaska and records researched by the New York Explorers' Club. III-1

The next segment of Scientology biographies concerning Hubbard, relate to a brave young U.S. Navy officer, eager to defend his country, who was the first casualty in the Pacific. Because of Hubbard's "importance" he was flown back to the United States in the Secretary of the Navy's personal airplane. Though severely wounded he was ordered to take command of a fleet of ships without any rest. He was "highly decorated" for his bravery in battle, and was America's first real life hero. After four years of battle, Hubbard was admitted to the Oak Knowles Military Hospital in Oakland, California, on September 5, 1945. Here, supposedly crippled, blind, and not expected to live from having been so severely wounded in action, facing an uncertain future, Hubbard applied all of his knowledge of nuclear physics, etc., and healed himself, by the sheer power of his mind. It is written that so complete and so miraculous was his recovery, that he amazed Navy physicians and psychiatrists.

According to further Scientology biographies, Hubbard is supposed to have combined his experiences as a traveller with his great knowledge of engineering, math, and physics which enabled him to discover the secrets of life. Hubbard wrote a book called "All About Radiation", written by L. Ron Hubbard, a "medical doctor and a nuclear physicist". Copyright L. Ron Hubbard. Hubbard alleges to have received degrees of Civil Engineering from George Washington University, and Doctor of Medicine, Divinity and Philosophy. This is all false. Hubbard flunked the only physics course he took. III-1

Hubbard alleges that he attended Princeton University. Hubbard may have received naval training at Princeton, New Jersey, as many officer candidates did during WW II, but this is not considered formal admission to Princeton University as an undergraduate student. His naval records suggest the fact that he attended the naval training school there from September 29, 1944 to January 27, 1945. III-2

Hubbard also claims in his Scientology biographies to have made expeditions into the jungles of South America, producing a Caribbean underwater motion picture expedition, financed by the navy Hydrographic Office for the University of Michigan, and to be the first person to use the navy's bathysphere, or diving bell. Hubbard's claims also include: the first complete minerological survey of Puerto Rico", rewriting the "Co-pilot", a navigational guide for the State of Alaska, leading expeditions into San Juan and Central America, for the Department of the Interior, and National Geographic Society.

The ascertainable facts are that the State Department Passport Office records show that Hubbard was issued passport No.

The facts are as follows: Naval records indicate Hubbard (U.S.N. No. 1133-92) was commissioned as an ensign on the 19th of July, 1941, and spent the first five months of his service in the Eastern United States. In December of that year, he was transferred to Melbourne, Australia where he was an Intelligence Officer for about three months, and was then sent back to the U.S. He bounced around from Maine to Florida to New York for a year, and then came to Portland, Oregon, where he became Commanding Officer of the U.S.S.P.C. - 815, a small destroyer-escort type vessel. This ship remained at the Albina Shipyards in Portland for about two months. In the middle of June, 1943, the 815 went down the Willamette and Columbia rivers to the Pacific Ocean, and steamed south to San Francisco and San Diego. A few days later, while at exercises in Mexican territorial waters, Hubbard ordered the crew to fire some practice rounds, using the ship's three-inch naval gun. The target was in line with the Coronados Island off the coast of Baha, California. The practice rounds of the gun exploded on or near the Coronados Island.

The Navy Department convened a Board of Investigation aboard the ship. The transcript of that hearing, (about 100 pages), showed conflicting testimony on estimates of how far from Coronados the ship was at the time the gun was fired, varying from a few hundred yards to eight miles. The results of the Board were not released, but it is a matter of record that a few days later, Hubbard was no longer in command of the PC-815. III-2

After leaving the PC-815, Hubbard was ordered to Portland, Oregon, and assigned to the U.S.S. ALGOL. The ALGOL was an armed troop carrier commissioned at Portland, Oregon, on July 21,

1944. Hubbard was aboard as Navigating Officer and Training Officer. Like the PC-815, she proceeded down the Willamette and Columbia rivers to the Pacific, then south to San Francisco, where she went through her "shakedown" cruise practising manoevers and training exercises. III-2

On the afternoon of September 27, 1944, while docked in Oakland, California, Hubbard reported to the officer of the day that he discovered an attempt to sabotage the ship. Someone, Hubbard claimed, had filled a coke bottle with gasoline and inserted a cloth wick, and then had hidden it among some cargo that was to be hoisted aboard and placed in the Number One hold. The F.B.I. and Navy Intelligence were called in to investigate, but the records of this investigation are not available. The following day, just a few days before the ALGOL sailed for the Pacific and into combat, Hubbard was relieved of duty and transferred to a training school in New Jersey. III-2

After Hubbard left New Jersey, he spent nine months at the Office of Naval Civil Affairs, in Monterey, California, and on September 5, 1945, was admitted to the Oak Knowles Military Hospital in Oakland, California. Hubbard was apparently discharged from Oak Knowles on December 5, 1945 where he was awarded a 10% disability for duodenal ulcer, but this did not become effective until February 17, 1946, the day he was released from active duty. His disability was later increased to 40% for arthritis, bursitis, and conjunctivitis (an eye inflammation). His Veterans' Administration file No. is C-7017422. Hubbard's naval record further indicates there was nothing in Hubbard's service record to indicate that he ever received

medical treatment for injuries sustained in the line of duty. He did not receive the purple heart. III-2 It is interesting to note that Hubbard's father had a naval career and during the period in September - December, 1975 when the father became ill and died, Hubbard sold his "flagship", the "Apollo" and set up his land base in Clearwater.

On October 15, 1947, Hubbard wrote a letter to the Veterans' Administration requesting treatment. The request concerned "a mind which I had every reason to suppose was seriously affected. I cannot account for, nor rise above, long periods of moroseness and suicidal inclinations". (Emphasis supplied) III-3

The foregoing letter and other Hubbard activities at the time, including his involvement in the occult, suggest that Hubbard was bordering on the brink of serious mental illness following WW II, and that his in-patient treatment from September 5, 1945 to December 4, 1945 at the Oak Knowles Hospital may have been for treatment of an undisclosed mental or emotional disorder. However, the records for this hospitalization will not be released without Hubbard's consent and the nature of the treatment he received at Oak Knowles may never be known. III-2

Hubbard's possible mental illness is also indicated in a series of events which allegedly took place shortly after his discharge from the U.S. Navy in 1945. In the book, "Ritual Magic in England," Francis King describes Hubbard's involvement with Jack Parsons, a fellow involved in ritual magic and the occult. Parsons was a disciple of the "Hermetic Order of the Golden Dawn", an occult group founded in England. Parsons associated with an author, Aleister Crowley. In that year, Parsons struck up a "close and immediate" friendship with Hubbard, and in a letter to Crowley at the beginning

of 1946, Parsons said of Hubbard, "He is a gentleman, red hair, green eyes, honest and intelligent, and we have become great friends. Although he has not formal training in magic, he has an extraordinary amount of experience and understanding in the field. Ron appears to have some sort of highly developed, astral vision; he describes his angel as a beautiful winged woman with red hair whom he calls the Empress and who has guided him through his life and saved him many times." III-4

King relates that during the First World War, Crowley wrote a novel called "The Butterfly Net", which was later published under the name of "Moonchild". This book relates the story of a magical operation in which a particular type of spirit is supposedly in an unborn human embryo "by surrounding the mother with appropriate influences, carrying out certain rituals, etc. Parsons wished to carry out such an operation designed to achieve the incarnation of Babylon - an aspect of the great mother goddess Nuit - in an unborn child, and he decided that Hubbard would make an ideal co-worker."

King states that in order to obtain a woman prepared to bear this magical child, "Parsons and Hubbard engaged themselves for eleven days in rituals." After some time the rituals had the desired result when on January 14, so Parsons said, "Hubbard had a candle knocked out of his hand" Parsons went on to record that Hubbard called him, and "we observed a brownish-yellow light about seven feet high. I brandished a magical sword, and it disappeared. Ron's right arm was paralyzed for the rest of the night. " III-4

According to Parsons, on the next night, "Hubbard had a vision of an enemy of the O.T.O. (Crowley's occult group),

and 'attacked the figure, and pinned it to the door with four throwing knives, at which he is an expert.'"

King relates that the foregoing activities of Hubbard and Parsons allegedly achieved the desired result because on January 18,

"Parsons found a girl who was prepared to become the mother of Babylon, and go through the required incarnation rituals. During these rituals, which took place on the first three days of March, 1946, Parsons was high priest, and had sexual intercourse with the girl, while Hubbard who was present, acted as skryer, seer, or clairvoyant, and described what was supposed to be happening on the astral plane. Parsons believed that he had been successful in this operation, and wrote to Crowley: 'I can hardly tell you or decide how much to write. I am under the command of extreme secrecy. I have had the most important, devastating experience of my life', to which Crowley, for once at a loss to know what was going on, replied: 'You have me completely puzzled by your remarks, I thought I had the most morbid imagination, but it seems I have not. I cannot form the slightest idea what you can possibly mean'. The same day, Crowley wrote to Karl Gomer, his heir-apparent to the headship of O.T.O.: 'Apparently Parsons or Hubbard or somebody is producing a moon child. I get fairly frantic when I contemplate the idiocy of these louts'". (Emphasis supplied) III-4

The foregoing story bears a remarkable resemblance to that of a girl who defected from Scientology in 1979. She had been coerced into a perverted act of sexual intercourse with a man fitting Hubbard's description in Hubbard's private quarters at the Fifield Manor in Los Angeles. She describes the event as one where "my mind was being ripped away from me by force", while the man lay on her for one hour without erection and without ever saying a word. IX

King describes how Parsons and Hubbard had sealed their friendship by opening a joint bank account. "Parsons contributed his life savings of about \$17,000, while Hubbard

contributed approximately \$1,000. This aroused Crowley's suspicions and he wrote to Karl Gerner:

"It seems to me, on the information of our brethren in California that Parsons has got in a rumination in which he lost all his personal independence. From our brother's account, he has given away both his girl and his money. Apparently it is the ordinary confidence trick."
(Emphasis supplied) III-4

By this time, as the story goes, Hubbard had withdrawn about \$10,000 from the joint bank account, and used it to buy a yacht. The disillusioned Parsons pursued him to Florida, where he wrote to Crowley on July 5, 1946: "Here I am in Miami pursuing the children of my folly. I have them well tied up. They cannot move without his going to jail. However, I am afraid that most of the money has already been spent. I will be lucky to salvage three to five thousand dollars." III-4

King states that according to Parson, "Hubbard attempted to escape me, by sailing at 5:00 p.m. I performed a full invocation to Bartzabel (the spirit of Mars), within the Circle at 8:00 p.m. (a curse). At the same time, however, his ship was struck by a sudden squall off the coast, which ripped off his sails and forced him back to port where I took the boat in custody". Parsons died in 1952, after taking the oath of Anti-Christ when there was an explosion of rocket fuel in his laboratory at Pasadena, California. III-4

According to King, Hubbard and Scientology explain these strange events with the claim that Hubbard allegedly was working as a covert agent for the F.B.I. or the Navy. However, this claim appears to be a typical Hubbard falsehood.

In the late 1940's and early 1950's, Hubbard was pursuing a career as a science fiction writer. Hubbard's science fiction writing

led him to the field of mental health and religion. Combining all three areas, Hubbard wrote the book, "Dianetics: Modern Science of Mental Health." It became a best seller.

Hubbard claimed to have tested hundreds of subjects over a period of many years in the research and writing of Dianetics. However, according to correspondence from Ron Hubbard, Jr., his first born son, who now lives under a different name, Hubbard's writing style was one of writing "off the top" of his head mixing fact, imagination and science fiction and claiming a "scientific" basis for his conclusions, case studies and theories.

According to the son, Dianetics was written in three months. The son states that Dianetics reveals his father's obsession about abortion and sexual perversion, rather than being the product of real case studies. The son writes:

"But there was something in my father's past that explains his obsession with abortions. The following incident happened in Bremerton, Washington between January and September of 1941, and the reason he can pinpoint dates is that I moved 49 times by the time I was 19, and I have a list of each place I lived in and can relate incidents to that location. One night while we lived in that house in Washington, I remember being awakened in the middle of one terrifying night by my mother's screams coming from the bedroom across the way. I snuck out of my room, walked across to theirs, and peaked into the room since the door was ajar. All the lights were on in that room. I saw my mother lying on her back naked on the bed and my father sitting on her stomach, facing her feet. He was dressed in a Chinese robe with a multicolored (I believe black, red, green and yellow) dragon embroidered on the back of it.

I didn't understand what was happening, but I was petrified and ran to my bedroom and jumped back in bed trying not to think about the screams or what I had seen. I quieted down after a while, but then I heard more screaming and since I couldn't sleep, I snuck out again. When I peaked in at that time, I saw that there was a man there with a black bag, who I assume was a doctor, and he kept telling my father that she had to be hospitalized. I still remember his exact words; he kept saying that "it had to come out".

But I also remember that my father kept arguing and insisting that he would not let her go to a hospital.

That's all I recall of this incident except that the next day I saw sheets in the garbage can which had blood on them. When I was older, and had enough courage to admit to my mother that I had been watching that night, and to ask her exactly what had happened, she told me that he had forced her to have two abortions during their marriage. III-5

Dianetics, and the practice of it, purportedly was to be the elixir of all human illnesses and weaknesses. The sale of dianetics led to Hubbard's creation of the "Dianetic Foundation". The Dianetic Foundation, to research Hubbard's theories was shortlived and led Hubbard to begin Scientology.

According to the Federal Bureau of Investigation information file, and miscellaneous other sources, there is considerable evidence that Hubbard suffered from serious paranoia and delusion for most years of his life following 1945. This is apparent from his writings, both public and private, and from his personal life. On April 11, 1951, a Los Angeles Times article reported that Hubbard kidnapped his wife Sarah and his daughter, Alexis, and told her to commit suicide. Just prior to this article, on March 3, 1951, Hubbard wrote a letter to the F.B.I. concerning infiltration by communists into his Organization, charging that his wife, Sarah, might be a communist. Hubbard wrote a letter dated July 29, 1958 on stationery with the letters, D.D. and Ph.D. following his name (apparently for "Doctor of Dianetics"). In the July 29 letter, Hubbard claims that the Russians were seeking to enlist his aid, inviting him to Russia, apparently because of the "brainwashing" techniques he had developed in Dianetics. III-6

In a subsequent letter dated September 7, 1955, evidence of Hubbard's obsession with Communists, "brainwashing" and his own mental health is apparent from the following excerpt:

"After we so informed the Defense Department about brain-washing technologies in our hands and offered them, we have been in a state of siege. Understand that we accuse the D.D. of nothing.

...People in suspicious condition were sent from one place in Southern California to be "treated by Scientology" for insanity and yet we have no interest in treating anyone, especially the insane. Now two more people go suddenly and inexplicably insane in widely different places both the same way. All manner of defamatory rumors have been scattered around about me, questioning even my sanity which is fortunately a matter of good record with the Navy as by statement "having no psychotic or neurotic symptoms whatsoever." III-6

At other times, the F.B.I. reports that Hubbard was arrested for leaving his daughter, Alexis, alone in a car, and was arrested in San Luis Obispo, California, in connection with petty theft (checks). One F.B.I. report notes that Hubbard "appears mental". III-6

In 1975, Hubbard's son, Quentin, by his marriage to Mary Sue Hubbard, apparently committed suicide in Las Vegas, Nevada. Quentin was found in a car with hose running into it from the exhaust pipe. He was taken to a hospital in Las Vegas where a Scientology agent was sent in to steal portions of his medical records.

b. Creation, operation and control of Scientology

Hubbard's creation of Scientology can be traced to late 1951 when the "Hubbard Dianetic Research Foundation", an organization formed by Hubbard to promote the benefits of Hubbard's book, Dianetics in California, experienced financial problems, which ultimately led to bankruptcy. Differences between Hubbard

and the Board of Control of that Organization forced his withdrawal from it and he founded Scientology. Apparently, Scientology was first incorporated in Phoenix, Arizona, on May 19, 1954 under the name of Hubbard Association of Scientology International (H.A.S.I.). At approximately the same time a similar Scientology organization was incorporated in England under the name of Hubbard Association of Scientologists International Limited. III-7

The articles of incorporation of Hubbard's Associations of Scientologist International Limited, disclose that the Company was organized to conduct and carry on any and all scientific research, and more particularly the dissemination and advancement of knowledge of the human mind, mental, psychosomatic, and allied fields; to conduct schools and classes; to establish clinics; to publish and have published books, articles, letters, papers, magazines, and other periodicals. As the years passed, other organizations of Scientology were begun in Saint Hill, England, in Washington, D.C., Los Angeles, Ca.; Auckland, New Zealand; Melbourne, Australia; (New York City, San Diego, Ca); Berlin, Paris, (Detroit, Mi., Dallas and Twin Cities), Toronto, (Boston), and Florida). III-7, 1

Highly efficient lines of communication were and are maintained between Hubbard's first headquarters at Saint Hill, England, and now at his secret bases in the U.S., and all of the central organizations. For instance, a central organization in Clearwater, Florida or Boston, Massachusetts is in direct telex communication with Hubbard, or his designees, sending information and receiving orders. IV-1

The Hubbard Communications Office, (H.C.O., Worldwide), controls all written communications to and from Hubbard. The function of H.C.O. (WW) is described in a Hubbard Communications Office Policy Letter of February 18, 1964. H.C.O. (WW) is concerned with the organizations of Scientology on a worldwide basis. It deals with Hubbard's personal communications to and from the H.C.O.'s, orgs, and franchise holders (the Missions). It sends out Hubbard's policies and technical data. It has its own direct line to the H.C.O.'s, orgs, and franchise holders all over the world. It keeps a close supervisory eye on local Scientologists to ensure conformity to a "proper standard of Scientology ethics". IV-1

There is a constant stream of communication flowing from Hubbard and his now secret base via the H.C.O. to the various branches throughout the world. These communications contain instructions for carrying out various Guardian's Office (Secret Police) activities. IV-1

Up until the mid-1960's the H.C.O. Office was the "Police Force which governs the H.A.S.I." Due to the inherent instability of Scientology organizations, it became apparent to Hubbard in the mid-1960's to establish a separate police force to govern and oversee Scientology organizations throughout the World. This police force became known as the "Guardian's Office", and it is run by Hubbard via Hubbard's wife, Mary Sue. The Guardian's Office is responsible for carrying out overt and covert operations against former and fellow Scientologists, private citizens, and governmental agencies both on the local and federal level as well as maintaining internal order in Scientology organizations. IV-2, I

Financial control of the Church of Scientology, from its inception through the early 1970's was through a system of accounting based on instructions issued by the Hubbard Communications Office Worldwide under the direction of Hubbard. These instructions set out accounting records to be kept, procedures to be carried out and directions as to financial policy. A very large measure of financial control is exercised by H.C.O. (WW) IV-3

The accounting system is largely manual, and carried out by unskilled clerical labor. A method of invoicing is used to account for both income and expenditures. In respect to income, serial numbered invoices are placed in an invoicing machine for issue as receipts in debit and credit notes. A separate invoicing machine is in use for disbursements. An invoice is issued for each payment. IV-3

Each week's transactions are treated as a single accounting period, and copies of receipts and payments, and invoices together with a summary for each week are filed separately from the records applicable to other weeks' transactions. Each week's transactions are then telexed via financial offices at the local organizations to the financial offices of Hubbard. L. Ron Hubbard or Mary Sue Hubbard were the only persons authorized to draw checks on any Scientology account worldwide, until the mid-1960's except for organization accounts dealing with expenditures for operating expenses. IV-3

Later, Hubbard funnelled large amounts of Scientology income to a Panamanian corporation which owned his ship, the "Apollo". This was the subject of intensive investigation by the I.R.S.

During the 1960's and 1970's large sums of Scientology "tax exempt" funds disappeared and many individuals began lodging complaints against Hubbard and Scientology. As a result of government investigation, Hubbard purchased a number of ships in which he established his base of operations and used his telex system to communicate to all central organizations in the world. Although Hubbard attempted to disguise the nature of the ships' business and their whereabouts, Interpol, the international police force, kept a close watch on Hubbard's activities throughout the world. As a result of Interpol's work, Hubbard's ships were either refused port or not permitted to remain beyond replenishing stores and fuel.

As a result of numerous intercontinental investigations, and reported deaths and hospitalizations of Scientology victims, and as a result of investigations undertaken by the United States Government, Hubbard instituted one of the largest Scientology overt and covert operations against nations all over the world. The program was entitled, "The Snow White Program". This Scientology Guardian's Office program placed agents in more than thirty countries for the purpose of stealing files, infiltrating local and federal governments, replacing adverse Scientology files with favorable ones, pressuring public officials to allow Hubbard entry into its country, and as a last resort, if necessary, bribery.

The result of this operation and its success is not fully known. However, after a period of one and one half years, Hubbard purchased a number of large buildings in Clearwater, Florida for the purpose of setting up his "land base" in late 1975.

A description of Scientology operations in Clearwater and its criminal activity is set forth in subsection (D) of this Section.

From 1975 to the present, Hubbard has maintained secret bases in Dunedin, Florida; Gilman Hot Springs, California; and Laquinta, California.

The purpose of the secret bases is twofold: first, in order to effectively control all Scientology operations, Hubbard maintains the secret telex systems at his bases allowing him the control necessary without outside interference. Secondly, the whereabouts of Hubbard is sought by both state and federal officials and private litigants.

2. Structure of Scientology

The organizational structure of Scientology can be found in a Scientology diagram in Appendix IV-4. These diagrams graphically show the line of command for Scientology starting from L. Ron Hubbard down to the local "org" (churches), and "missions".

A description of this chain of command starts at the local level and works up through the various command lines reaching Hubbard at the very top.

Throughout various cities in the United States, local Scientology organizations are commonly called "orgs". Each org has seven divisions within it, each responsible for carrying out its particular operation. Division 1, commonly called the

H.C.O. Division or Hubbard Communications Office, is responsible for overseeing the operations of the "org" and reporting its findings to Hubbard. It is also responsible for ensuring the proper collection of funds involving payments or royalties to Hubbard. Division VII is commonly used by the "FLAG" representative. the "FLAG" representative is a person sent from Clearwater, Florida, Scientology's East Coast Headquarters, to oversee management in the local org, and ensure that funds flow to the FLAG land base in Clearwater, Florida. The other departments in the local Scientology organization include Finance, whose purpose is the collection of all funds from, and disbursements for the org and payments to: FLAG land base in Clearwater, Florida, Hubbard Communications Office, Guardian's Office, and other areas. The Dissemination department and the Technical department are responsible for body routing or soliciting persons on the street, bringing them into the org, selling them the services and beginning the auditing processes. IV-5

Aside from these seven departments, each organization has overseeing all its operations the "Guardian's Office" or secret police. The Guardian's Office responsibilities include preventing any persons either Scientologists or non-Scientologists from exposing or "attacking" L. Ron Hubbard or Scientology. These purported "attacks" are usually in the form of articles in newspapers or magazines, or lawsuits where a victim seeks to exercise his First Amendment or judicial rights. Once an "attack" is located, the Guardian's Office institutes a plan of operation against either the individuals or entity attacking Scientology. The Guardian's Office commonly engages in burglary, larceny, kidnapping, extortion, blackmail, perjury, and electronic surveillance to achieve its purpose. Some of the details con-

cerning these operations are set forth in subsection (D).^V

The Guardian's Office also ensures that all the orders of Hubbard and his subordinates are carried out at the local level.

The seven departments of the local organization and the Guardian's Office each report to a similar set of departments at a higher level. This higher level is the U.S. headquarters of Scientology, and found in Los Angeles, California. Once information leaves the local level it proceeds on either one of two major chains of command. The first chain originates from any of the seven departments previously mentioned, and passes to upper levels either at the headquarters in Los Angeles, California, or to the FLAG land base in Clearwater, Florida, or both. The second chain of information is the Guardian's Office (G.O.). The diagram in Appendix IV shows how G.O. information is transmitted from the local Guardian's Office level to the U.S. Guardian's Office level in Los Angeles, California, to the Deputy Guardian, Worldwide and then the Guardian Worldwide located in England, and on to Mary Sue Hubbard, Controller of the Guardian's Office, and finally to L. Ron Hubbard.

B. Factual account of Scientology policies, practices and business methods

1. Marketing and Sales Policies

Publicly, Scientology holds itself out to be a scientific, religious, and law-abiding organization. The evidence suggests that it is neither scientific, religious or law-abiding. Scientology's primary public purpose is to "clear the

planet". In order to "clear the planet", Scientology seeks to proselytize all human beings, into Scientology.

Hubbard has developed methods by which people are lured into Scientology and once ensnared, are kept in subjugation. The methods he has devised for procuring "bodies in the shop", are procedures written in a number of Hubbard's own policy letters for each of the Scientology organizations. These methods include techniques utilizing deception designed to entice people into Scientology by creating and exploiting anxieties and fears which constrain them to embark upon Scientology processing to cure their real or imagined ills. The process of recruitment begins with either advertising or direct solicitation of persons on the street by Scientologists called "body routers".

When being solicited, people are commonly told that the primary aim of Scientology is to make people more able, and improve their communication with others. They are told that a clear, analytical mind and a stable understanding of life are the necessities for success, motivation and stability in every trade or profession in all life's activities. Once a person's interest is somewhat aroused, a Scientology questioner asks the "raw meat", or general public, "would you like to take a free intelligence and personality test?" The Scientology questioner will then attempt to bring the "raw meat", into the "shop", or Scientology organization to take the free personality test. If the person balks, and shows no interests in taking the test, other sales techniques are employed in order to get the "body in the shop". VI-1

Some of these methods, taught in the "Big League Sales Course", include questioning the "raw meat", about overcoming

confusion in their work, handling others around them, achieving long sought-after promotions, becoming happier, making you happier and less tied in the home, how to save on the family budget, how to have more friends, how to understand your husband or children, increasing your I.W., concentration, etc., etc., etc. Careful statistics are kept throughout this process as to the particular Scientology questioner's success. If a particular problem or "Button" is found in a person, Scientology zeroes in on this problem and "scientifically guarantees" a cure. Many individuals have been promised cures of physical diseases such as arthritis or cancer, weight problems, alcohol and drug abuse, or emotional instability. VI-2

Careful statistics are kept throughout this process as to the particular Scientology questioners' success in routing bodies into the shop. Presently, the personality test is the key recruiting tool employed by Scientologists to "route bodies into the shop".

The first step in this process is the personality test. The personality test is a series of two hundred questions constructed by Hubbard which purportedly reveals any aspect of their life whether physical, emotional, or spiritual that VI-3
Scientologists claim is not considered normal.

Once the personality test is taken, either through the mail or in the "org", Hubbard's sales techniques are employed to show the person's defective personality assessment. The following example is a typical application of Hubbard's sales policies. The individual was told that though he had a high I.Q., and was a genius, and could do anything he wanted to, his character as the graph showed, was defective, that he was mentally unstable, and that he was going to have a mental breakdown in eighteen months time unless

he had Scientology help, and it was also suggested that he had homosexual tendencies. He was put on the Scientology "E-meter", (a crude lie-detector) and when asked the question, "Do you have problems?" deliberately squeezed the cans which made the needle jump and caused the interviewer to write notes furiously. He was urged to return for treatment, but did not do so.

Thereafter, he received a series of letters extending over twelve months of which the following extracts are a sample:

"Would you write me out a list of your goals and ambitions for life, and if you think Scientology can help you obtain them?"

"From the look of your file, you were a pretty worried boy last year. Most of your points on the graph are in Urgent Attention Required, so I suggest you call in this year for a new case assessment and find out what can be done to help your mind".

"With an I.Q. like yours, you shouldn't have failures on exams! But of course when you're not happy, you certainly can't put your mind on study, can you?"

"When are you coming to see us again?"

"How did you go with your exams last year? We can help you become more able regarding study".

"When will you be able to do the such-and-such a course you paid a deposit on last September?"

"You can talk to us about your failures in life. You need to have someone to communicate to about your difficulties, so why

not now?"

"It seems to me that you had quite serious problems when you did your personality test last year. Come in and do another, and see how you feel now". VI-4

Once the Scientology sales force snares an individual, usually through the use of the personality test, this new "raw meat", is now ready for handling and reception.

In H.C.O. policy letter of December 31, 1963, under the heading, "Handling Incoming People", Hubbard writes:

"Reception must regard any people who walk in, except tradespeople and business callers as potential pre-clears and students. Snap them onto our lines. Sign them up for something, and get them wheeling along our efficient lines. Process and train them when they walk up the front steps. Get their person's name, address, and phone number. Make a green slip used for this purpose, and change of address."

"...anyone wishing general information on dianetics and Scientology, should be routed to the Registrar...For new people, always recommend to Persons. The Persons Efficiency Course, now the Communications Course and get the person a book."

In H.C.O. Newsletter of May 7, 1962, the following instructions are given: "Register every new person walking in the door, even the postman. No matter what they say, if they are there, they have come in for help. Sell them a book. Don't let them leave without something...Sign every new person up for testing and an interview. Put them on the meter and pull their "withholds".

(what people should have found out about them and didn't)...Sign up students for a specific period of time and get payment in advance. Sign up a pre-clear for an intensive of the length necessary to get a major case change that is real to him. If the guy needs one hundred hours, audit him for one hundred hours. Let the pre-clear finance his own auditing. You're not in the credit business." VI-4

In H.C.O. Bulletin of April 9, 1962, Hubbard gives these instructions:

"When the prospect comes in, see him or her at once. (No waiting). Be courteous, friendly, business-like. Rise

when they enter and leave. Call reception to show them out if they stay too long. Be willing to take their money. Always prefer cash to notes. We are not a credit company. Always see the student or the P.C. before they leave the place after service. You can often sell more training or process....It is a maxim that unless you have bodies in the shop, you get no income. So on any pretext, get bodies in the place, and provide ingress to the registrar when they are there." VI-4 (Emphasis supplied)

Hubbard has shown remarkable acumen as a high-pressure salesman. He recognizes the need for creating an interest in the prospective buyer, and then of stimulating and developing that interest with a tantalizing but incomplete look at the next stage, for which those persons with interest now aroused in his Scientology wares feel they need or have a curiosity to explore. He has marked down as his particular victims the more gullible, and he has devised sedulous means whereby the victims' interest, once aroused, is not allowed to dwindle until he has come effectively under Scientology's domination, and then it is too late. In Hubbard's directives, policy letters, bulletins, and the like, he has laid down precise techniques to be used to arouse and sustain interest and effectively capture "raw meat", for the "org". From a legal perspective this is commonly called a "bait and switch" scheme. The bait is the offer of something free, namely free lectures, free personality tests, and information in order to get the victim into the "org". The "switch" is to courses and "auditing" which leads to exorbitant fees and Scientology bondage. VI-5

The detailed and precise instructions of Hubbard with respect to the personality test and Communication Course appear in the following substantial extracts from the bulletins: In H.C.O. bulletin of September 29, 1959, entitled "The Organization of a P.E. Foundation", Hubbard writes:

"P.E. Foundation in its attitude goes for broke on the newcomers, builds up their interest with lectures, and

knocks their cases apart with com course and upper indoc... The student does not get out of the com course until he can be trusted to show up well in a muzzled co-audit... NEVER...Let anyone simply walk out. Convince him he's a loony if he doesn't gain on it, because that's the truth... The whole dream of a P.E. Foundation is to get the people in fast, get them invoiced in a congress type assembly line, no waiting, get them hot, excited, positive service and boot them through to their H.A.S. (Hubbard Apprentice Scientologist course), and then worry about something else with them. Never let a student leave or quit - introvert him like a bullet and get him to get audited. If he gets no reality, don't let him wander out. If he walks in that door as a P.C., that's it. He doesn't get out except into an individual auditor's hands in the real tough cases, until he has an H.A.S." VI-6 (Emphasis supplied)

A month after the last mentioned policy letter, Hubbard in policy letter of November 24, 1960, entitled "testing Promotion Revised", gave precise instructions to staff members as to the manner in which an "incomer" or "raw meat", should be dealt with by the "evaluator" to ensure success in procuring the "incomer". This particular policy letter shows the absolute control Hubbard maintained over his sales force to procure "bodies in the shop", or "raw meat".

In this letter Hubbard wrote,

"Evaluator takes incomer off meter without explanation, and turns to graph. Evaluator now explains each point of graph. But it is vital that at each low point, where explained, he adds, "Scientology can help that". This is said directly to make an impingement. The wording can be varied, but the sense must be the same. Do not precede this statement with "Don't worry", or the like, as this cancels impingement. Graph done, evaluator explains I.Q. If low, he says "Scientology training can raise that". He explains level of I.Q.; tell person even if it's high, that I.Q. means little unless person knows something with it. Evaluator now takes up the meter case assessment sheet. Here he tells of P.C's future. It is done by looking at P.C.s statement of his past and by rephrasing saying "It is going to happen", (without Scientology fates don't change much. Accidents, divorces, etc., happen again). This is all rapidly done. Factually, expertly, ...the evaluator now leans back and says, "that's it". Incomer is hanging on ropes. If incomer says anything like "What can I do about it?" evaluator says, "That is very commendable. A good point in your favor, wanting to do something about it. I'm a technical person, not a sales personnel. Confidentially though, I'll give you a tip. Don't spend money foolishly until you know what you're spending it for. Psychiatrists and so forth could cost you thousands. You'd buy anything they said, because you know little about the mind. Why don't you take an anatomy

course and learn something about the mind? That's just a tip. It's cheap and you'll be wiser about what to do about yourself. The person over there is in the Service Department. Ask him. ...If the incomer walks out without buying, the P.R. man (even if he is interviewing someone else, and even if incomer has not approached him), rushes over and give incomer a copy of "Problems at Work", and "Dianetics: Evolution of a Science", and says, "Here are two books that might help you", and without waiting for an answer, goes back to his desk. The above routine is at this time a set, fixed activity. As it works further, it may be improved." VI-7

2. The effect of Scientology practices on the mind and personality

The investigations and Reports from other nations including England and Australia support most of the conclusions reached by the authors of this Report regarding Scientology practices. The Reports contained in the Appendices to this Report were prepared prior to exposure of the incredible pattern of worldwide criminal activity engaged in by the "brain-washed" puppets of Hubbard and Scientology. Yet those Reports were remarkably prophetic in detailing the destructive impact of Scientology on the mind and the personality, particularly in connection with inducing victims toward the commission of criminal and anti-social acts. The following analysis is primarily gleaned from the Reports contained in the Appendices

Almost invariably, a person who enters Scientology has been told he is "low toned", and that Scientology can raise him on the tone scale. In nearly every case he will have been told that whatever his I.Q. may be, Scientology can increase it, and that certain personality traits shown on the assessment of his personality test as urgently needing attention can be improved by Scientology processing. He will have heard of the fantastic successes claimed to have been achieved by

Scientology in the fields of mental or physical health, or both, and in general well-being. He will have read, perhaps uncritically, and without fully appreciating what he read, some of the introductory literature of Scientology, including the extravagantly false claims about Hubbard's background. His preoccupation with his own particular ambitions, conditions and problems, leaves him a ready prey to extravagant but confidently asserted claims, and he sees the rosy prospect of improvement, recovery, rehabilitation, success and happiness, almost within his grasp. His initial experience with Scientology in the Communications course, the next step beyond the personality test, may have cheered and encouraged him. He has been made welcome, greeted by his first name, made to feel important by being told by a competently delivered "pep talk", that he is as good as the next man, until he is prepared to go along with Scientology.

It is common psychiatric knowledge that the type of person who would be likely to respond to attractive promises and offers contained in the personality test advertisement and invitations to take the Communications course would be those who would be likely to feel insecure, inadequate, inferior and anxious - the person who is usually a poor mixer, feels lonely or unloved, feels he is not recognized for what he really is, and finds the business of living too burdensome. The class of persons attracted is not limited to such unfortunate people. The appeal is effective with normal people, and also with the greedy and the opportunist.

The free offer of the personality test makes a triple appeal: first, what is offered is more than a bargain, it is free; secondly, it is offering just the sort of release

or escape or opportunity the worried person thinks he needs; and, thirdly, it engenders in the mind of such a person the thought that the organization offering such wonderful things free must be of superior stature and quality to be able to achieve the wonderful results promised. This superior stature and quality is employed through the deception practiced by Scientology through misleading use of titles, qualifications, and insignia, for the purpose of conveying the false impression that Scientologists so described have valuable qualifications. As mentioned earlier, Hubbard makes false claims to a degree in engineering from the George Washington University, and Princeton University, and his "Ph. D." appears to be from an unaccredited institution. The title, "Doctor", which he sometimes uses is based on the Ph. D., or on a Doctorate of Divinity, virtually self-bestowed and granted, it seems, by one of his own institutions. The founding churches of Scientology have awards entitled, "Doctor of Divinity", "Minister of the Church", and "Spiritual Counselor".

The Scientology qualifications are designated by the various letters which likewise deceive. These are degrees of "Doctor of Scientology", and "Bachelor of Scientology", respectively designated by "D.Sc.", and "B.Sc.", both intended to suggest an affinity with "D.Sc.", and "B.Sc.", which are appropriate to Doctor of Science and Bachelor of Science, both well known university degrees. Hubbard uses stationery with the letters D.D. and Ph. D. after his name.

Once the "raw meat" is beyond the personality test, and ready for Scientology courses, processing and auditing, great efforts are made to impress the person at the earliest stage.

An atmosphere of efficiency prevails; a particular point is made of punctuality, the instructors and staff are outwardly confident and certain of themselves; at the first lecture the individual is addressed by his first name, and so flattered that he begins to feel that Scientology is already doing him some good. At the end of the first course or day, the time of the next course or day is mentioned and the instructor makes sure everyone intends to attend. Any waverer is questioned, given some suggestion as to how to overcome the difficulty of attending, and then told that he will be present at the next course. "No" is not taken as an answer, and the impressed beginner is somehow constrained to attend.

The inadequate and inferior person, having experienced the pleasure of being accepted and being shown affection by the organization, feels a desire to reciprocate; he wants to prove his worthiness to be accepted and loved, and he enthusiastically seeks to please in whatever way he can. The way expected of him is to show continuing interest and later to participate at his own expense in the activities of the organization.

A stage when the new student or "preclear", is entering into Scientology, he is sometimes security checked, that is, he is interrogated at great length, according to a set formula, and on these occasions he has sometimes been asked such questions as, "Do you deserve to be helped by Scientology?" This heightens his desire to demonstrate his worthiness, and at the same time to increase his dependence on Scientology.

Once through with these beginning courses, the "pre-clear" is now ready for Scientology auditing.

Scientology auditing is a form of psychotherapy. Generally, the pre-clear sits at a table, holding on to a set of cans which are wired into the device known as the E-meter. The E-meter measures galvanic skin response between the pre-clear's hands and the cans of the E-meter, making such a device a crude lie detector. On the other side of the table sits the Scientology auditor, the auditor is trained to probe and record everything the pre-clear says. While the pre-clear is talking, the auditor analyzes the E-meter responses, to determine if the preclear is lying.

In auditing, the preclear, with his inhibitions in suspense, reveals his secret faults and recalls and acknowledges his inadequacies and transgressions. The mental distress attendant upon such feelings of guilt make him wish to obtain some relief from his discomfort, by atonement, confession, or redress; it renders him more likely to subject himself to the confessional, sacrificial, and self-abasing process of auditing whereby he can purge himself of his shortcomings; and it develops in him almost a missionary zeal whereby he has the urge to render the same service to others. He is thus seeking to emulate the auditor on whom he has developed an increasing dependency and on the role of an auditor in which he himself hopes one day to enjoy the same sense of power over his own pre-clears.

Scientology seems to the pre-clear to be a short cut to success, power, and authority. It makes unnecessary, so it

seems to be pre-clear, persistence with one's secular studies, or interests, and it enables him to ignore the reality of the world outside Scientology, together with its problems and responsibilities.

All these halcyon concepts of Scientology and its practice are the outcome of a potpourri of contributing factors - the individual's own inadequacy and gullibility, the desire to be thought worthy, the insidious advertising, the free personality test, the fantastic promises, the confident but shallow attitude of the instructors and the staff, the E-meter, the assurances of success, the lure of the "clear", the hypnotic effect of techniques even at this early stage - and the calculated springing of the trap baited so temptingly for the unsuspecting victim. These promises are generally made as "scientific guarantees" which are particularly appealing to a person with a serious physical ailment or serious emotional condition which the organization preys upon as the person's "ruin" or "button". The court decree in the Article or Device case, discussed in various places throughout this Report, was specifically directed toward preventing this type of fraud.

Courses in auditing are carefully organized and conducted to induce in a pre-clear the desire for further auditing. Almost without exception, former members state that at the end of a typical twenty-five hour intensive, the pre-clear is either depressed or elated; each of these conditions is taken as an indication that further processing is desirable. A depressed condition is said to indicate a need for more processing to raise the pre-clears up the tone scale; an elated condition is readily accepted by the pre-clear as a promising prelude to more processing. Pre-clears are processed into a strange world of illusion which offers

an escape from reality, and they are conditioned to desire more and yet more processing until a state of imagined euphoria is reached and maintained. They thus develop a pitiful dependence upon Scientology that is a direct consequence of the hypnotic processes used, and this dependency is sedulously nurtured by the Scientologist.

Part of the Scientology technique is not to allow the pre-clear ever to achieve complete fulfillment of his aims, and the pre-clear who has not obtained good results is told that he could do better, and is left with the guilt feeling that he has not done his best. The feelings of guilt are thus accentuated by encouraging the pre-clear to find fault with and further debase himself. Such a procedure is common in brainwashing techniques.

Through the years, Hubbard has added higher and higher Scientology auditing processes in order to have students continually trying to reach the highest levels and paying the exorbitant sums necessary to reach them. Years ago, the highest Scientology level was that of "Clear", and as time passed, he added the "O.T." level, or "Operating Thetan".

In the initial or beginning stages of Scientology auditing, the student or pre-clear reveals to the auditor intimate information about himself, friends, relatives, and enemies. As this information is given the auditor records it all. This inquest into a person's life can take many months of Scientology processing, costing many thousands of dollars to the pre-clear. When the pre-clear's funding runs out, some pre-clears become staff members, giving their whole time or part time services for little or no financial reward, but with promises of salary, commission, etc

Scientology auditing is of a confessional nature. The pre-clear is encouraged to reveal his innermost secrets and thoughts, and to describe in detail all features of anything in his past life not necessarily a "previous life" which is troubling or has troubled him. Such a procedure involves a dredging up from the almost forgotten and ill remembered past of shameful thoughts and experiences. The questions are designed to ensure that no phase or feature of any guilt circumstance in the past is left unexplored: Processes such as "overt withhold", scour the pre-clear's mind with questions like "Are you withholding anything?" Each aspect is savored, appraised, and dwelt upon. During these auditing process, processing files reveal that during this time the pre-clear is very frequently experiencing mental torture, which shows itself in contorted, flushed features, tears, moaning, inability to speak, apparent deafness, nausea, dizziness, sensations of pain, coma, and unconsciousness. Sometimes pre-clears are so distraught that they scream, develop murderous feelings and thoughts; their sexual passions are aroused, they act insanely, laugh hysterically, and engage in other irrational behavior, become violent, try to escape, and have to be restrained. There is considerable evidence of sexual activity during these "sessions". Such behavior is not unexpected by the Scientologists.

In Scientology parlance, when such manifestations as these occur, the pre-clear is being "restimulated"; in fact, psychiatrists declare, he is being debased and mentally crippled. The Scientologists have their own names for these phenomena: for instance, coma and unconsciousness, are variously described as "innaten" or "analytical attenuation", "dopa", and "boiloff", the last-mentioned being described in "Scientology 8-80" thus:

"It is not uncommon for the pre-clear to go into periods which resemble sleep, but boilloffs are not sleep...they can last for hours. As sudden wave of unconsciousness occurs because the pre-clear has run an outflow or inflow of energy beyond the limit of elasticity of the flow". In fact, the intensity of emotion produced by the auditing resulted in a condition of mental exhaustion.

Scientology auditing mobilizes guilt and can produce dangerous mental attitudes in persons who are suffering from anxiety. A distorted desire to debase and torture themselves develops in some preclears and they assume attitudes of guilt over conduct which is often innocent and often imagined. They are sometimes euphoric and sometimes excoriate their minds. The purpose of Scientology processing is to keep the pre-clear permanently enthralled. The brainwashed, hypnotized, pre-clear, does not advert to Hubbard's broken promises of infallible processes.

Although there are several features of Scientology which are to be condemned, its threat to health, particularly mental health, ranks paramount. One of the very grave aspects of Scientology is that the practitioners lack almost any medical knowledge, and are unable to discern in a pre-clear symptoms, which to a medical practitioner, would indicate need for attention. For instance, a person exhibiting some degree of lethargy, a feeling of inadequacy, insecurity or anxiety, may be suffering from a cerebral tumor, some form of glandular disorder, drug intoxication, or some psychiatric condition, the detection of which is difficult even by skilled practitioners.

The danger to mental health is further emphasized by the peculiar basis of Scientology. Its practitioners use techniques

based on impossible theories and directed toward the treatment of "conditions", said to be brought about by completely fictitious circumstances. Based on fantasies, Scientology has built up a body of "knowledge", which is fanciful and simply not true: Thus Scientology treats its imaginary "diseases" or "conditions", with its own fantastic procedures. The alarming feature is that real diseases and conditions often do exist, and that often the fantastic Scientology procedures are positively harmful to the real conditions. It is like applying an oxywelding torch to a leaking rubber tube.

The greatest danger of Scientology auditing though may lie between the auditor and the Scientology auditing process and the Guardian's Office.

In Scientology auditing very detailed notes are made by the auditor of all that a pre-clear divulges. Even though Scientology promises that this information is never to be released or revealed, to anyone, should a pre-clear show any disposition to deviate or otherwise offend or attack Scientology, he soon realizes the grave embarrassment of such records, and the great influence that Scientology has over him. On the occasions that a Scientologist has left the Organization or attempted to seek legal redress against it for its civil torts or criminal activities, that person's "P.C. files", are sent to the local Guardian's Office. The local Guardian's Office then telexes that confidential information of "minds" to its superior. The Guardian's Office then utilizes that information to "black-mail the attacker", to prevent that person from exposing Scientology. Clearwater is one of the three Scientology bases

in the world containing auditing files of thousands of people. It is also the "Flag" land base for the "sea org" which is Hubbard's elite camp of para-military specialists analogous to the Nazi SS. At least one author, Sklar, "Gods and Beasts: The Nazis and the Occult" notes significant corollaries between Nazi SS training and Hubbard's methods.

3. Enforcement Policies

The "schizophrenic" nature of Scientology is concretely illustrated in its so called enforcement policies. Although Scientology creed states that "all men have the right to think freely, to write freely, their own opinions and to encounter, to utter, or write about the opinions of others", Scientology policies are specifically designed to suppress free speech, subvert and destroy any written publications about them, and viciously harass and attack those who seek to "write freely".

Scientology is organized and operated as a para-military organization with strict and sometimes brutally enforced policies designed to preserve the subjugation of its members, and prohibit exposure of its practices. These practices include "security checks," debt collection, "disconnect", a kidnapping policy called "The Blown Student", "Attack the Attacker", "Fair Game", and lastly a little-known policy called "R2-45".

a. Security Checks

Scientology regularly uses the "E-meter", which is a crude galvanometer or lie detector mechanism for "integrity processing" and "security checks" of its employees. Tests which are

administered are comprised not only of simple true-false type questions, but also are patterned after the JO-BURG Security Test which probes every aspect of a subject's lifetime activities. The purpose of the security checks is primarily to determine whether or not anyone has infiltrated Scientology and thereby exposed its internal policies of fraud, deception, and criminal activity. The security checks are designed to elicit not only all of a person's lifetime activities, but also any immediate contacts or discussions or involvement of any nature or description that the subject had with anyone pertaining to Scientology, L. Ron Hubbard, Mary Sue Hubbard, or any of Scientology's practices. Numerous Scientology defectors have chillingly described a "1984" type setting in which a person is told to "pick up the cans", for a "sec check", in order to determine if the person has any negative Scientology thoughts, as well as having engaged in any anti-Scientology activities. IX

One former Scientologist described the origin of the security check and some of its implications in the following affidavit:

"LRH had written an HCOB on R/Ses and R/Sers. The HCOB basically said that R/Sers were Suppressive Persons. An R/Ser is one who "Rock slams on the List One". An R/S is a reaction on the E-meter where the needle slams back and forth. It supposedly shows an area in which the person has overts and "evil intentions toward". If someone R/Sed on "work", that meant he had evil intentions about work and overts on it. The "List One" is a list drawn up by LRH of about 50-70 items on Scientology. The list includes LRH, Mary Sue Hubbard, auditing, E-meters, auditors, clears, and basically anything else on Scientology. So if someone R/Sed while talking about LRH or Scientology, they were an "R/Ser", and therefore, a Suppressive Person. You were told that the overts someone has committed LRH were not necessarily this lifetime - they could have been done in previous lifetimes, but the R/S showed that there were overts "somewhere on the time track" - all past lives to present. This program leads to the R.P.F., expanded dianetics and potential suicide". IX-1

The results of Scientology "sec checks" are used by the Organization as conditions of employment as Scientology staff members, because any individual who fails the sec check is immediately placed in the status of doubt with a threatened termination of his position. This factor alone violates many state laws and policies of private companies with regard to the use of lie detector testing. For example, Pennsylvania law provides:

"a person is guilty of a misdemeanor of the second degree if he requires as a condition of employment that an employee or other individual shall take a polygraph test or any form of a mechanical or electrical lie detector test".

Eleven other states have chosen to regulate polygraph testing because of encroachment upon personal privacy and the arbitrary, and invidious discrimination that can result. The private sector has also sought to prohibit polygraph testing as evidenced by the California Labor Code, Section 432.2 which prohibits its use. The fundamental policy objection to the use of polygraphs, is that it is degrading and could severely compromise the dignity and impugn the integrity of the subject. Scientology's use of the lie detector for purposes not only of determining real or imaginary hostility to Hubbard, but also to collect the most intimate secrets of a person's life and then use those secrets for subsequent tortious purposes of extortion and blackmail is repugnant on its face. VIII - 1

b. Freeloaders' Debts

When Scientology proselytizes a potential customer on the street, the first intent of the Organization is to extract from the person every dollar possible. Numerous individuals have recited a typical pattern of first being enticed through the free personality test, then paying a small amount of money for

the Communications Course, and during the Communications Course being guaranteed results in auditing. This is where the Organization traditionally extracts large sums of money from a person. Many individuals have reported paying thousands, sometimes hundred of thousands of dollars to Scientology for so-called auditing. The pattern continues with the individual eventually running out of money, or losing his job because of his involvement with Scientology. At that point, having sucked the person dry of his financial resources, the Organization then induces the individual to become a staff member. As a staff member, the individual is generally promised a salary, free Scientology services, extravagant living conditions, and miscellaneous other promises designed to make the person become an active staff member. When the individual subsequently becomes increasingly aware of the insidious nature of the Organization, he then seeks his freedom and is threatened with, among other things, what is commonly called a "Freeloader's Debt". VIII - 2

A Freeloader's Debt is designed to keep the person within the Organization, prevent a potential law suit, prevent exposure, and falls in line with the "Attack the Attacker" and the "Fair Game" policy hereinafter discussed. There are many reported instances where an individual, upon defecting from Scientology is threatened with a huge debt for services rendered to him or her while a staff member. Although the person has never received a salary in line with the work that he has done for the Organization, and traditionally never received the living conditions promised, both of which would give the former member legal grounds for suing the Organization, one of the threshold methods of blocking the suit, is to threaten the former member with a suit for collection of the "Freeloader's Debt".

One young girl who was a staff member of Scientology for approximately five years from the age of thirteen to the age of eighteen, worked from six to seven days per week, fourteen to eighteen hours per day, in slave labor conditions, eventually escaped from the organization, was later kidnapped, and escaped again. After her second escape, Scientologists sent her a bill in excess of \$60,000 for services allegedly rendered to her. This particular individual had worked in Clearwater for a number of years for virtually no pay, sleeping in a corridor, and with inadequate food. Scientology sent her the bill in order to psychologically terrorize her and prevent her from seeking legal redress for everything that was done to her.^{IX.-2} Many other individuals have stated they are afraid of pursuing their legal rights against Scientology because of their "Freeloader's Debt". One individual who had been a staff member for a number of years, went out and obtained regular employment. When the Scientologists learned of her employment, they wrote him letters threatening to sue him for her Freeloader's Debt, and terrorized the individual into giving them a substantial portion of her weekly pay check, until the alleged debt was paid. Such incidents are not untypical.

c. Disconnect

One of Scientology's methods of keeping its staff members from defecting involves an adjunct to its brainwashing techniques called "Disconnect". This policy is set forth in the HCO policy letter of December 23, 1965, and states as follows:

"Disconnection from a family member or cessation of adherence to a Suppressive Person or Group is done by the Potential Trouble Source. Publicly publishing the fact, as in the legal notices of "The Auditor", and public announcement and taking any required civil action

such as disavowal, separation or divorce, and thereby cutting off all further communication and disassociating from the person or group". Emphasis supplied. VIII-3

The authors of this Report, have discovered numerous instances of the policy of Disconnect, sometimes with incredibly twisted and perverted results. The policy is designed not only to prevent new staff members from contacting their parents, relatives, or friends, who may seek to enlighten them about Scientology, but also as a means of obtaining money. In many instances, situations have been reported where Scientology has forced a husband or a wife to disconnect from a non-Scientology spouse. The purpose of the Disconnect is to make the Scientist sue for a divorce and obtain as much money in the divorce proceeding as possible, which is then turned over to Scientology.

Although the public policy of Scientology allegedly promotes family harmony, and unity, and purportedly encourages marital integrity, Scientology in operation often incites divorce, not only among the general public which is merely taking courses, but also among the hard core staff members. Many Scientists who have disconnected from their non-Scientology spouse, and later marry other full-time Scientists, generally end up divorcing them. There is a consistent pattern of such activity, within the ranks of Scientology staff members. But the perverse nature of inciting divorce for purposes of securing money is repugnant to both the mores of our society as well as to fundamental human values.

Most societies assign a definite vital public interest in reference to the marriage relation. The institution of matrimony and family integrity is generally considered to be the foundation of our society, and public laws are generally

promoted to maintain its integrity. Public policy of fostering and protecting marriage and the family is universally recognized and numerous laws involving probate, domestic controversies, confidential marital communications, contractual restraints, tortious conduct for loss of consortium, interspousal immunity, and special property rights such as tenancy by the entirety, are designed to protect marital integrity. Scientology use of the Disconnect doctrine is fundamentally opposed to this basic value permeating our society.

d. The "Blown Student" doctrine

If a staff member defects or escapes from Scientology, the Organization traditionally resorts to its "Blown Student" doctrine. VIII-4 This doctrine states that a staff member who has defected, may be physically kidnapped and brought back to Scientology. There are many instances where this doctrine has been applied. In one case, a girl in her early twenties after being subjected to numerous security checks in the "Rehabilitation Project Force", (RPF - the Scientology concentration camp) reached the point where her "brain wasn't just falling apart, but it started to get fried". She left the Fort Harrison by going out of the garage, jumping over a wall and walking "like a zombie" for approximately fifteen minutes. She then describes the following sequence:

"I'm not sure where I was, somewhere on Fort Harrison Avenue, I think. I sat down on a stairway to figure out what to do. Then I remembered I had made the phone call to get my friend's number so I walked to a 7-11 and called her. I received directions to her house. It was approximately four to five miles. I walked it, and when I got there, there were four to five guys waiting for me. I'm not sure if my friend called them or if someone heard me asking for my friend's phone number. I completely broke down when I saw them, crying and carrying on. I told them I wanted to talk to my friend alone..I kept talking about how I couldn't handle the R.P.F anymore...meanwhile, my friend was convincing me to return to the R.P.F. She

said I would be a fool not to go back because I had such a "Freeloader Bill" that I would never pay it back. She told me of a friend of ours, who had left Scientology, and then was killed in a motorcycle accident.....

..."So I was "escorted" back by the guys, and put under immediate guard." IX -1

Another former defector describes the following sequence:

"Finally, in November 1977, I decided I had to escape. At approximately 4:30 a.m. I stole the keys from a guard who was sleeping at the door to the storage area, (in the Fort Harrison) where we slept. I crawled through an air duct on my stomach, where I observed the telephone in the lobby. I saw none, ran to the telephone, and called my father and told him of the situation. He told me he would send my uncle to come and get me and take me to Fort Lauderdale...finally, with my uncle's assistance I escaped and flew back to Las Vegas."

"Approximately two weeks after I had returned to Las Vegas, two of Hubbard's agents came to my house, and told me that Hubbard wanted to see me. I told them I would never return. They then asked if I would go for a cup of coffee with them. After a short while, I agreed to have coffee. I got in the car, in the front seat, and sat between the two agents. After driving a few minutes, I noticed we were driving to the highway, and I asked them where we were going. They told me I was being taken to Los Angeles to see Hubbard."

"In Los Angeles, I was locked in a room and forced to undergo a "security check" on the E-meter." IX-2

e. "Attack the Attacker"

When and if the foregoing policies have failed in regard to keeping a disaffected staff member in line, or if non-Scientists seek to exercise their First Amendment rights of free speech, and write articles critical of Scientology, the Organization responds with HCO policy letter dated December 25, 1966. VIII-5 That policy sets forth the "Attack the Attacker" doctrine, which states as follows:

"This is the correct procedure:

- (1) Spot who is attacking us.
- (2) Start investigating them promptly for felonies or worse, using our own professionals not outside agencies.
- (3) Double curve our reply by saying we welcome an investigation of them.
- (4) Start feeding lurid, blood, sex, crime, actual evidence on the attackers to the press.

Don't ever tamely submit to an investigation of us.
Make it rough, rough on attackers all the way."

The policy goes on to state that "Churches are looked upon as reform groups. Therefore we must act like a reform group."

This policy has been widely used against government agencies, private individuals, former members, and private agencies seeking to expose Scientology wrongs. The authors of this Report have uncovered hundreds of instances where this doctrine has been employed, and is aware that it is currently being employed in the Clearwater area against the authors of this Report.

f. The "Fair Game" doctrine

The "Fair Game" doctrine states as follows:

"ENEMY - SP Order. Fair game. May be deprived of property or injured by any means by any Scientologist without any discipline of the Scientologist. May be tricked, sued or lied to or destroyed." VIII-6

This doctrine has been vigorously enforced by Scientology in thousands of cases covering a wide spectrum of operations. Scientology has sought to "destroy" many individuals in governments and private agencies through harassive, expensive, law suits, attempts to frame individuals for crimes, dissemination of auditing information to the media, friends and relatives, and a general pattern of criminal activity, including burglary, larceny, obstruction of justice, extortion, racketeering, perjury, all designed to attack and destroy a so-called enemy. Much of the material set forth in Section (D) of this subsection relating to Scientology operations in Clearwater are examples of application of the "Fair Game" doctrine.

g. "R2-45"

Despite the general exposure of many Scientology practices, policies and attacks in the media over the past several years, resulting primarily from the F.B.I.'s seizure of documents from Scientology headquarters, there exists in Hubbard's twisted

mind and writings a little known policy called "R2-45". VIII-7 In the book, "The Creation of Human Ability - A Handbook of Scientology" written by Hubbard and distributed by the Church of Scientology of California, the following quote appears:

"R2-45 - an enormously effective process for exteriorization, but its use is frowned upon by this society at this time."

"Exteriorization", in Scientology policy is death. The policy refers to shooting a person in the head. In a short internal Scientology memorandum called "Racket Exposed", Hubbard attacks a number of individuals, subjects them to the "Fair Game" doctrine, and states as follows:

"Any Sea Organization member contacting any of them is to use auditing process R2-45".

It is unknown to the authors of this Report whether the process was used on those individuals.

During a meeting of Scientologists in Phoenix, Arizona, in 1954, Hubbard demonstrated the R2-45 auditing process by firing a shot into the floor during the middle of the meeting. There is some evidence to suggest that between 1975 and 1977, during the F.B.I. investigation of Scientology, meetings of Scientology executives were held in which there were discussions relative to auditing high level F.B.I. members with auditing process R2-45.

The death of at least one Scientologist by means of a pistol shot in the brain has been documented. The death of Susan Meister, who was found dead from a gunshot wound in her forehead at approximately 7:35 p.m. on Friday, June 25, 1971 was allegedly a suicide. The death of Susan took place on the

Apollo while it was docked in Tangiers, Morocco. Susan's parents traveled to Morocco seeking to obtain details of her death, and attempted to meet Hubbard to find out what role he and Scientology had played in her death. Susan was twenty three years old at the time and had been proselytized on the streets of San Francisco in the fall of 1970. During the course of her involvement, her letters to her parents gradually became more bizarre, until her death was reported to them.

When Susan's parents first learned of her death, they interviewed Arthur Maren, one of Scientology's P.R. people, and questioned him whether or not it could be a mistake, and whether it might be someone else. Maren's reply was, "Susan is dead alright, there is no mistake". Later, her parents received a letter from Scientology which stated in part as follows:

"I am sure you understand that the ship's company, an independent Panamanian agency, is under no obligation to the Church of Scientology of California, to provide information that it deems might go beyond the scope of a reasonable inquiry by bereaved parents. In addition to the details Rev. Maren has already communicated to you, (a precis of which is attached), further details of Church activity and doctrine can be found in the literature and book of ceremonies enclosed. As to shipment of remains, the ship's captain has indicated that should you wish local Christian burial with monument, such will be arranged in a Christian cemetery in Morocco, at company expense. If the remains are to be shipped to the United States, which I understand is your desire, the company is regrettably not in a position to bear the considerable costs involved." IX-3

It is interesting to note that the Internal Revenue audit concerning the Church of Scientology of California, and the Panamanian corporation referred to in the above letter were found to be totally controlled and operated by L. Ron Hubbard. In fact, as set forth elsewhere in this Report, millions of dollars were illegally funneled from California into the Panamanian corporation. Thus, Scientology's across-the-board deception of

Susan Meister, from the time she was proselytized into joining the Organization, to the time she died as a result of so joining, was extended to her "bereaved parents".

4. Commercial, profit oriented purposes and activities of Scientology

The purpose of Scientology is primarily to make money and secure power. This is Hubbard's unremitting goal. Hubbard's "governing policy" copyright 1972, is to "make money, make more money, make other people produce so as to make money". This "governing policy" pervades the entire Organization, which is structured to bring in as great amounts of money from as many people as possible. IX

Scientology's financial success may be attributed to its organizational efficiency, tax exempt status, payment of little or no wages to employees, charging exorbitant rates for its services, clever and deceptive marketing schemes, and its process for collecting debts.

Organizationally, Scientology maintains a Department of Treasury in each of its local orgs, monitored by the Guardian's Office, answering to the Treasury Department located in Los Angeles, California. Hubbard's governing policy to make money is found in a three hundred and seventy page volume entitled "The Treasury Division", one of approximately eight volumes entitled, "The Organization Executive Course". The aforementioned Hubbard policy letter of March 9, 1972 concerning making money and making more money best exemplifies the Organization's primary purpose in dealing with the public. The

Treasury Division volume contains a long series of marketing, financial and accounting policies. These policies and instructions include: How to do a Payroll, Pricing Formulas, Income Reports, Currency Regulations, Finance Policies, Org Assets, Rebates, Selling Intensives, Tape Prices and Discounts, Purchasing Orders, Maintaining Gross Income, Accounting Policies, Treasury Financial Reports, Finance Statistics/Bills and Org Reserve Accounts, Money Management, Invoicing, Promo, Credit Collections, Account Inspection, Professional Charges, Franchises, Handling of Monies, Invoicing and Collection of Money, etc.

Satisfaction of Hubbard's governing policy to make money, requires an elaborate marketing program. The Hubbard Bulletin of June 22, 1959, entitled, "How to Sell Scientology", starts a long series of bulletins and policy letters concerning marketing tools and techniques. One of the first steps in Hubbard's marketing plan, is running "Population Surveys". The Hubbard policy letter of January 25, 1972, entitled "Public Relations Series #15 Population Surveys", starts:

"Division VI specializes in human emotion and reaction-handling it, capturing and controlling it. They get the raw public flooding into the org for service... The survey reveals what the public WANTS. You match up the service to that WANT and promote and sell and deliver it. In other words, survey shows want FOO-FOOS. You match up the service that will give FOO-FOOS, tell the public we do FOO-FOOS, and sell and deliver FOO-FOOS.

Once the surveys are completed and tabulated, Scientologists establish a marketing plan geographically. When the area has been defined and the "buttons" or weakness of the public investigated, "body routers" are sent out onto the street to solicit persons into Scientology. The most widely used marketing tool of the Scientologists to achieve this is the "personality test".

Upon convincing the public to take the "personality test", the person is led back to the Scientology "org" for "registration". According to the Hubbard policy letter of May 3, 1964, entitled "Registration", it of vital importance that the Scientologist,

"always be interested in the other person's tale of woe, no matter what, that's why they've come to us for help; even if they are totally screwed up on help themselves. But know when to stop them in their tracks and take over. Be willing at all times to control the new body that comes into the shop".

In the Hubbard bulletin of March 17, 1958 entitled "Body Routing and Central Organization", Hubbard instructs:

"Reception must regard everyone who walks in, tradespeople and business callers excepted, as a potential P.C. or a student... the registrar or deputy in the org or A.S.S.N., or S.E.C. or D.I.R. of T.I.R. or P.R. signs this person up for something - a book, a membership, a one-week intensive or a course. A person must be sold something, large or small...Neat, fast, no wait, efficient reception followed by confident registraring can quintuple any org's income".

Besides selling books and courses to the newcomer, the registrar classifies the name and address, and files them with regard to the newcomer's desires to purchase Scientology's courses. In the Hubbard policy letter of May 17, 1969, entitled "Mailing List, Central Files", Hubbard created the "Hot Prospect File". "Hot" files are those that have recently expressed a wish to be trained or processed. Nothing may be filed in a HOT PROSPECT File that has not already been answered by a letter registrar (P/L 8 April, 1965).

H.O.T. Prospects are created by mailing to the entire org list magazines, hare sell promotion such as brochures and questionnaires.

The cost for these services for the new "HOT PROSPECT", are carefully controlled and monitored in Hubbard's policies and bulletins. Hubbard's policy letter of September 23, 1964, entitled "Auditing and Training Policies: Cost of Service", Hubbard writes:

"Cheap service costs the org money. You have to hire a staff just to administer it...You don't turn such traffic off because it doesn't buy. You form a place for it to come to like a public lounge. You give it tape plays. You whip it up to a roar...For instance, you never give away any academy course. You always charge heavily for it...ALL PERSONNEL SERVICES RENDERED TO THE INDIVIDUAL RESULTING IN A GOOD PROCESS, RESULTS, OR WORTHWHILE CERTIFICATE MUST BE CHARGED FOR HEAVILY...have more courses of shorter duration with less in them".

The cost for this new "HOT PROSPECT" to reach the moderate levels of Scientology runs into tens of thousands of dollars. The price schedule for Scientology courses in Clearwater includes a long list of courses, some of which cost in excess of \$40,000 for one type of course. Scientology in Clearwater accepts Master Charge or VISA. It is a "high crime" or "treason" in Scientology to give anything away for free.

Another method Hubbard employs to make money for his organizations entails a network of Scientology agents who operate on the incentive of a commission if a successful sale is made for the Church. The Hubbard policy letter of November 10, 1966 entitled "Field Staff Member", reads:

"The commission paid to field staff member will be paid on all services consecutively bought on one appearance at the org. This means that after reporting into an org and signing up for and paying for one service or more, if the selectee upon completion of that service buys another service, the F.S.M. commission will be paid on the second service, and so on."

In the Hubbard policy letter of June 5, 1968, entitled, "F.S.M. Commissions", it is revealed what those commissions will be.

"F.S.M. percentages are corrective and established as follows:

15% will be paid for any selectee routed on for auditor training. 10% will be paid for any selectee routed on the solo line."

The distribution of all monies collected by the Church of Scientology is, according to Hubbard's Finance Series, sent to Hubbard through his H.C.O. Division, F.S.M. Commission, Clearwater, Florida, the Guardian's Office "Worldwide", and Guardian's Office Reserve Account". What remains of the org's income is used for the operating expenses, promotion, org reserves, and salaries.

An audit conducted by the Internal Revenue Service of the United States, of the Church of Scientology of California in 1975 reveals the final destination for a lot of Church of Scientology funds. The following are excerpts from that audit report:

"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 on as cash aboard the Apollo from mid 1972 until October 13, 1975."

"The examination disclosed that the Church of Scientology of California made substantial payments to an organization called "Operation and Transport Services, LTD" (OTS/OTC) hereinafter referred to as O.T.C....The first meeting of incorporators and subscribers of Operation Transport Corporation Limited, was held on January 17, 1968. The incorporators were: L. Ron Hubbard, Mary Sue Hubbard, and Leon Stienberg."

"It appears that (Church of Scientology of...) California's funds are comingled with O.T.C.'s."

To sum up the California - O.T.C. relationships during the four years. California transferred (\$8,243,222.49) of its funds to O.T.C. during the period. In addition, O.T.C. had possession of \$1,493,897.17 of California funds prior to the transfer. The statements also show that O.T.C. received other Church income of \$747,853.19 over the four year period. O.T.C. had possession and control of \$10,482,072.85 over the four year period.

Internal Revenue Service audits frequently reviewed the United States' Guardian's Office financial activities in 1974. According to Guardian's Office receipts in 1974, \$649,459.00 was expended. At this time the Guardian's Office was involved in a scheme of systematic burglary, larceny, kidnapping, extortion, wiretapping and false imprisonment nationwide as hereinafter set forth in Subsection D.

The audit conducted by the Internal Revenue Service resulted in the denial of tax-exempt status for the Church of Scientology of California for the years of 1970 through 1974. The I.R.S. arrived at this conclusion based on the finding that during those years, Scientology carried on commercial activities of such magnitude, and for such profit making purposes, and of such non-tax exempt character, that the Corporation was not operated exclusively for religious or other tax exempt purposes. The I.R.S. also concluded that a large part of the earnings of the Church of Scientology inured to the benefit of Hubbard as a private individual which violated the Internal Revenue Law. The money and money's worth of benefits traceable to the Hubbards during this period of time included a) salaries, b) royalties, c) large sums of cash, d) unrestricted control (amounting to ownership), over large amounts of funds in a corporate bank account, Savings and Trust accounts, e) free room and board at the corporation's expense, and unlimited access to, and use of castles, mansions, villas, seagoing vessels, automobiles, motor cycles, and other facilities owned or supported by Scientology throughout the world, f) a large retinue of servants, valets, messengers, secretaries, couriers, cooks and other personal attendants, furnished and compensated by Scientology,

g) the receipt, generally in disguised form, of a substantial percentage of Scientology's earnings, and h) the diversion of large sums from Scientology to Hubbard utilizing sham entities such as O.T.C., and O.T.S., which were completely controlled and dominated by Hubbard.

The I.R.S. also concluded that the policies and activities of Scientology, some of which have been previously discussed in this Report, and some of which are discussed infra, vitiated Scientology's entitlement to exemption, because the policies amounted to substantial recurring violations of clearly defined public policy including:

- a) Conspiracy to impede and obstruct the I.R.S.
- b) Wrongful and malicious divulgence of personal and intimate information confided to Scientology by its members during auditing sessions, in reliance upon Scientology's deliberately false representation that such information would be strictly confidential.
- c) Pervasive violations of the individual rights of human dignity by subjecting members to "amend projects", and "R.P.F.", which enforced performance of humiliating and degrading acts.
- d) The infliction of serious, deleterious, mental and psychic damages that are a direct result of Scientology's dangerous brainwashing techniques.
- e) Depriving individuals of their own self-determination and ability to perform their own moral judgments through the use of brainwashing techniques.
- f) Removal of large amounts (over \$5,000) of currency or its equivalents from the United States without

disclosure in violation of federal law.

- g) Recurrent and pervasive use of blackmail, intimidation, and other egregiously anti-social acts by way of implementing Scientology's "Fair Game" policy.
- h) Scientology's "Disconnect" policy, resulting in enforced dissolution of marriages and other close family relationships.
- i) Insistence upon and use of non-voluntary lie detector (the E-meter) and security checks as a condition of employment in direct violation of state laws.
- j) Involuntary detention (equivalent to false imprisonment).
- k) Drastic punishment of members and employees.
- l) Violations of federal law by registering of Scientology's fleet of ships as private yachts used for pleasure, whereas in fact they were used for paramilitary training and commercial activities.
- m) Requiring members to violate federal law by falsely stating to the United States Immigration authorities that they were traveling abroad as tourists and vacationers when in fact they were either on covert missions or carrying undisclosed currency in violation of the law, or were traveling in the scope of their employment for Scientology in order to perform duties as such.
- n) The use of telex devices for the purpose of carrying on illegal covert activities in violation of the Federal Communications Act, together with a conspiracy to further such purpose.

The I.R.S. took the position that all of the foregoing commercial activities and violations of public policy negated Scientology's claim of tax exempt status in conducting its affairs as a religion. Although the I.R.S. conceded that the actual organizational requirements of Scientology had been met as far as filling out the forms needed for tax exempt status, the actual operational policies of the organization were such that a real religious purpose did not exist.

The I.R.S. and Scientology are in the middle of concluding a three month trial relative to the tax exempt status of the Organization. The overwhelming weight of the evidence introduced at the trial would appear to support the position of the I.R.S. and would tend to support a finding that Scientology has not operated as a religion, but rather as a commercial, profit-orientated organization.

The commercial activities of Scientology permeate its entire operation. They include such things as extensive advertising and solicitation of business; the payment of commissions to persons who can produce customers; the granting of discounts; an ever-increasing accumulation of earnings; granting first priority to customers who make the largest advance cash payment, rather than the one who is in greatest need of Scientology services; the use of drastic, arm-bending and emotionally crippling procedures for the collection of delinquent accounts; and finally the use of enforcement policies which are designed to extort from a customer his avenues of legal redress by threats of disclosure of confidential auditing information.

Additionally, an analysis of Scientology's costs (of printing its publications, and offering its services), when weighed against the price charged to innocent victims who are deceptively enticed to purchase these items, is indicative of a profit-motivated commercialism. For example the I.R.S. audit found that the sale of five thousand sets of "O.E.C." volumes, (a rambling collection of short policy letters written over the years by Hubbard), cost Scientology approximately \$190,000 to print, but were marketed at the sales price of approximately \$1,500,000, a markup factor of 789%.

Scientology greed and commercialism are graphically revealed in many individual cases where people have been defrauded of large sums of money. In one instance, an elderly woman whose husband had recently died, was deceived into Scientology "processing". In a span of approximately two weeks, the woman paid Scientology approximately \$35,000 for so-called auditing, most of which she did not even receive. When members of the family learned that the woman was paying large sums out of her checking account to Scientology, they went to the place where she was kept, and took her home. Between the time that the Scientologists learned that the family members were coming (which they learned during auditing), and the time that she actually left, which was a span of about five days, the Organization pilfered approximately \$12,000 from her. There are many instances of such fraud, too numerous to recount in this Report. Suffice it to say that virtually every person who is enticed into Scientology is viewed solely as a source of money or work.

C. SCIENTOLOGY AND THE COURTS

Beginning in the late 1960's, Scientology became heavily involved in litigation around the world and particularly in the United States. The litigation fell into three general categories: 1) lawsuits brought by the Scientologists against private citizens who criticized them; 2) lawsuits brought by private citizens against the Scientologists seeking damages for tortious and criminal activity, and 3) litigation between the Scientologists and various government agencies involving the enforcement of criminal and tax laws. In all three categories, all around the world, the Scientologists have lost virtually every case. There is a growing body of written judicial opinion which castigates the Scientologists in blistering language for their obstructive and unconscionable courtroom tactics, which include the raising of frivolous defenses, various means of obstruction of justice, and general abuse of the judicial process. See Appendix VII and X.

The following is a more detailed discussion of the three categories of litigation which the Scientologists have been involved in.

1. Lawsuits by the Scientologists against private citizens

In the early 1960's Scientology became the subject of public discussion and criticism. Hubbard and his henchmen realized that they would not be able to continue to attract victims if it became known on a widespread basis how Scientology treats its "members", and what the content of

Hubbard's teachings actually was. Accordingly, they conceived a plan to silence public discussion of Scientology and to force defectors into remaining silent about their experiences. This plan included aggressive criminal action, including extortion through use of confidential auditing information" which is described elsewhere in this Report. The plan also involved resort to the courts. Hubbard realized that many people cannot afford the financial burden of defending themselves in litigation. As his own financial resources grew, he was able to afford lawyers in cities all over the world to do his bidding. He launched a campaign of legal terrorism against all who dared to say anything about Scientology. His own writings set forth this policy very clearly: At one point he wrote:

"The purpose of a lawsuit is to harass and discourage rather than to win."

At another point Hubbard wrote:

"Don't ever defend. Always attack. Find or manufacture enough threat against them to cause them to sue for peace. Originate a black PR campaign to destroy the person's repute and to discredit them so thoroughly they will be ostracized. Be alert to sue for slander at the slightest chance so as to discourage the public presses from mentioning Scientology."

In one of his books, Hubbard gives even more explicit instructions about how lawsuits should be filed against people even against the advice of counsel. He wrote:

"The law can be used very easily to harass, and enough harassment on somebody who is simply on the thin edge anyway, well knowing that he is not authorized, will generally be sufficient to cause his professional decease. If possible, of course, ruin him utterly....."

"Should you ever be arrested for practising Scientology, treating people, make very sure, long before the time comes, that you have never used drugs or surgery, and that you have never prescribed a diet, or vitamins, and when that time might come, make very sure that you immediately and instantly, within two or three hours after your receipt of the warrant, have signed upon the server of that warrant, a personal civil suit for \$100,000.00 damages for having caused the arrest of a Man of God going about his business in his proper profession, and for having brought about embarrassing publicity and molestation...."
"And if you are foolish enough to have an attorney who tells you not to sue, immediately dismiss him and get an attorney who will sue. Or, if no attorney will sue, simply have an HASI suit form filled out and present yourself to the court clerk in the court of the area in which your case has come up..."
(Emphasis supplied).

Pursuant to these policies, which are carried out by Guardians' Office "Legal Officers", at each local org, Scientology organizations have, over the years, filed hundreds of lawsuits against private citizens and organizations. Most of them are absurdly frivolous. Most have been dismissed. Generally, the Scientologists have won cases only where they have so exhausted their victims' resources that the victims were unable to defend themselves. For example, in many instances the Scientologists have sued the same person or publisher simultaneously in many different states and countries, making it impossible for the person to defend himself. One of their favorite tactics is to sue a person in a far away place, in hopes that he will not go to the trouble to defend himself. For example, they sued the Reader's Digest in Perth, Australia. They sued Paulette Cooper, a resident of New York, in many parts of Canada. They sued Michael J. Flynn, a resident of Boston, in Nevada and California, as well as in Boston itself. They sued the St. Louis Post Dispatch in California. Fortunately, the courts have become more and

more aware of these terrorist tactics. See Founding Church of Scientology v. Verlag 536 F 2d. 429 (1976).

The following are illustrative examples of lawsuits by the Scientologists against private citizens. They are given by illustration only. The total number of cases is too lengthy to be included in this report.

- (i) Hubbard v. Vosper (1972) 1 All Eng. Rep.
(decided by the highest judicial court in England).

L. Ron Hubbard sued Vosper, attempting to enjoin him from revealing the contents of certain Scientology writings which he had taken with him when he left Scientology. The Court held that Hubbard was not entitled to relief because

- 1) the courses of the Church of Scientology contained such dangerous material that it was in the public interest that it should be made known, and
- 2) Hubbard had protected his secrets by such deplorable means that he came into court with "unclean hands" and therefore could not seek equitable relief.

- (ii) Church of Scientology v. Kaufman (1973)

R.P.C. 627, A lower court decision involving a similar effort by the Scientologists to enjoin publication of certain of its writings. The court followed the Hubbard v. Vosper opinion, after closely examining Scientology practises, including its habit of viciously attacking its critics.

- (iii) Church of Scientology v. Department of Health and Social Security (1979) 3 All Eng. Rep. 97.

In this case the Scientologists tried to get the names of people who had written to the Department with complaints against Scientology. The Court severely restricted their access to the names, after finding that there was a "real risk" that the documents requested would be used for "threats and blackmail". The Court referred to "the strong arm of Mr. Hubbard" which could harass and intimidate people in distant lands.

- (iv) Church of Scientology v. Cazares
638 F.2d 1272 (1981)

The Scientologists sued former Mayor of Clearwater for defamation and civil rights violations. The Federal District Court dismissed all the counts, and held further that the suit was so frivolous that Cazares was entitled to be paid \$38,000 for the amount he had expended to defend himself. This very extraordinary award was upheld by the Fifth Circuit Court of Appeals.

- (v) Church of Scientology of California et al v. James Siegelman et al
475 F. Supp. 950 (1979)

Church filed suit for defamation against publisher and authors. The District Court judge ruled that various statements of several of the defendants would not sustain a cause of action for defamation and the case was properly dismissed. The Court left standing a cause of action against one defendant.

- (vi) Founding Church of Scientology, Etc. v. Verlag, 536 F.2d 429 (1976)

A German magazine article described the terrorization of two women by West German Scientologists and noted an investigation into the activities of Scientologists by the West German Federal Criminal Affairs Bureau. The Scientologists sued for libel. The Court noted that this was one of many lawsuits which the Scientologists had filed against the same publisher.

- (vii) Church of Scientology of California v. James E. Adams
584 F.2d 893 (1978)

The Scientology organization sued a Missouri newspaper publisher for libel in California. The Court of Appeals upheld the District Court's dismissal of suit based upon lack of personal jurisdiction.

- (viii) Founding Church of Scientology of Washington v. American Medical Assoc.,

The American Medical Association's monthly magazine, Today's Health, contained an article, "Scientology - Menace to Mental Health." The

Scientologists sued for libel and defamation. The trial judge dismissed the complaint with prejudice. The Court of Appeals affirmed the dismissal and ruled that third count, interference with contractual relations failed to state a cause of action.

(vii) Lawsuits against Michael J. Flynn and Associates

Beginning in early 1980, the Scientologists have continually attempted to disrupt Michael J. Flynn's law practice by filing frivolous lawsuits against him and his associates. They began by filing a lawsuit in Federal Court in Las Vegas, Nevada, against Kevin Flynn and Attorney Thomas Hoffman alleging civil rights violations. The suit was dismissed within three months. They then filed a nearly identical lawsuit against Kevin Flynn in State Court in Las Vegas. That suit was dismissed earlier this year. They also filed a nearly identical suit against Michael J. Flynn in January of this year. It is expected that the suit will be dismissed shortly. They sued Michael J. Flynn in Massachusetts Superior Court in early 1980, alleging that he was a bailee of certain documents. Recently, after learning that Michael J. Flynn had been retained by the City of Clearwater, they filed a new suit against him in Federal Court in Los Angeles, and Complaints against him in Washington. They have also filed four bar Complaints against Michael J. Flynn, and one against Attorneys Thomas Greene and Thomas Hoffman, all of which have been dismissed. After learning of the Clearwater situation, they filed another bar Complaint against Mr. Flynn. All of these suits and complaints are entirely frivolous.

(viii) Canadian Litigation.

The Scientologists sued Lorna Levett and several other people in Canada for libel. After the case had gone on for some time, the judge ordered the Scientologists to post bond for defendant's attorney's fees in the amount of \$60,000, after concluding that the action was probably frivolous. They also sued Levett and others in California, where they could not afford to defend themselves.

(ix) Ernest and Adelle Hartwell

These two people are outspoken critics of Scientology in Las Vegas, Nevada. After the Hartwells contacted Michael J. Flynn, the Scientologists sued them for alleged civil rights violations. The Hartwells counter sued. The court denied the Scientologists Motion to Dismiss.

(x) Paulette Cooper

The Scientologists, over the years, have filed nearly twenty lawsuits against Ms. Cooper, including three in the last few weeks prior to the presentation of this report.

(xi) Boston Litigation

After learning that four defecting members had contacted Michael J. Flynn, the Scientologists attempted to get criminal complaints against them in the Boston Municipal Court. Failing in this, they sued them in Superior Court.

(xii) Readers Digest

The Scientologists sued the Readers Digest in connection with an article 18 months ago and in connection with the article in the present issue. The first suit was brought in Perth, Australia, for the sum of \$15,000, apparently in hopes that it would be ignored or settled. The suit has not been successful.

(xiii) St. Louis Post

The Scientologists sued the St. Louis Post in several places in connection with a series it did on Scientology. The suits were not successful.

(Xiv) Divorce Actions.

The Scientologists have often financed or provided legal counsel for members seeking divorces or awards in divorce actions, consistent with the policy of "disconnect" which encourages divorce.

2. Lawsuits by private citizens against
the Scientologists

Over the years the Scientologists have regularly engaged in tortious and criminal acts against members, former members, and critics who have never been members. Many of these plaintiffs have been horribly damaged and are seeking large compensation. The following is an illustrative list:

- (i) Allard v. Church of Scientology of California, et al.
120 Cal. Rptr 797 (1976)

The plaintiff sued for abuse of process alleging that the Scientologists had maliciously caused a criminal complaint to be issued against him. The criminal complaint was filed pursuant to the "Fair Game" doctrine but lacked any basis in fact. The jury awarded damages against Scientology in the amount of \$300,000 for abuse of process.

- (ii) Christofferson v. Church of Scientology
Civil Action 7704-05-184, Portland, Oregon

Jury awarded approximately 2 million dollars to former member who had only been in the organization for 7 months and only expended \$3,000. Jury awarded punitive damages for fraud, violation of the Oregon Deceptive Trade Practices Act, and outrageous conduct. Case is now on appeal.

- (iii) McLean v. Church of Scientology
Tampa Federal District Court

Former member suing for fraud, intentional infliction of emotional distress and other damages.

- (iv) Florida Physician
In late 1980, a Florida physician received a \$165,000 punitive damage award against the Church of Scientology in a libel case.

- (v) La Venda Van Schaick v. Church of Scientology of California, Church of Scientology of New York, Church of Scientology of Florida, L. Ron

Hubbard, Mary Sue Hubbard,
United States District Court, Boston
Civil Action No. 792491-6

Plaintiff is a named part in a \$200,000,000 class action filed on behalf of thousands of class members nationwide who have been victimized by a pattern of racketeering activities perpetrated by the corporate defendants. Plaintiff alleges various individual causes of action, to wit: fraud, intentional infliction of emotional distress, breach of contract, violations of Fair Labor Standards Act. She was kidnapped and imprisoned for a period of time. She was forced to divorce her husband. After she left Scientology, she was pursued and harassed, and her confidential auditing information was disclosed to the newspapers.

(vi) Tonja Burden v. Church of Scientology of California, et al,
Civil Action No. 80-501 T-K.
United States District Court, Tampa

Plaintiff relied on various representations pertaining to the philosophy and nature of the Scientology organization. Defendants promised plaintiff an education, a salaried position, comfortable living quarters, and that auditing benefits were scientifically guaranteed. Plaintiff alleges damages for breach of contract, fraud, emotional distress, conversion, false imprisonment, violations of Fair Labor Standards Act and Racketeer Influenced Corrupt Organizations Act. Tonja was subjected to the "R.P.F.", a humiliating and degrading prison type environment at the Fort Harrison where she saw one person "chained up", and others in various stages of mental and emotional deterioration. Tonja, from the age of 13 to 17, served as Hubbard's personal slave, decoding telexes for criminal operations, received no education, worked 80 hour weeks without pay, escaped, was kidnapped, given a \$60,000 "Freeloaders' Debt", subjected to "Fair Game", and has had confidential information disclosed to the media.

(vii) Paulette Cooper v. Church of Scientology of Boston, et al
Civil Action No. 81-681-MC
United States District Court, Boston

Plaintiff's suit alleges damages for intentional infliction of emotional distress and for invasion of privacy. Defendants engaged in a

nationwide conspiracy to attack, defame and destroy the plaintiff. This conspiracy included burglarizing the office of the Boston Globe; planting covert agents in the Attorney General's Office and in the Better Business Bureau, and burglarizing her psychiatrist's office.

The plaintiff's motion for substituted service upon L. Ron Hubbard was allowed by the court. This was the first court order allowing service upon Hubbard. The court allowed plaintiff's motion for a real estate attachment in the amount of \$300,000. The court ordered all discovery to be completed by December 31, 1981.

Paulette Cooper is also suing the Church of Scientology in California and New York. These actions relate to a frame-up on federal charges which the Scientologists carried out against Ms. Cooper after she wrote a book critical of Scientology. They subjected Ms. Cooper to years of burglary, harassment, anonymous smear campaigns, and other vicious tactics specifically designed to drive her insane, and at one point succeeded in having federal indictments brought against her, which were subsequently dismissed.

(viii) Dr. Lawrence Stifler v. Church of Scientology
of Boston et al,
Civil Action No. 44706
Suffolk Superior Court

Plaintiff, a 40 year old psychologist, specializes in physical exercise as a therapy for emotional problems. As he returned from work one evening, he was battered by an employee of the Church who had been frustrated in his attempt to induce the plaintiff to return for a "free personality test". Defendant jumped upon plaintiff's back and began choking him. Plaintiff, a marathon runner, fell to the ground and tore the medial meniscus in his knee. Plaintiff faces a prognosis of knee surgery, and has been unable to engage in his regular activities. The defendant's motion to dismiss was denied. The court allowed plaintiff's motions for real estate attachments totalling \$60,000. On request of the Plaintiff, the court set an early trial date for December, 1981

(ix)

Ernest and Adelle Hartwell v. Church of
Scientology of Nevada
Nevada District Court No. A196800

The Hartwells counterclaimed against the Scientologists, who originally sued them for civil rights violations. The Scientologists' motion to dismiss was denied by the court. The Hartwells were induced by false promises to leave gainful employment in Las Vegas, sell their belongings, and go to work for Scientology. They were promised salaried positions with luxurious accommodations in Clearwater at the Fort Harrison. They were sent, instead, to a secret desert location and given a vermin infested shack to live in. Hubbard was present at the desert ranch, attempting to make films. After the Hartwells left they were viciously attacked in an attempt to keep them quiet about Hubbard. The Scientologists attempted to break up their marriage, threatened to accuse them of crimes, libeled and slandered them in the public media, and threatened them with death. Ernest Hartwell was called a murderer and an extortionist.

(x)

James Gervais v. Church of Scientology of
Boston, et al
Civil Action No. 40906.
Suffolk Superior Court

Plaintiff counterclaimed against the Church for fraud, breach of contract, emotional distress, invasion of privacy, and other causes of action. Plaintiff purchased \$12,000 of auditing and was promised that auditing was scientifically guaranteed to confer miraculous benefits. Plaintiff was recruited by the Guardians' Office to engage in covert activities in Boston, to wit: investigation and intelligence gathering on Mayor Kevin White, Senator Joseph Timilty and other individuals. Plaintiff seeks damages for breach of contract, invasion of privacy, breach of fiduciary duty, unfair and deceptive trade practices, fraud, intentional infliction of emotional distress. The defendant's motion to dismiss was denied by the court and the suit is proceeding through the discovery stage.

- (xi) Stephen Garritano v. Church of Scientology
of Boston, et al
Civil Action No. 40906
Suffolk Superior Court

Plaintiff counterclaimed against the Church for fraud, emotional distress, breach of contract, violations of Fair Labor Standards Act, and other causes of action. Plaintiff worked seven days each week for approximately two years. Plaintiff became gravely ill when he was instructed to cure his illness through auditing. Plaintiff contracted hepatitis at the Fort Harrison which required hospitalization and a protracted period of convalescence, and was not allowed to see a doctor while he was there. During his time in Scientology he was subjected to intensive brainwashing routines.

- (xii) Peter Graves v. Church of Scientology of
Boston, et al,
Civil Action No. 40906
Suffolk Superior Court

Plaintiff counterclaimed against the Church for fraud, emotional distress, violations of Fair Labor Standards Act, breach of contract and other causes of action. Plaintiff rendered services for approximately 4 1/2 years as a staff member. Plaintiff was subjected to the "Disconnect" and "Fair Game" policies. The defendants' motion to dismiss was denied.

- (xiii) Marjorie Hansen v. Church of Scientology,
Inc., Church of Scientology of California, Inc.
Civil Action No. 41074
Suffolk Superior Court

Plaintiff is a twenty-one year old woman who fell prey to a typical "bait and switch" scheme on the street. Defendants fraudulently represented the nature of various Scientology courses; made fraudulent statements to the plaintiff's mother; subjected the plaintiff to the "Fair Game" and "Disconnect" policies. Plaintiff invested \$3,000 in Scientology processing and paraphernalia and provided services per contract agreement for five weeks working sixty hours per week. Defendants disclosed plaintiff's auditing materials and forced her to engage in sexual activities with her auditor. The defendants' motion to dismiss was denied by the court. The defendants refused to produce requested documents asserting the First Amendment right. The Supreme Judicial Court

found no privilege and the defendants were defaulted for failing to produce the documents. Subsequently, the plaintiff stipulated for a removal of default.

- (xiv) Lucy Garritano v. Church of Scientology of Boston, et al.
Civil Action No. 40906.
Suffolk Superior Court

Plaintiff counterclaimed against the Church for fraud, emotional distress, violations of the Fair Labor Standards Act, breach of contract, and other causes of action. Plaintiff rendered services for approximately seven years. Plaintiff was subjected to Disconnect policy and Fair Game doctrine. The defendants' motion to dismiss was denied by the court, and the suit is proceeding through discovery.

- (xv) Janet Troy v. Church of Scientology of Boston, et al
Civil Action No. 41073
Suffolk Superior Court

Plaintiff, a professional woman, was induced to join Scientology at a time when she was emotionally troubled. Defendant subjected the plaintiff to Disconnect policy, and insisted she disconnect from her therapist and family. Defendants told plaintiff that auditing would cure her emotional problems. Defendants conspired to defraud plaintiff's father. Defendants forced plaintiff to quit her job and work on the Church staff. Plaintiff purchased auditing for \$4,100. Plaintiff sues for breach of contract, invasion of privacy, violations of Fair Labor Standards Act, intentional infliction of emotional distress, unfair and deceptive trade practices, deceit, breach of fiduciary duty.

The defendants' motion to dismiss was denied by the court and the case is proceeding through discovery.

- (xvi) Jane Lee Peterson v. Church of Scientology of California, et al,
Civil Action No. CV-81-3259 (CBM) (KX)
United States District Court, Central District of California

Plaintiff was induced to join the Scientology organization in reliance upon numerous

misrepresentations concerning the organization and the benefits of auditing. The plaintiff has alleged numerous tortious counts for which she has suffered severe emotional and psychological distress.

The case was recently filed and the court has not acted on the defendants' motion to dismiss.

(xvii) Carol A. Garrity v. Church of Scientology of California, et al
Civil Action No. CV-81-3260 (WMB) (MX)
United States District Court
Central District of California

The plaintiff was defrauded of her time and money after relying on numerous misrepresentations concerning the Scientology organization and the benefits derived from the auditing process.

(xviii) Richard J. Peterson v. Church of Scientology of California, et al,
Civil Action No. CV-8103251 (CBM) (KX)
United States District Court
Central District of California

The plaintiff sued for intentional infliction of emotional distress, fraud, violation of Fair Labor Standards Act and numerous other actionable wrong. The case was recently filed and discovery has just been initiated.

(xix) Paul Garrity v. Church of Scientology of California, et al,
Civil Action No. CV-81-3260 (WMB) (MX)
United States District Court
Central District Court of California

The plaintiff sued for damages after suffering severe emotional and psychological distress. The plaintiff relied upon numerous false representations concerning the nature of Scientology and the benefits of auditing. The case was recently filed and the court has not ruled on the defendants' motion to dismiss.

(xx) Thomas Jefferson v. Church of Scientology of California, et al
Civil Action No. CV-81-3261 (RMT) (JRX)
United States District Court
Central District of California

The plaintiff sued for breach of contract, fraud, intentional infliction of emotional distress, invasion of privacy, breach of fiduciary duty and additional actionable torts. The plaintiff was defrauded in excess of \$60,000. The case was recently filed. The plaintiff was a professional golfer, P.G.A. member, and a family man prior to entering Scientology. As a result of his involvement in Scientology, he lost his P.G.A. standing and his marriage was intentionally destroyed. He was declared "Fair Game".

(xxi) Smith v. Church of Scientology of California et al
Suffolk Superior Court

Plaintiff sued for breach of contract, fraud, intentional infliction of emotional distress, invasion of privacy, breach of fiduciary duty, and deprivation of civil rights. The defendants motion to dismiss has been denied by the court.

(xxii) Kim Varchal v. Church of Scientology of California et al
Civil No.
Suffolk Superior Court

Plaintiff sued for breach of contract, fraud, intentional infliction of emotional distress, invasion of privacy, breach of fiduciary duty, and deprivation of civil rights. The defendants' motion to dismiss has been denied by the court.

(xxiii) Peggy Bear v. Church of Scientology of New York, et al,
New York Federal District Court

Mrs. Bear was fleeced of \$35,000 in less than two weeks. She is suing for return of her money, and for damages for fraud, infliction of emotional distress, etc. The Scientologists intentionally solicited her during a period of bereavement.

(xxiv) Dana Lockwood v. Church of Scientology of California, et al
Civil Action No. 81-4109-KN (JRX)
United States District Court
Central District of California

The plaintiff filed suit alleging breach of contract, fraud, unfair and deceptive trade

practices, invasion of privacy, breach of fiduciary duty, intentional infliction of emotional distress, violations of Fair Labor Standards Act and violations of the Racketeer Influenced Corrupt Organizations Act (for extortion and mail fraud). The plaintiff suffered severe emotional distress. The court has not acted on the defendants' motion to dismiss.

(xxv) Jose Baptista v. Church of Scientology Mission
In Cambridge
Civil Action No.
Middlesex Superior Court

The plaintiff sued for fraud, intentional infliction of emotional distress, unlicensed practice of medicine, invasion of privacy and other actionable wrongs. The court allowed the defendants' motion to dismiss five of the six counts but failed to write an opinion supporting its decision, which conflicts with written opinions of four Massachusetts Superior Court judges in eight other cases. The decision will be appealed.

3. Litigation between the Scientologists and Government agencies.

(a) Tax Litigation History of Scientology

The Church of Scientology is no stranger to state and federal taxing authorities. In fact, the Church of Scientology's tax status has been challenged in more courts than any other cult of similar vintage. Scientology has lost every challenge.

In 1969, the Church of Scientology of California became the "mother church" of Scientology and has continued to hold said position. Prior to the California corporation's ascendancy, the Founding Church of Washington, D.C. held the titular position. In 1961, the Founding Church filed suit

in the United States Court of Claims, seeking a refund. The primary issue raised was the tax exempt status under section 501(c)(3) of the Internal Revenue Code for the years 1956, 1958 and 1959. On July 16, 1969 the Court of Claims rendered an opinion finding that the Scientology Church did not qualify for the exempt status for the three years in question because, "nothing we have found in the record dispels the substantial doubts the Court entertains concerning the receipt (inurement) of benefit by the (L.Ron) Hubbards from plaintiff's (the Founding Church's) net earnings." Founding Church of Scientology v. United States, 412 F.2d 1197, 1202, Cert. denied, 397 U.S. 1009 (1969).

During July of 1967, while the Founding Church case was being litigated, the I.R.S. notified the Church of Scientology of Claifornia that it was no longer recognized as an exempt religious organization. The California Scientology corporation failed to heed the I.R.S. notice, and did not file corporate income tax returns. The I.R.S. attempted to audit the California Church for tax liability for 1968 and 1969 but the Church resisted claiming bad faith and harassment. The Scientologists filed motions for production of I.R.S files pertaining to the Church and attempted to notice depositions. The I.R.S. moved to quash discovery and the Court of Appeals ordered "a limited evidentiary hearing to inquire into the Service's purpose (i.e. harassment, Vel. none). United States and Cuberton v. Church of Scientology of California, 520 F.2d 818, 825 (9th Cir. 1975).

The parties conferred in Washington and the I.R.S conducted a tax examination of the California Church for the years 1971 through 1974. The Service prepared a 131 page report and eight volumes of exhibits. The contested issues are briefly summarized below:

- a) The accumulation of progressively increasing and substantial amounts of income (\$3,367,873.91, by December 31, 1974), not expended for religious or other tax exempt purposes.
- b) Inurement to a privately owned Panamanian corporation, OTC, via currency exchange gains amounting to \$879,615.63 for the years 1971-1974. This appeared to represent income to the California Church but was not accounted for in the Church's income tax forms.
- c) Approximately \$470,000 paid by the United Kingdom and Danish Scientology Churches directly to OTC during the years 1971-1974. This appeared to represent income to the California Church but was not accounted for in the Church's income tax forms.
- d) The California Church's failure to treat as income the advanced payments of the following amounts:

1971	\$ 788,704.96
1972	1,198,763.86
1973	1,635,786.00
1974	2,194,588.00
- e) Inurement to L. Ron Hubbard and family, royalties, and salaries, in violation of regulations of I.R.S.
- f) The California Church engaged in substantial commercial activity within the meaning of Better Business

Bureau v. United States, 326 U.S. 279 (1945) and
Scriptures Press Foundation v. United States, 285
F.2d 800 (Ct. Cl. 1961).

- g) The California Church deducted payments to the Central Defense and Dissemination Fund (U.S. Church of Scientology Trust).

The Internal Revenue's Audit raised additional questions pertaining to the following areas:

- a) The use by the United States Churches of Scientology Trust of Swiss and Luxembourg bank accounts as the depositories for millions of dollars of trust funds;
- b) The application and control of the Trust's funds;
- c) The maintenance of large amounts of currency belonging to Scientology aboard the ship Apollo for an extended period of time;
- d) The degree of control still effectively exercised by L. Ron Hubbard over the California Church's affairs and policies.

The National Office of the Internal Revenue prepared a Technical Advice Memorandum that concluded the California Church had failed to establish either

- "a) The non-existence of a substantial commercial purpose; or
- b) The non-existence of inurement to private persons or organizations".

On February 14, 1977 statutory notice of deficiency for the years 1970-1974, inclusive, were prepared. The deficiency notice was issued on December 28, 1977. Recently, the I.R.S. completed approximately three months of testimony which overwhelmingly demonstrated the following:

- (1) The California Church operates for a substantial non-exempt purpose; i.e. the commercial profit-making activities.
- (2) The California Church operates for a second, substantial, non-exempt purpose; i.e., the commission of acts and attempts to commit acts which are violative of public policy.
- (3) The California Church committed acts so repugnant to public policy that any tax exempt status would be vitiated.
- (4) The California Church allowed its net earnings to inure to the benefit of a private corporation, OTC.

The California Church is scheduled to present a rebuttal during the Fall of 1981 in Washington, D.C.

Meanwhile, in Missouri, a similar scenario developed. The Mission Church of Scientology resisted a ruling of the state tax commission which denied the "Church" tax exemption. In Missouri Church of Scientology v. State Tax Commission, et al, 560 S.W. 2d837 (1978) the Church sought judicial review of the tax commission determination:

"The personal property of the appellant (Church) has not, therefore been shown to be used exclusively for religious or charitable purposes and therefore cannot be exempted from ad Valorem taxation."

Upon review, the Supreme Court of Missouri affirmed the Lower Court's decision, that Scientology did not qualify as a religion for purposes of tax exemption. The Court subscribed to a strict definition of religion, belief in a Supreme Being. The

Court adopted the Commission's finding:

"We find the testimony of the Reverend M. Rock (Scientology witness) generally not to be credible and worthy of belief in particular in respect to his description and categorization of the activities of the Organization, its alleged religious services, its financial structure and the nature of the so-called donations which are made to the organization." 560 SW2d at 843.

The Commission further ruled:

"...appellant (Scientology Church) has some of the trappings and accoutrements of an organized religion, it appears to be more an applied philosophy which has certain religious connotation, but which falls short of being devoted to the worship of a Supreme Being. 560 S.W. 2d at 843."

The Missouri Supreme Court found that Scientology failed to qualify for exemption as its property was not used exclusively for religious worship.

Likewise, the Florida Courts denied the Church of Scientology of California tax exempt status for the year 1976. In Church of Scientology of California v. Schultz Fla. App., 371 So.2d502 (1979), the Pinellas County Property Appraiser's determination that the Scientology organization failed to qualify for tax exempt status was upheld by the District Court of Appeal of Florida for the Second District.

In R.v. Registrar General (Lord Denning MR) 3 All ER 886 (1970), the Registrar General determined that the Chapel at Scientology's English location, Saint Hill Manor, in East Grinstead, Sussex, England failed to qualify as "a place of meeting for religious worship". Consequently, the Scientologists were denied certain privileges and were subjected to

the levying of rates (Taxes). On appeal, Lord Denning of the Court of Appeal studied the creed of the Church of Scientology and opined:

"I must say that it seems to me to be more a philosophy of the existence of man or of life rather than a religion."

Lord Denning relied upon Scientology doctrine which stated:

"In a Scientology Church Service we do not use prayers, attitudes of piety, or threats of damnation. We use the facts, the truths, the understandings that have been discovered in the science of Scientology."

The Scientologists' appeal was dismissed and leave to appeal to the House of Lords was refused.

The Scientology organization's criminal, tortious and commercial activities will precipitate further governmental scrutiny which will result in additional challenges to claims of religious exemption.

(b) Enforcement of Criminal and Regulatory Laws

Scientology has been involved in many criminal cases and quasi-criminal cases both in the U.S. and in foreign countries involving violations of criminal law and other regulatory laws. Some of the case areas are as follows:

(i) United States v. Mary Sue Hubbard
U.S. District Court for the District of Columbia, Cr. No. 78-401.

The defendant, Mary Sue Hubbard (Ron Hubbard's wife) and 10 defendants, all of whom were top officials of the Church of Scientology, were indicted for conspiracy and criminal acts. All the defendants were convicted and sentenced to jail terms. The indictments were based on a massive campaign of criminal activity to infiltrate and burglarize government agencies and obstruct criminal investigations.

(ii) French convictions.

Hubbard was convicted in absentia and sentenced to a jail term in France for criminal activities by his employees there.

(iii) United States v. Article or Device, 333 F. Supp. 357 (1971)

Action was filed by the government seeking condemnation of the E-meter and writings for misbranding in violation of the Federal Food, Drug and Cosmetic Act. The Court held that the literature of the church contained false, unqualified scientific claims without any religious content. The E-meter was misbranded as a result of the misrepresentation, in failing to label with adequate directions for use.

The Court ordered that the E-meter could be used only in a religious setting and only if explicit warning disclaimers were affixed thereto. Scientology has never complied with this order.

In the opinion, Judge Gesell made the following pertinent findings:

"All of this was false - in short, a fraud. Contrary to representations made, there is absolutely no scientific or medical basis in fact for the claimed cures attributed to E-meter auditing."

"The bulk of the material is replete with false medical and scientific claims devoid of any religious overlay or reference."

"Viewed as a whole the threat of the writings is secular, not religious."

(iv) Church of Scientology of California v. Elliot Richardson, 437 F.2d 214 (1971)

Scientologists filed suit alleging deprivation of constitutional rights. The government had seized various E-meters and sought to return them to the United Kingdom. The government alleged that the E-meters were misbranded as they failed to display adequate instructions concerning their use. The Scientologists argued that the government's action constituted an infringement of the Church's First Amendment rights. The court held that the government's seizure was proper and reasoned the right to religious freedom did not include the right to violate the Federal Food, Drug and Cosmetic Act.

- (v) Church of Scientology of Minnesota v. Department of Health, Education and Welfare,
341 F. Supp. 563

Scientologists' motion to dismiss a case brought by the government was properly denied. The government alleged that the Scientologists misbranded E-meters by failing to supply adequate instructions concerning their use.

- (vi) In Re Possible Violation of 18 USC 371, 641, 1503
Appeal of Arthur Maren
184 U.S. App. D.C. 82 (1977)

A Scientologist minister, Arthur Maren, asserted a First Amendment privilege and refused to answer questions before the grand jury. Maren was found to be in contempt and sentenced. Maren appealed and the Court of Appeals affirmed the lower court's ruling which formed no valid privilege.

D. Scientology Operations in Clearwater

1. General description

Clearwater, Florida, and Los Angeles, California, represent the two largest Scientology headquarters in the world. Scientologists refer to their Clearwater operation as "FLAG". It is generally considered to be the home of the "Sea Org", which is supposedly Hubbard's elite corps of Scientologists complete with uniforms and paramilitary type training. The foregoing discussions about Scientology sales, practices, organizational structure, Guardian's Office activities, and enforcement policies, uniformly apply to Scientology activities in Clearwater. In fact, Clearwater and Los Angeles are the two central communications links for all Scientology activities, whether legal, illegal, fraudulent or criminal. The subtle brainwashing techniques of Scientology heretofore discussed which are set forth at length in the Australian and the English inquiries, are practiced daily in Clearwater. The deceptive and fraudulent sales practices including the breach of confidentiality of auditing information, and the "bait and switch" scheme which is a fundamental part of Scientology operations, are all practiced daily in Clearwater. The enforcement policies, including "Fair Game", "Attack the Attacker", "Disconnect", "Freeloaders' Debt", and "Security Checks", are practiced daily at the Clearwater facilities. The Guardian's Office activities which have been well publicized in the Clearwater media, including the incredible pattern of criminal burglaries, larcenies, infiltrations, harassment, and frame ups were all either formulated or implemented within the City of Clearwater, or Clearwater always remained the central communications link for all such criminal activity. XII

2. Scientology Origins in Clearwater

Intrusion into Florida occurred at Daytona Beach during October of 1975. Approximately 500 persons from Hubbard's primary ship, the Appollo, moved there and rented several hotels. A covert search was conducted in Florida at this time by the Guardian's Office to locate suitable headquarters for Hubbard and Scientology. This operation was called "Operation Goldmine". The controversial nature of the organization, and worldwide investigations by various nations required Hubbard to locate a quiet, non-controversial location. XII

Under the guise of "United Churches of Florida", Hubbard began purchasing buildings in Clearwater, Florida, through the Southern Land Development Corporation, a Scientology "straw" corporation. The purchase of these buildings in Clearwater was discussed in a letter dated November 25, 1975, to L. Ron Hubbard, by Henning Heldt, U.S. Guardian's Office chief. In that letter, Heldt writes:

"Available funds: I do not have all of the C of S of C (Church of Scientology of California) figures up to date here, but will shortly. Preliminarily, I have excellent news on covering the indebtedness. PER lola, C of S of C Lux Account balance is: \$7,100,000.00 approximately. Defense Funds for C of S of C total \$2,535,563.33 as of 30 September, 75. Subtracting \$3,100,000.00 for Fort Harrison, Bank Building, cars and various costs, the remainder is in excess of \$6,500,000. This leaves funds for purchase of Building #3 and the covering of Marty's 14 November figure.

.....Since U.C.F. (United Churches of Florida) is a subsidiary of C of S of C, it can be funded by C. of S. of C. as to its P.R. activities, and since its a part of C. S. of C., it may lease, rent, and use C. of S. of C. space for its religious purposes. Also personnel may transfer freely back and forth, a factor which can prevent logistic difficulties.

Yet, to the outside world and Clearwater, U.C.F. may represent itself as the user of Harrison and even that C. of S. of C. is a member. It can keep doing what it's doing, which is from all reports quite successful. From the outside, the whole operation can be made to appear to be U.C.F., and its members. Yet corporate distinctions that could make these appearances difficult to maintain, (personnel, income), can be very loose.

U.C.F. can phase out, or not, when C. of S. of C. is ready to surface....."

Once the purchase of the first buildings in Clearwater, Florida, was accomplished, Hubbard moved his base of operations to that area. This occurred in November and December of 1975. Although the Scientologists moved into the Fort Harrison Building, Hubbard established a secret headquarters for himself in Dunedin. To prevent persons from finding Hubbard, and his secret base at Dunedin, the Scientologist Guardian's Office maintained tight security at Hubbard's base. Guardian Program Order #156, (G.P.g.m.O. 156), entitled, P.G.M. LR.H. Security: Code Name Power, explains how this process was to take place, and what persons were responsible at the "FLAG" base in Clearwater. Some of the following are persons reviewed in that report:

Milt Wolf, Laura Wolf: "FLAG personnel with experience on PR lines. Laura, former legal research U.S. Short mini-hatting - internship, Dick Jones at WW for training for over a year, not A/G PR calibre, per WW."

B-1: "Randy Winmond and S.C. Covert Mission in CW (Clearwater). S.C. to be replaced by Cindy, Randy's wife. Both are very experienced in covert collection and ops. On Garrison M.O.S."

The Scientologists' clandestine presence in Clearwater, was shortlived since reporter Betty Orsini of the St. Petersburg Times initiated an investigation of United Churches of

Florida, and/or Southern Land Development and Leasing Company on or about November 24, 1975. Later, in a letter dated March 8, 1976, the Guardian's Office penetrated the St. Petersburg Times and stole numerous notes and memoranda of her investigation dated between November 24, 1975 and January 30, 1976. After the Scientologist's presence in Clearwater had been discovered, Hubbard fled Dunedin. The local media responded at the time with an investigation into Scientology which prompted the Guardian's Office to locate all persons both public and private "attacking" the organization. In a Guardian's Office letter dated March 12, 1976, entitled "Prediction in C.W." (Dick Weigand) wrote:

"Dear Duke (Snider), you asked for a chart of enemy lines used up to this point for C.W. (Clearwater) attack after research of the files was done. Attached is this chart. It looks complete to me. From this I see the areas of priority to infiltrate are:
1) S.P.T. 2) Mayor 3) Channel 13 T.V.
4) Snider 5) Florida Attorney General
6) Florida State Attorney (Russell).

As things have been quite hectic with me the last two days, I wanted to send this to you to go over. Any changes or additions you want to make would be fine".

The operations against the Mayor in the preceding paragraph were carefully orchestrated by the Scientology Guardian's Office over a period of time. During this period, the Mayor, Gabriel Cazares, had publicly responded to Scientologists' presence in Clearwater. As a result, the Church of Scientology's Guardian's Office ran a covert campaign to "ruin Mayor Gabriel Cazares' political career

by spreading a scandal about his sex life broadly." To achieve this, the Scientologists Guardian's Office wrote: "Get the C.W. Democratic Political Machinery, the local press, and some of the local Cazares supporters and Sci. dissidents to turn against Cazares as a political candidate". The actual operations against Cazares are found at the end of this report in Appendix XII.

The Church of Scientology's Guardian's Office in Clearwater went to great lengths to prevent Mayor Cazares from "attacking the church". Secret Guardian operation "Keeler" set in motion a mailing to responsible public persons in Clearwater by forging Washington Post news articles. The program called for Scientologists to purchase a faunt, (a typeset like the Washington Post), and produce a forged Washington Post newspaper article. Additionally, the Guardian's Office prepared an operation to send false and unsigned letters, false information using threats, to the Clearwater City Commission regarding Cazares. The letters to be sent to the attention of Karlene Deblaker. Apparently Ms. Deblaker was chosen by the Guardian's Office since "an unsigned letter is to go to the City Commission. Pick one person who would show it to the Mayor. A female Commissioner".

Protection against "attacks" from the Florida Attorney General, and the Florida State Attorney (Russell), mentioned in the above letter was accomplished by placing Scientology FSMs (Scientology covert agents) in the State Attorney's office and in the local District Attorney's Office in

Clearwater. Evidence of this infiltration is found in Guardian Program Order #158 dated December 5, 1975, entitled: Project Early Warning System: B-1. The purpose of the operation was to protect Hubbard. It stated:

"Maintain an alerting EARLY WARNING SYSTEM throughout the G.O. Network so that any situation concerning governments or courts by reason of suits is known in adequate time to take defensive actions to suddenly raise the level on LRH personal security very high."

The Guardian's Office infiltrated, with FSMs, the local U.S. Marshall's Office, the State Attorney General's Office, the local District Attorney's Office, and local I.R.S. District Office.

The increase in investigations of Scientology at this time led to a massive program by the Scientologists' Guardian's Office to silence its critics. A Scientology Guardians' Office document entitled DGUS Outstanding Orders into B-1 reveals a Log Entry #74 concerning "FSMs in the CW area. Debug the area". Included in these operations were the Clearwater Sun, the St. Petersburg Times, the Sertoma Club, the Clearwater Chamber of Commerce, the Easter Seals of Pinellas County, representative Culbreath, Dr. John Winter, Steve Advokat, the Executive Committee of the Pinellas County Democratic Club, St. Petersburg Junior College, Ron Stewart, the Clearwater City Departments of Health, Education, Sanitation, and the Fire Department. Scientology Logs of these operations are found in Appendix XII of this Report.

3. Clearwater, Communications Link for Criminal Activities

There is overwhelming evidence, particularly in the form of internal Scientology documents, to support the conclusion that Clearwater is a central communications link throughout the world for the many criminal activities in which Scientology is involved.

The aforementioned documents and others primarily came from the documents seized by the Federal Bureau of Investigation at the Washington and Los Angeles Guardians' Office in 1977. There may be many thousands of documents still on file in Washington relating to Scientology operations in Clearwater which have not yet been released or procured by the media or this firm.

The criminal operations which were conducted in the United States using Clearwater as a base of operations are absolutely staggering. These crimes include infiltration and theft of documents from many prominent private, national, and international organizations, law firms, newspapers; the execution of smear campaigns and baseless law suits to destroy private individuals who had attempted to exercise their First Amendment rights to freedom of expression; the framing of private citizens who had been critical of Scientology including the forging of documents which led to the indictment of at least one innocent person; violation of the civil rights of prominent private figures and public officials, and the overall criminal activity against the United States and other nations code named "Operation Snow White".

Prior to the sale of the Apollo and Scientologists' purchase of buildings in Clearwater, Operation Snow White was conducted primarily between the Apollo, the Worldwide Guardians' Office in England, and Los Angeles. Flag headquarters was

on the Apollo before it was located in Clearwater. One former defector from Scientology who worked for Hubbard for a period of years, described the actual "Snow White Room", next to Hubbard's bedroom on the Apollo as being a continual source of coded communications concerning their criminal operations throughout the world. Later when Scientology purchased Fort Harrison, this defector personally observed Hubbard control the operation of Scientology worldwide, through the use of coded messages both sent to and transmitted by him. At this time Hubbard used approximately 15 codes to conceal his operations, programs and policies. This particular defector personally delivered, in Clearwater, coded communications concerning Operation Snow White, Operation Freakout, Operation Goldmine and other Scientology secret and illegal activities.

The documents seized by the F.B.I. contain thousands of papers pertaining to the aforementioned criminal activities of the organization, most of which were routed through Clearwater, and many of which went through Mitchell Hermann, whose code name was Mike Cooper, who was in charge of the Guardian's Office for "SEVS-SEC" (Clearwater) after Hubbard left the area in early 1976.

For example, "Operation Freakout", dated April 1, 1976, which was "To get P.C. incarcerated in a mental institution or jail, or at least to hit her so hard that she drop her attacks," was routed through Clearwater. "Project Owl", which was an operation to steal documents either by burglary or

infiltration from private individuals in Boston, private law firms in Boston, the Suffolk County District Attorney's office in Boston, and the Massachusetts Attorney General's office originated in Clearwater by Mitchell Hermann. Hermann was one of the 11 Scientologists who has been convicted in Washington, D.C. for a whole panorama of crimes including the massive conspiracy against the United States government.

In addition to the larcenies and burglaries which took place in Boston cited above, the Guardians' Office, using Clearwater as a communications link, implemented burglaries of the American Medical Association, the American Psychiatric Association, various psychiatrists' offices throughout the United States, the apartment of Paulette Cooper in New York, a law firm in Vancouver, Canada, law firms in Washington and Chicago, and numerous government agencies including the I.R.S., the Justice Department, the Attorney General, the Food and Drug Administration, the Coast Guard, and various newspapers including the Washington Post, The Washington Informer, The Boston Globe, St. Petersburg Times, the Clearwater Chamber of Commerce, the American Telephone and Telegraph Company, the organization known as EST, and many other government agencies throughout the United States.

Since Hubbard has maintained a small secret base with the use of telexes to control Scientology, he has relied on Clearwater as the central communications link with it. For example, two individuals who were deceived into joining

Scientology through a number of false representations, were told that they were going to be involved in film making with Hubbard, and that they were going to live in Clearwater where the filming was taking place. All of their contacts and routing information came through Clearwater, but they actually ended up being blindfolded and taken to a base in Indio, California. At the present time, it is fair to conclude that most of the Guardian's activities are cleared through the Guardian's Office in Clearwater, before being implemented. Those activities currently include operations against attorney Michael J. Flynn, Gene Methvin of the Reader's Digest, James Calderbank, Martin Cohen, the Internal Revenue Service, Raymond Banoun, and many private individuals who have sought legal redress against Scientology.

Clearwater is also a major mailing center for Flag and Scientology publications. Virtually every one of these mailings constitutes mail fraud, because the organization has never complied with the decree in the case of United States v. Article or Device, requiring the Scientologists to warn in each and every one of its publications, that Dianetics, Auditing, and Scientology, are not capable of improving the health of anyone. Therefore, any Scientology activities in Clearwater which are designed to sell courses and material without complying with the decree in the Article or Device case constitute a fraud on the public not only in Clearwater but on those outside Clearwater who receive the materials.

4. "Clearwater RPF" - Physical and Mental Abuse of Individuals

The history of Scientology's abuse of private individuals in Clearwater, primarily at the Fort Harrison, is equally staggering. One Scientology defector who was in the "Rehabilitation Project Force", (RPF), at the Fort Harrison in 1976 and in 1977, has described many individuals on the verge of

insanity, some of which were "chained to pipes in boiler room" for long periods of time. This individual, although a minor, did not receive any education while at the Fort Harrison in violation of Florida law, and her living conditions were both deplorable and in violation of the fire and health laws of Florida. She slept on floors, hallways and storage areas which were concealed when the Scientologists learned, somehow, that officials were going to inspect the premises. Another Scientology defector described the RPF and security checks (r/s handling) as follows:

"I must have run dozens of these evil purposes, then we turned to my r/s handling. By now it's somewhere around the beginning of 1978, I think. I really have very little sense of time here-for one thing, one day was just like the next. There was no variation week-ends were the same as weekdays. It is all sort of one big lump to me-especially after I started on my expanded dianetics and my brain really started to come apart. I was in sort of a cloud or daze most of the time, that's the only way I can describe it.

"My r/s handling I think to the point where my brain wasn't just falling apart, but it started to get fried. I was running out all these evil purposes connected to the rs's and I started spouting out and running out the weirdest things like, "to be somebody else", "to blow up a planet", "commit suicide", "to never grow up", "to kill myself", "to destroy bodies". The list was endless. My brain was just getting fried in all of this. I mean I had to have been the most evil and craziest that ever existed. I don't know how to describe what happened other than my brain was frying right up. I felt like I was in a daze half of the time."

This individual later escaped, was brought back and placed under guard. She was finally released after her luggage and personal belongings were thoroughly checked and searched and she was made to execute affidavits and documents without reading them. Shortly after she left Fort Harrison, Jonestwon occurred and she states that "I realized that if at any point LRH (Hubbard) had handed me a glass of poison and told me to drink it, I would have, with no questions asked, and no second thoughts. At that point, I think I got "shocked" out of Scientology." The authors of this Report have encountered numerous individuals who have come back from Clearwater after receiving extended periods of Scientology processing in extremely crippled states emotionally, and sometimes physically debilitated. One former member became gravely ill when a hepatitis epidemic broke out in the childrens' area of the Fort Harrison in 1979. Unqualified Scientology officials distributed drugs and gave shots to persons to prevent the epidemic from spreading. The person designated the "medical officer", who had no qualifications as a medical doctor was placed in charge of this problem. This individual returned from Clearwater and underwent a complete physical and blood analysis. It was discovered that he had liver damage and evidence of mononucleosis.

Other defectors have reported instances where Scientology courses in Clearwater promised miraculous results for cure of headaches, anxiety attacks, cerebral palsy, heart trouble, and other illnesses. Shortly after a Scientologist committed suicide in Clearwater by throwing herself into the bay, the Guardian's Office conducted a program to "guard" all individuals who were under psychological strain as a result of

Scientology processing. In fact, some individuals were removed to other states, under the company of a guard, because of local media attention to the suicide.

The Fort Harrison also serves as a sanctuary for Scientologists involved in civil proceedings. Scientology considers Clearwater to be free of effective government monitoring at this time, and therefore uses it to hide witnesses who have been involved in similar criminal activity on behalf of Scientology. For example in 1980, a Scientologist from Boston attacked and assaulted a Psychologist on the streets of Boston. The Scientology agent was hidden for a period of time and then flown to Clearwater where he remained for a short period. This operation is typical of Scientology attempts to conceal witnesses pursuant to an operation code name "Project Quaker". This policy states:

"It may be deemed necessary for all the DC staff who could be pulled in for questioning to suddenly leave. US B-1 sec. is to insure that all concerned are ready to leave at any time and that all cycles-finance, 2D, bills, are completely up to P.T. and there no PTPS or stops to immediate departure."
"US B-1 seusec (Clearwater) is to immediately do up a confidential s-w for finances for this project. This is for seven or eight people so the amount should be about \$10,000.00 for staffers."...seusec US B-1 is to set up "early warning" system. ..."

The notations in the foregoing project Seus sec US B-1 refer to Clearwater. As previously stated, there are literally thousands of documents involving the commission of crimes such as the foregoing attempt to obstruct justice with the use of Clearwater as a sanctuary.

5. Commercial Activities of Scientology in Clearwater

The Church of Scientology in Clearwater, Flag, provides the most expensive Scientology processing in the world. Prices range from hundreds of dollars for many courses, to tens of thousands of dollars for high level processing. Rooms at the Fort Harrison cost up to \$650.00 per week in 1980. Master Charge and Visa credit cards are accepted at Flag. Customers are solicited throughout the world by "Missionaries". Missionaries are the sales force sent to the local "organization" throughout the world to solicit customers. Scientology salespersons operating at the local level in cities throughout the world, solicit persons off the street to take Scientology processing. As stated throughout this Report, grandiose promises are made to cure physical or mental ailments through Scientology processing. VI

Once the sale is closed, Scientologists at the local level methodically review the person's financial history. Information on wealthy customers is immediately sent up "lines" to Scientology operations at Flag. If the customer has sufficient wealth, "Flag representatives" from Clearwater fly to the local "org" to close the sale, and send the person to Flag for processing.

The Scientology "processing" at "Flag" emphasizes the most expensive courses including expanded dianetics and OT III. Expanded dianetics involves "auditing" of past lives and OT III involves a description of the supposed origins of Hubbard and Scientology. For example, an individual at Flag taking OT III, for which he has paid thousands of dollars to reach over a period of time, is presented with "secret" materials which state that he is a specially chosen person with superhuman powers who came to earth after surviving a galactic explosion engineered by

Xemu, the evil ruler of Helatrobis, 40 trillion years ago. The price for this course at Flag is \$9,021.78. The price for seven (7) levels of "OT" processing is \$26,614.32, which according to some medical doctors, causes the mind to undergo a process of "dissociation", eventually leading to permanent degenerative mental illness .

For example, one individual undergoing a divorce, had turned to "EST", (a self-improvement type technique) to help him through this traumatic period. Scientology had infiltrated EST and this person ended up buying Scientology processing after being "guaranteed" a host of cures for his problems, and having been told extravagant representations about Hubbard's background. He expended approximately \$75,000.00 in Scientology processing after being enticed by "Flag reps" to "come to Flag" and take the OT III course. His mind and personality gradually became so "dissociated" that he gave up his job as a CPA and spent three (3) years of his life taking Scientology "processing". He is now in the process of initiating suit against Hubbard and Scientology.

Another individual, from Boston, the beneficiary of an inheritance, was approached one day by the regular street solicitors of the Boston "org". After numerous promises were made to this person to lure him back to the org, a complete financial "rundown" was performed. After discovering the person's financial status, Flag representatives flew to Boston and extracted over \$14,000.00 from him within one week. Shortly thereafter, this person met with the authors of this Report and the monies were eventually returned to him.

Another victim was not as lucky. This person was recently the beneficiary of an inheritance when her husband died. Since

Scientology's primary marketing "targets" are the emotionally distraught, the loss of her husband left this woman particularly vulnerable. Flag reps from Clearwater met with her and defrauded her of \$33,000.00 in the course of a few weeks.

Flag representative salemen move as rapidly as possible to drain all funds from their victims. When all available funds are drained, some are allowed to "join staff" in order to continue in Scientology. The normal period for these individuals is 12 to 18 hours per day, 7 days per week. Their pay, if any, is generally under \$15.00 per week. There are many individuals working in Clearwater today in violation of the minimum wage laws.

There are many instances where individuals have paid tens of thousands of dollars to Flag under the deceptive sales techniques engineered by Hubbard and his "Flag reps". Many of these individuals subsequently realize they have been defrauded and seek their money back.

Prior to the media exposure of Scientology practices, it was virtually impossible for someone to get his money back because Scientology would first cajole, then subtly frighten, then overtly threaten the person. Since many of Scientology's fraudulent practices have come to light, more and more persons are gaining the courage to stand up to Scientology and demand refunds. Moreover, in the past, most lawyers were reluctant to take on Scientology clients because of First Amendment problems, the expectancy of harassive litigation, and the knowledge that Scientology might expose in the courtroom some of the hidden details of the client's life. The cases heretofore set forth suggest that this may be changing.

Another Hubbard method of channelling funds from churches throughout the world to Clearwater is through the use of management fees. The "Flag" representative at each local "org" ensures that these managements fees are allocated and sent to Clearwater. These fees range between 10 and 20% of the gross income of each local "org". Between the "management fees" and the courses and materials sold in Clearwater, one former Scientologist who worked close to Hubbard as Material Marketing Secretary, reported gross income from Flag to \$1,000,000.00 per week in 1979.

All of the commercial activities of Scientology previously discussed are practiced on a daily basis in Clearwater.

V. APPLICATION OF MUNICIPAL LAW TO SCIENTOLOGY
ACTIVITIES, POLICIES, AND PRACTICES

A. APPLICATION OF THE PROPOSED CHARITABLE SOLICITATION ORDINANCE TO THE CHURCH OF SCIENTOLOGY

The various corporate entities of Scientology in the City of Clearwater are, taken together, the largest fundraising organization in the City which claims charitable status. Heretofore, Scientology has operated in almost total secrecy with regard to its operations and finances in the City. The ordinance is intended to give the City a legitimate means of investigating the affairs of Scientology, and to restrict the activities of Scientology if it obstructs an investigation or refuses to cooperate. The ordinance also gives the City the authority to seek abatement of specific acts which Scientology regularly engages in, and to warn the public of certain facts.

It must be noted that through many years of litigation with the Internal Revenue Service, the Food and Drug Administration, the United States Attorney's Office, the Pinellas County Tax Assessor, various agencies of foreign governments, and with private litigants, Scientology has consistently conducted itself in a profoundly rancorous, contentious, contemptuous, and deceptive manner. It may reasonably be expected that Scientology will behave in the same manner with the City Consumer Affairs Commissioner. Every means of legal obstruction will be employed. Every subpoena will be resisted. No document or witness will be produced voluntarily. Witnesses will be instructed to commit perjury, or assisted in removing themselves from the State. Officers who are successfully subpoenaed will resign their

offices. Accordingly, the City must be prepared to vigorously enforce the Ordinance. It is probable that effective enforcement could be a process that will take several years.

In view of the probable response of Scientology, the ordinance has been designed with several self enforcing mechanisms. Refusal to provide the Commissioner with requested information is itself grounds for restriction of solicitation activities. The notice and warning provisions of the ordinance also provide effective and easily implemented means of dealing with the probable intransigent response of the Scientologists. Also, the Commissioner is empowered to conduct investigations and receive information from other sources. Thus, the enforcement of the ordinance is not dependent whatsoever upon the receipt of any information from the Scientologists. In fact, it is anticipated that they will produce nothing. In all likelihood they will not even file a registration statement.

As noted, the main features of the ordinance are 1) disclosure; 2) notice and warning to the public; and 3) power to abate prohibited acts. The following is a detailed description of how each of these provisions may be expected to affect the Church of Scientology and the issues that may arise in the enforcement process:

1. Disclosure - The ordinance requires the Church to disclose information it has never disclosed and has fought for years in court with the Internal Revenue Service and the Pinellas County Tax Assessor to avoid dis-

closing.¹ The information, if disclosed, would give the City the avenues to effectively investigate the financial affairs of Scientology. Since the principal corporate entity in Clearwater is the Church of Scientology of California, the activities of the entire corporation would be relevant to the registration and investigation. If such information had been truthfully disclosed in the past, it would have shown unequivocally that the Church devotes a substantial portion of its funds to non-charitable activities, specifically, the financing of a massive campaign of criminal activity including burglaries, infiltrations, illegal surveillance, perjury, kidnapping, and extortion.

Inurement of personal profit to L. Ron Hubbard and members of his family is an issue of proof which the IRS met in the early 1970's and which the requested information, if produced, would undoubtedly demonstrate again. The requested information would also demonstrate the exact relationship between the Church of Scientology and its various commercial affiliates such as the World Institute of Scientology Enterprises.

It should be noted that neither of those agencies ever had as much information available to it as is presently available to the City of Clearwater. The availability of information to the City results from the criminal convictions in Washington, D.C., the large number of defections from the ranks of Scientology which followed those convictions, and the good communications which now exist for the first time among the many private citizens and government agencies around the world who are involved in litigation with Scientology.

Scientology will either default and refuse to produce information, or will produce false information. There are several reasons for this. First, it cannot make an honest disclosure of the amount of money if funnels into Guardian's Office activities or open these records to inspection without incurring public scrutiny of the nature of Guardian's Office activities. As described elsewhere in this report, these are primarily criminal and tortious in nature.

Second, Scientology cannot afford to make known to its own members the details of its finances. Full disclosure of the extent of Scientology's assets and the ways in which it spends its money would deprive it of all justification for the exorbitant prices it charges for its "services".

Finally, Scientology cannot reveal its connections to its commercial affiliates or to Hubbard and his family since these are evidence of non-charitable uses of funds.

2. Notice and Warning - Refusal by Scientology to register or cooperate with an investigation, or commission of prohibited acts, give the Commissioner authority to publish and post warnings to the public. The Commissioner is further authorized to seek permission of the Court to post warning notices on the premises of the Church in a manner calculated to give reasonable notice.

This provision would have a significant impact on Scientology operations. Many of the people who come to

Clearwater are relatively new to Scientology. Wealthy people in particular, regardless of where they make their initial contact with Scientology, are soon solicited by "Flag" agents who encourage them to go to Clearwater and make payments to the organization of thousands of dollars. Often these people are given a special "kid glove" treatment. They are always told that Scientology is a charitable, non-profit organization. A strongly worded warning from the Commissioner would give people an opportunity to reflect on the wisdom of their payment while they are still capable of making an intelligent choice. It would give them access to information which the Scientologists specifically conceal. More important, it would notify them that the City has jurisdiction and an interest in the affairs of the organization and can entertain complaints from individuals. This would give defrauded individuals a place to seek a remedy and counteract the fear and isolation which the Scientologists intentionally create.

3. Prohibited Acts - The prohibited acts section of the ordinance, if vigorously enforced, would have a far reaching effect on many of the normal operations of Scientology. The Commissioner is given the power to abate these violations by seeking injunctions and fines. All of the prohibited acts can be fairly characterized as practices which are a proper subject of regulation. In the past, the Church of Scientology has committed most of these acts. The following is a description of Church practices which fit the definition of each pro-

hibited act. The letters correspond to the lettered acts in the ordinance. (See pages 162 - 164 , infra).

a) As noted in other parts of the Report, Scientology used funds for a period of years to support a massive campaign of criminal activity directed at government agencies and private citizens. Scientology has paid substantial sums of money to Hubbard and other members of his family. Scientology has used funds to oppress, harass, and bring law suits against private citizens. Funds have been used to support massive campaigns of false advertising. Funds have been used to create false front groups created solely for the purpose of libeling and destroying the reputations of private citizens. All of these acts are well beyond any reasonable definition of "charitable purpose".

b & c) See (a).

d) Application is prospective. It may reasonably be anticipated that if Scientology behaves as it has in the past and obey its own written internal policies, it will give false information.

e) Application is prospective. The Internal Revenue Service is presently in litigation with Scientology to take away its claimed tax exemption for the years 1970-72. It is expected that Scientology will lose the case. The IRS will then go after Scientology for subsequent years. The ordinance allows the City to base certain actions on IRS determinations.

f) The manner in which Scientology sells "auditing" is overtly fraudulent for many different reasons which are discussed elsewhere in this Report. This section of the ordinance allows the City to base certain actions upon any determination that Scientology has violated the consumer protection laws of the City, County, State of Florida, or United States. Generally, the fraudulent nature of Scientology's sales techniques are contained in their representation that auditing has a scientific basis, that it is confidential, that it has guaranteed results, and that refunds are offered to those who are dissatisfied.

g) See (f).

h) Part of the action against Scientology by the IRS in Los Angeles is an effort to take away the tax exemptions claimed by a number of individuals who gave money to Scientology and then took a tax deduction. If the IRS wins its cases, and Scientology thereafter represented that a deduction was available, a violation would occur.

i) Scientology has made a common practice of maintaining running accounts for many of its members which are termed "freeloader debts". Although Scientology takes the position publicly that monies paid to it are donations, the members are told that the "freeloader debt" is a legally enforceable debt

for which they can be sued, and in fact will be sued if they ever leave Scientology without permission.

j, k, & l) Scientology always promises that refunds will be given upon request. In fact, this is not so. A person who requests a refund is told he has to go through a complex refund application process which is actually calculated to do nothing except dissuade him from requesting a refund. Long delays and hidden charges are assessed. In fact, refunds are not given.

m) Scientology commonly acquires information in "auditing", a process which is akin to psychotherapy, and later employs that information in an attempt to solicit the person who was audited or a relative or friend of the person who was audited to purchase additional auditing. Intimate information obtained in auditing is exploited to make further sales by a malicious process called pressing "buttons", things which the person is known to feel concern or embarrassment about. Often people are approached at a very vulnerable moment, for example after a recent death or divorce, and subjected to heavy sales pressure.

n) It is anticipated that the Church will claim, that it cannot comply with the requirements of the ordinance because it does not keep sufficient records.

o) In its dealings with the IRS and in litigation with private individuals, the Church has attempted to frustrate investigations and discovery by changing its staff positions around, causing people to resign their position, etc.

p) The Church will always disclaim responsibility for the acts of any person. This provision requires the organizational affiliation of a solicitor to be established clearly and clearly fixes responsibility on the corporation for the acts of its solicitors.

q) See above. It is virtually certain that the Church will violate this provision in some way.

r) See above. It is virtually certain that the Church will violate this provision.

**PROPOSED ORDINANCE REQUIRING REGISTRATION STATEMENTS
FROM ORGANIZATIONS INTENDING TO ENGAGE IN
SOLICITATION OR SOLICITATION ACTIVITIES**

The following proposed ordinance is set forth in a preliminary form. It is intended to be consistent with modern Constitutional principles. Considerable effort was made to draft an ordinance which would withstand a Constitutional attack in court.

The ordinance is also drafted in view of the Florida Solicitation of Charitable Funds Act (s. 469.02 et seq.). The proposed

ordinance is intended to complement existing laws by addressing problems which are unique to the City of Clearwater and not adequately covered by state law.

As previously stated, the main features of the ordinance are 1) aggressive disclosure and warning provisions; 2) powers granted to a city official to investigate and abate specific prohibited acts. All of the contemplated prohibited acts are regularly occurring in the City of Clearwater.

Commission hearings prior to the adoption of this ordinance could develop a record showing the widespread occurrence of the types of things which the ordinance seeks to prohibit, and would strengthen the ordinance against Constitutional attack and develop public support for its passage.

THE PROPOSED ACT

DEFINITIONS

1) "Solicitation" means the request directly or indirectly for money, credit, property, financial assistance, or other thing of value on the plea or representation that such money, credit, property, financial assistance, or other thing of value will be used for a charitable purpose as those purposes are defined in this part, including the following methods:

a) Any oral or written request.

b) The making of any announcement in the press or electronic media in which any member of the public is requested to pay money to a charitable organization in the City of Clearwater.

c) The distribution or circulation, posting or publishing of any handbill written advertisement, or publication which directly or indirectly encourages payment of money to a charitable organization in the City of Clearwater.

d) The sale of, offer of, or attempt to sell any advertisement, advertising space, book, card, tag, coupon, device, magazine, membership, merchandise, subscription, tangible items, course or course of study, or service in connection with which any appeal is made for any charitable purpose, or when the name of a charitable organization is used or referred to in such an appeal as an inducement or reason for making any such sale, or when, in connection with any such sale, any statement is made that the whole or any part of the proceeds from any such sale will be donated to or used for a charitable purpose.

EXEMPTIONS

The registration requirements of this Chapter shall not apply to a) charitable organizations which receive less than \$100,000 per calendar year in contributions; b) collections or contributions during the regular worship services of any church or religious organization or the meetings or exercises of any lodge, fraternal order, of similar organization; c) the offering for sale or auction of any goods, services, of things of value upon the representation that the proceeds thereof are for a charitable purpose, where the proceeds thereof do not exceed \$25,000 in any calendar year.

Power of Consumer Affairs Officer to Register and Investigate Charitable Solicitations

1) The Consumer Affairs Officer of the City of Clearwater is hereby vested with the general authority, power, and jurisdiction to enforce the provisions of this chapter.

2) The Consumer Affairs Officer may make such rules as he deems necessary from time to time to implement the provisions of this chapter, and may require from any organization subject to this chapter any reports and information he deems necessary for the administration of this chapter. The Commissioner shall have the power to prescribe forms for registration, disclosure, and other purposes, to adopt procedures, and when necessary, to hold hearings and make adjudications as provided in this chapter and make recommendations to appropriate prosecuting attorneys for enforcement of any penal provision of this chapter.

3) In addition to the authority granted the Commissioner by this Chapter, he may commence and maintain in a court of competent jurisdiction all proper and necessary actions and proceedings to enjoin and abate any act prohibited by this chapter, or to enforce any subpoena issued by the Commissioner or to seek any injunction authorized by this chapter.

4) The Commissioner, upon his own motion or upon the complaint of any person, may, if he has reasonable ground to suspect a violation of this chapter, investigate any charitable organization, professional fund-raising counsel, or professional solicitor to determine whether such organization, counsel, or solicitor has violated the provisions of this chapter or the rules and regulations promulgated by the Commissioner, or has filed any statement or information required under this chapter which contains false or misleading statements.

5) All financial records of any professional solicitor or charitable organizations which pertain to the solicitation and expenditure of contributions received shall, upon demand, be available to the Commissioner for inspection and investigation and the term "financial records" shall be deemed to include banking records and statements, checks, drafts, receipts, and papers of any description which indicate the receipt or expenditure of funds. However, names, addresses, and identities of contributors and amounts contributed by them shall be exempt from the provisions of s. 119.07(1) of the public records law; shall not be disclosed by the Commissioner; and shall be removed from the records and the custody of the Commissioner at such time that such information is no longer necessary for the enforcement of this chapter and shall not be disclosed by the Commissioner.

6) The Commissioner may enter into reciprocal agreements with the appropriate authority of any other government entity for the purpose of exchanging information with respect to organizations subject to the provisions of this chapter.

7) For purposes of enforcing the provisions of this chapter and making investigations of any violation thereof, and for purposes of investigating the practices and business methods of any organizations to determine if there have been violations of this chapter, the Commissioner shall have the power to subpoena and bring before it any person in the state and may require the production of papers it deems necessary and administer oaths and take depositions of any such person so subpoenaed. The Commissioner shall have the power to effect service of process of subpoenas. Upon failure of a person without lawful excuse to obey a subpoena issued and served by the Commissioner, the Commissioner may apply to the Circuit Court for an order compelling compliance.

8) In addition to all other powers and duties created by this Chapter, the Commissioner is empowered to receive and investigate complaints from any individual who claims to have been defrauded, deceived, or injured by the commission of any act prohibited by this Chapter as a result of a solicitation or solicitation activities in the City of Clearwater by an organization subject to this Chapter. The Commissioner may conduct hearings regarding any such complaint, after notice in writing to all parties affected. The Commissioner may make findings and recommendations, fashion order and remedies, and seek enforcement of any such orders, in the same manner as provided for in the City of Clearwater consumer protection Act. (Draft copy of such act included with this proposal).

Registration

1) Every charitable organization in the City of Clearwater which intends to solicit contributions in Clearwater, or to sell or render any goods or services in Clearwater in connection with a solicitation for a contribution, shall, prior to any solicitation, file a registration statement with the Commissioner of Consumer Affairs on the forms prescribed by him. The registration shall contain:

a) The name of the organization and the purpose for which it was organized.

b) The principal address of the organization and the addresses of any officers in the City.

c) The names and addresses of any chapters, branches, and affiliated organization in the City.

d) The place where and the date when the organization was legally established, the form of its organization, and a reference to any determination of its tax exempt status under the Internal Revenue Code of the United States, the laws of any state, and the laws of any county or municipality.

e) The names and addresses of all officers, directors, trustees, and the principal salaried executive staff officers.

f) A copy of a financial statement prepared pursuant to a recognized uniform system of accounting which shall be prescribed or approved by the Commissioner, audited with an opinion of an independent certified public accountant, and covering complete disclosure of all the fiscal activities, of the charitable organization during the preceeding year. Said report shall conform to the "Audit Guides" published by the American Institute of Certified Public Accountants, and as may be modified from time to time by said Institute.

g) The names and addresses of every person with any responsibility for receiving, depositing, handling, holding, or disbursing any funds on behalf of the organization, and a statement of each person's responsibility.

h) Whether the organization intends to solicit contributions from the public directly or have such done on its behalf by others.

i) Whether the organization is authorized by any governmental authority to solicit contributors, and whether it has ever been enjoined or restricted in its manner of solicitation by any court or government agency.

j) The specific purpose or purposes for which contributions shall be used.

k) The name or names under which it intends to solicit contributions.

l) The cost of fundraising incurred or anticipated to be incurred by the organization, including a breakdown of all expenses and a statement of such costs as a percentage of contributions received. Said information shall include:

1) The cost of manufacturing, purchasing, renovating, or repairing any merchandise which is offered for sale in connection with a solicitation.

2) The cost of providing any service which is offered in connection with a solicitation.

3) The cost of any shows, theatrical presentations, lectures, or courses offered in connection with a solicitation.

m) A statement of the amount of funds expended by the organization to support or defend litigation.

n) A description of all commercial fundraising activities conducted by the organization and a statement of the amount earned at each activity. "Commercial fundraising activities" shall include:

1) The sale of goods and articles for a profit.

2) The provision of services for a charge in excess of their cost.

3) Collection of rent on real estate and interest on money loaned.

4) Any capital gains realized by the sale of any capital asset.

5) Interest and dividends earned on stocks, bonds, and securities.

o) The name and address of each person or entity to whom, in the preceeding year, the organization paid more than \$50,000 for any reason whatsoever.

p) The name and address of each person having custody of any financial record of the organization.

q) A narrative description of the promotional plan together with copies of all advertising material which has been prepared for distribution.

r) Such other information as may be reasonably required by the Commissioner for the public interest or for the protection of contributors.

2) The registration required under this section shall be filed and signed under oath by the chief executive officer of the organization. If the chief executive officer of the organization does not maintain a residence of principal office in the City of Clearwater, the registration shall additionally be endorsed and signed under oath by the highest ranking officer of the organization who resides or maintains a residence in the City of Clearwater. If said registration statement contains information the knowledge of which, or the documentary evidence of which is possessed entirely by any person or persons who do not reside or maintain an office or residence in the City of Clearwater, the statement shall designate any such information, and include the name and address of any such person, and specify the information and documents which any such person possesses.

3) No organization shall withhold any information of documents required to be produced under this chapter or requested by the Commissioner during an investigation on the basis that the documents or persons who possess the information are not located in the City of Clearwater. Any refusal to produce documents or information for such reason shall constitute sufficient grounds for the Commissioner to seek and obtain an injunction against all solicitation activities by the organization within the City of Clearwater.

4) If there is any change in fact, policy, or procedure that would alter the information given in any registration statement, the registrant shall notify the Commissioner in writing thereof within ten days.

5) Except as otherwise provided in this chapter, registration statements and all other documents and information required to be produced under this chapter by the Commissioner shall become public records in the office of the Commissioner and shall be open to the general public under such conditions as the Commissioner may prescribe.

6) If the Commissioner determines that any organization subject to this chapter has failed to file a registration statement or has filed a statement which does not contain information sufficient for the purposes of this chapter, he shall notify said organization in writing and specify what information it has failed to produce. If any such organization fails for fifteen consecutive days after receipt of notice to provide such specified information without legal excuse, the Commissioner shall declare a default, and such default shall constitute sufficient grounds for the Commissioner to seek and obtain an injunction against all solicitation activities by the organization in the City of Clearwater.

Maintainance of Records

Every organization subject to the provisions of this chapter shall, in accordance with rules and regulations promulgated by the Commissioner, keep true fiscal records as to its activities in conformity with the principles set out in the "Audit Guides" published by the American Institute of Certified Public Accountants. Such records shall be maintained for a period of three years after the end of each fiscal year of the organization and shall be made available to the Commissioner upon request.

Notice and Publication of Warnings Concerning Certain Charitable Organizations

If the Commissioner finds that any charitable organization subject to this chapter has failed to file a registration statement, or has filed a statement containing insufficient or false information, or has engaged in any act prohibited by this chapter, he may, in addition to all other actions authorized by this chapter, publish and promulgate notice to the public containing the following information: a) that the particular organization is subject to the provisions of this chapter; b) that the Commissioner is authorized to receive and investigate complaints relating to fraud and violations of this chapter; c) that the particular organization has failed to register, or provide sufficient information, or has engaged on prohibited acts, as the case may be. The publication may contain a description of the prohibited acts found to have been committed. The notice and publication may be placed in electronic and printed media and may be publically posted in a manner calculated to give reasonable notice to all persons affected. Said notice may be termed or entitled a WARNING. In addition to the above, the Commissioner may apply to the Court for an order that the Sheriff post such notice at conspicuous places on the premises of the organization.

Prohibited Acts

No organization subject to the provision of this chapter, and no agent, employee, or officer of any such organization, shall engage in any of the following prohibited acts:

a) use, expenditure, or allotment of solicited funds for any purpose other than the charitable purposes of the organization.

b) use of any portion of solicited funds to plan, support, or execute any conduct which is criminal or illegal under the laws of the City of Clearwater, the State of Florida, or the United States.

c) use of any portion of solicited funds for the profit or enrichment of any person; provided, however, that payment of reasonable salaries to employees in exchange for substantial services shall not constitute a violation of this section, nor shall reasonable commissions paid to professional fund-raisers.

d) making of any false statement or giving of any false information pursuant to the provisions of this chapter.

e) commission of any act, acts, or course of conduct resulting in loss of the organizations tax exemption pursuant to s. 501(c)(3) of the Internal Revenue Code of 1954, or of any corresponding section of any subsequently enacted Federal Revenue Act.

f) commission of any violation of the consumer protection laws of the City of Clearwater, Pinellas County, the State of Florida, or the United States, in the sale of any goods or services in connection with which any appeal is made for a charitable purpose, or the name of any charitable organization or purpose is used as an inducement for the sale, or any statement is made that the whole or any part of the proceeds from any such sale will be used for a charitable purpose.

g) use of any scheme or artifice to defraud or obtain money or property by means of any false statement, representation, or promise.

h) falsely representing that any contribution will entitle the donor to a Federal or State tax deduction.

i) use of unconscionable pressure or threats to obtain a donation, or falsely representing to any person that a pledge or promise to make a contribution constitutes a legally enforceable obligation under circumstances in which no such legal obligation exists.

j) promising any person that a contribution will be refunded upon request, and thereafter failing to promptly make a refund which has been requested.

k) promising any person that refunds of contributions will be made upon request without providing such person, at the time such representation is made, with a written statement of the terms and conditions upon which refunds are made.

l) promising any person that refunds will be made without maintaining adequate records and reserve funds to allow for prompt refunds upon request.

m) receiving or disclosing confidential information about any person for purposes of engaging in solicitation of money or property, under circumstances in which the person who provided the confidential information was not aware that it would be used for solicitation purposes and did not thereafter consent to its use for solicitation purposes. For purposes of this part "confidential information" means information obtained upon a promise that it would be kept in confidence and shall include, inter alia, records of confidential information kept by attorneys, physicians, clergymen, and counsellors.

n) failure to maintain any records required under this chapter.

o) failure to make any disclosure required under this chapter or to report any change of condition as required by this chapter.

p) solicitation by any person on behalf of any organization without written authorization of a presently active officer of the organization whose name has been disclosed pursuant to this chapter.

q) obstruction of any investigation commenced under this chapter.

r) willfull failure to honor a subpoena duly issued and served by the Commissioner.

Enforcement and Penalties

1) If, after investigation, the Commissioner has reasonable grounds to believe that an organization subject to this Chapter has failed to file a registration statement as required herein, or has filed a statement which is false or misleading, or has filed a statement containing insufficient information and has failed to correct such insufficiency after notice of default, he may bring an action in the District Court to enjoin any solicitation or solicitation activities by the organi-

zation in the City of Clearwater for a period of time sufficient to deter such failures but not to exceed one year. The Court, if it finds that such violations or failures have occurred, shall give injunctive relief accordingly.

2) If, after investigation, the Commissioner has reasonable grounds to believe that an organization subject to this Chapter has engaged in any of the acts prohibited herein, he shall apply to the District Court for injunctive relief to abate such violations. The Court, if it finds that such violations have occurred, shall assess a fine in an amount sufficient to deter future violations, but not exceed \$2,500 per violation. In addition, the Court may award the Commissioner attorney's fees in an amount sufficient to cover costs of enforcement. As provided herein, the Court may authorize the posting of notices in conspicuous places on the premises of any organization which has been guilty of prohibited acts sufficient to warn the public of commission or prohibited acts by the organization.

3) In addition to the foregoing, any person who willfully and knowingly gives any false information to the Commissioner in filing statements and reports required herein, or who willfully and knowingly obstructs an investigation of the Commissioner, or who willfully and knowingly leaves the State or assists any person to leave the State for purposes of avoiding the provisions of this part, shall be punishable (punishment is to be established by City Commission). If the Commissioner becomes aware of any such violation, he shall report to the appropriate prosecuting attorney and shall make available to the prosecuting attorney all records and documents which he may require.

B. APPLICATION OF PROPOSED CONSUMER PROTECTION ORDINANCE
TO OPERATIONS OF THE CHURCH OF SCIENTOLOGY

The proposed ordinance may be expected to have a broad impact upon consumer affairs in the City. The most important parts of the ordinance, vis-a-vis Scientology, are the education, warning, and investigation provisions. Vigorous use of these provisions would give members of the public vitally important information, before they become deeply involved in Scientology, as to what they may expect. Use of the investigation provisions would enable the City to develop detailed information about ongoing violations, and provide members of the public who have been cheated and defrauded by Scientology a convenient forum to seek a remedy. There is a vital need for public action of this sort in Clearwater for two reasons. First, the Scientologists have announced and are apparently now moving ahead with plans to entice Clearwater citizens directly into paying money to them, whereas previously their Clearwater facility has only been a magnet for people from other parts of the country. Second, people who have been cheated by Scientology presently have a difficult time securing private legal counsel to assist them in getting redress, because of the well-known vicious and abusive litigation tactics of the Scientologists. Both of these situations create an urgent need for the type of remedies proposed in the ordinance.

The ordinance has been intentionally drawn so that the above powers of the Commissioner are not dependent upon court action. This has been done in view of the anticipated legal hailstorm which the Scientologists will attempt to bring down on the ordinance as applied to them. Nonetheless, the specific

enforcement powers of the ordinance are important. The Commissioner is given the power to seek declaratory judgments that certain practices are illegal as well as injunctions. These actions may be expected to take longer, for obvious reasons, and the Scientologists will obviously take any decision against them to the Florida Supreme Court. The City can reasonably expect that a number of people will come forward with complaints about practices that have long been recognized as consumer violations by State and Federal courts. Investigations and hearings into these complaints will develop a more than adequate record for legal action.

The following is a description of the types of practices which the Scientologists have engaged in which are well-recognized as consumer violations.

1) Sales methods. Apart from outright fraud, which is discussed below, the Scientologists often use coercive and oppressive sales methods whenever they spot a prospect, which they refer to as "raw meat". Intense and unconscionable sales pressure is common. Covert financial investigations are done on people before they are solicited. Solicitation is occasioned by repeated personal visits to a person's home and place of work, and repeated telephone calls. Whatever physical, mental, or financial benefit a person wants, he is promised he can get it through Scientology. Visits and phone calls often take place at night. People are encouraged to produce cash or checks immediately in order to qualify for generous discounts. An effort is always made to find and play upon the emotional weaknesses of the victim, always

with the singular intent of getting as much money as possible. The names of well-known public figures are put forth as endorsing Scientology or participating in it when in fact this is false. Numerous false statements are always made about the founder of the cult, L. Ron Hubbard, the primary ones being that he has a scientific background, graduated from a university, and that he was a war hero. All of these practices are recognized as consumer violations.

"Bait and switch" is another common deception. The Scientologists convince a person to pay for and take a certain "course" which is promised to have certain benefits. In fact, the course proves to be nothing more than a skillful and aggressive sales pitch for subsequent more expensive courses. Numerous other obvious facts about Scientology are intentionally withheld from the prospective "raw meat". He is not told, at the beginning, that he is being invited on a course that takes many years and thousands of dollars, that he will be threatened, his privacy invaded, his confidential disclosures widely disseminated, that he will be subject to severe disciplinary measures including forced labor, that he will be threatened with suit, that he will be forced to disconnect from family and friends, or that he can be "destroyed" if he ever criticizes or attempts to expose Scientology.

2) Fraud. Some of the overtly fraudulent promises of Scientology have been recognized in court decisions, particularly the case of United States vs. Article or

Device. That case, decided by the Federal District Court for the District of Columbia, and subsequently upheld on appeal, dealt with the central practice of Scientology, E-Meter auditing. The Court decided, after lengthy review of the Scientologists' literature, that it was full of false claims with regard to scientifically guaranteed physical benefits produced by auditing. The Court ordered a warning to be affixed to all E-meters and all Scientology literature to the effect that auditing is not scientifically shown to produce any physical benefit. The Scientologists have never followed that order. To this day, physical cures are commonly promised from auditing. People are told that it will improve their eyesight, intelligence, resistance to disease, coordination, etc. Specific individuals have been told that auditing cures back problems, cancer, muscular dystrophy, intestinal problems, the effects of smoking, drinking, or drug abuse, the effects of swine flu shots, hepatitis, and other conditions. All of these promises are direct fraud, and direct violations of the Federal court order.

Another outright fraud which is always committed is the promise that a full refund will be made to a dissatisfied "student". In fact, refunds are rarely made. A person who requests a refund is given a complex "routing" form which gives him a nearly impossible number of tasks to perform in order to "qualify" for a refund. Part of the process includes a repetitive series of interviews in which he is heavily pressured and sometimes threatened in an attempt to get him to

give up his request. Numerous "charges" are made for processing the refund request. The request itself is, if the person pursues it far enough and persistently enough, referred to a different corporation in a foreign nation. The totality of impediments to the giving of refunds is so great as to make the original promise overtly fraudulent.

Another common fraudulent representation involves the nature of the organization. The Scientologists say that their "Church" is a law-abiding, non-profit organization devoted to the betterment of mankind. These statements are all totally false. Large portions of income are devoted to criminal activities, and to the harassment and attempts to destroy the reputations of private citizens and organizations. The organization makes huge profits, and regularly violates the tax laws of the United States. Their only motive is to make money, and this overrides any desire to benefit mankind. Their principle means of "benefitting" mankind is to attack and destroy anyone who opposes Scientology. These beliefs are plainly set forth in their own books. They are directly contrary to the initial picture which is painted for the unwary "raw meat", and constitute fraud. It is clear that the fraud is material, since most people would not join such an organization initially if they were aware of its criminal and malicious activities.

Another prominent fraud involves the representation that auditing is confidential. Auditing is, in effect, psychotherapy done on a lie detector device. Extremely

intimate information is revealed. The person being audited is not told, before he begins auditing, that this information will be recorded and turned over to other people, including individuals in the Guardians Office. They are not told that it is official policy of the organization to hold this information and later use it for blackmail and extortion purposes against defectors, and that this has been done on many occasions. Nor are they told that in the normal course of auditing a variety of different people are free to look at the records of their auditing statements, or that these statements will be used to encourage them to sever their relationships with family and friends. All of these activities are in direct contravention to the representation that auditing is confidential. For the protection of consumers, the Scientologists could be ordered to disclose that auditing is not confidential.

Another prominent fraud is the claim that Scientology promotes family harmony and marital unity. In fact, Scientology intentionally attempts to destroy these relationships whenever they interfere with the flow of money into their coffers, via a process called "disconnect". Again, the Scientologists could be required to make disclosures about the disconnect process.

3) Debt Collection methods. As noted elsewhere in this report, any person involved for any period of time in Scientology accumulates a "freeloader debt" of thousands of dollars. People are told by "legal officers"

that this is a legal debt for which they could be sued if they left Scientology without permission. This policy is set forth in the "Fair Game Doctrine". The Scientologists have been saying lately that "Fair Game" was cancelled, but this is an utter falsehood. There are documented examples of it as recently as 1979. Many people inside Scientology labor under a very real fear that they will be destroyed if they ever leave or go against Scientology. Such debt collection methods are well-recognized as consumer violations.

4) Unfair Business methods. There are, in the City of Clearwater, a number of businesses which are run by private individuals who are Scientologists. These businesses are part of the W.I.S.E. network (World Institute of Scientology Enterprises). They compete openly with other Clearwater businessmen in a variety of different fields. In other areas of the country, particularly in Boston, W.I.S.E. businesses regularly work closely with the local Scientology organization and employ other Scientologists at below minimum wage. The use of Scientology labor at below minimum wage is a commercial activity is clearly an unfair method of competition against other law-abiding businessmen in the same field (in addition to being a violation of the Federal Fair Labor Standards Act).

5) Minimum Wage Violations in General. Most working staff members of Scientology have been promised wages in return for services. These wages are never paid as promised. Legal redress through a local consumer pro-

tection ordinances should be considered for this overtly fraudulent practice.

The following proposed ordinance is presented in a preliminary form. As presented, it is not suitable for inactment by the City Commission, and requires considerable refinement and addition of numerous technical provisions. The material that follows gives a basic outline of the proposed ordinance.

The State of Florida as well as Pinellas County presently have consumer protection statutes in force. Both of these laws apply to transactions in Clearwater, but neither law precludes a more stringent or specific ordinance by the City. As noted elsewhere in this report, the City of Clearwater has a number of consumer protection issues which are unique to the City even as compared to other cities in Pinellas County.

The proposed ordinance is modeled closely after the Pinellas County Consumer Protection Act. That statute was declared to be Constitutional by the Florida Supreme, and close attention has been paid to drafting said ordinance which will survice a similar constitutional attack.

THE PROPOSED ORDINANCE

- 1) Title - this ordinance shall be designated the "Consumer Protection Ordinance of the City of Clearwater".
- 2) Legislative Intent - the public health, welfare, and interest require a strong and effective consumer pro-

tection program to protect the interests of both the consumer public and legitimate business man. Toward this end, the position of Consumer Affairs Officer is hereby created in the City of Clearwater to enforce all state laws, county ordinances, and municipal ordinances relating to consumer protection.

3) Definitions:

a) "consumer transaction" means a sale, lease, assignment, award by chance, or other disposition of an item of goods, a consumer service, or an intangible to an individual for purposes that are primarily personal, family, or household, or a solicitation by a supplier with respect to any of these dispositions. Said definition shall include, inter alia, transactions and solicitations relating to publicly offered vacation plans, courses of study or instruction, physical and mental self improvement courses, business and personal counselling services, but shall not include services rendered by licensed attorneys, physicians, dentists, or medical care practitioners. Said definition shall also include sales of goods and services by charitable organizations or solicitations for such sales, wherein a representation is made that the thing sold is of substantial value commensurate with the price charged as an inducement or reason for making such sale.

b) "supplier" means a seller, lessor, assignor, or other person who regularly solicits, engages in, or enforces consumer transactions, whether or not the

supplier is a natural person, partnership, association, corporation, charitable organization, or non-profit organization.

c) "violation" means a violation of any state law, county ordinance, or municipal ordinance relating to consumer protection, whether civil or criminal in nature, including, but not limited to the Florida Deceptive and Unfair Trade Practices Act, as interpreted in light of the Federal Trade Commission Act and other Federal consumer protection acts, and the interpretations given them by the federal courts.

4) Powers and Duties of the Consumer Affairs Officer

a) To enforce the provisions of all state laws, county ordinances, and municipal ordinances relating to consumer protection, whether civil or criminal, according to the procedures set forth herein.

b) To receive and investigate complaints of alleged violations as defined in this ordinance.

c) To initiate investigations where there is reason to believe, based on evidence presented to him by any person that a violation has occurred or is occurring.

d) To refer complaints to the Office of the State Attorney where there is reason to believe that a criminal violation has occurred or is occurring.

e) To institute actions in the Circuit Court, according to the procedure set forth herein, to

obtain a declaratory judgement that an act or practice constitutes a violation, and to seek injunctive relief against a supplier or other person who has committed, is committing, or is threatening to commit a violation.

f) To effect service of process upon any supplier or other person charged as a respondent in a complaint.

g) To effect service of process upon witnesses.

h) To hold and conduct hearings, as set forth herein.

i) To order a supplier or other person to cease and desist from committing a violation.

j) To implement and administer consumer protection education programs and consumer warning campaigns.

5) Operating Procedures of the Commissioner

a) Any person may make or file a complaint with the Commissioner stating the name and address of a supplier or other person alleged to have committed the violation complained of and the particulars thereof, and such information as may be required by the Commissioner.

b) Upon this filing of a complaint, the Commissioner shall cause such investigation as he deems appropriate to be made. If the Commis-

sioner determines that there are reasonable grounds to believe that a violation has occurred, he may attempt to conciliate the matter through conferences with all interested parties and such representatives as the parties may choose to assist them.

c) If the Commissioner determines that there is no reasonable grounds to believe that a violation has occurred, he shall dismiss the complaint. Any person who has filed a complaint which has ultimately been dismissed by the Commissioner may appeal by way of certiorari to the District Court within 30 days thereafter.

d) Whenever the Commissioner shall have reason to believe, based on evidence presented to him and based on his investigations, that a supplier or other person has committed or is committing a violation and if it shall appear to the Director that a hearing in respect thereof would be in the public interest, he shall issue and have served upon the supplier or other person a complaint and notice of hearing stating the charges and setting a hearing at a time and place certain. The respondent so complained of shall have the right to appear at the place and time so fixed and defend against the allegations contained in the complaint.

e) After a hearing the Commissioner shall make written findings and may make appropriate orders. Said orders shall be enforced by the Commissioner as provided herein.

6) Service of Process - Service of process upon a respondent shall be accomplished at least fourteen (14) days prior to the date of hearing and may be affected by personal service by a duly designated agent of the Commissioner or by certified mail, return receipt requested. Service by certified mail shall be effective three (3) days after depositing the complaint and notice of hearing in the United States Post Office addressed to the owner at his last known address with postage prepaid thereon.

7) Procedures Governing Commissioner's Hearings - The following procedures shall govern the conduct of hearings before the Commissioner:

a) Burden of Proof - The burden of proof shall be upon the complainant;

b) Order of Proof - The complainant shall present its evidence and testimony first. Thereafter, the respondent shall have the right to present its evidence and testimony. The complainant shall then have the right to present rebuttal evidence and testimony;

c) Admissibility of Evidence and Testimony - Any relevant evidence shall be admitted if the Commissioner finds it competent and reliable, regardless of the existence of any common law or statutory rule which might make improper the admission of such evidence. Hearsay evidence may be used for the purpose of supplementing or explaining any direct evidence but shall not be sufficient in itself to support a finding unless it would be admissible in civil actions. The rules of privilege shall be effective

to the same extent that they are now or hereafter may be recognized in civil actions. Irrelevant and unduly repetitious evidence shall be excluded. At the hearing the parties may present testimony and evidence, and the right to cross-examine witnesses shall be preserved. All testimony and evidence shall be given under oath or by affirmation. The hearing record shall be public and open to inspection by any person; and upon request by a principal party to the proceeding, the Commissioner shall furnish such party a copy of the hearing record, if any, at such cost as he deems appropriate. Each party shall have the following rights:

- i) To call and examine witnesses;
- ii) To introduce exhibits;
- iii) To cross-examine opposing witnesses on any relevant matter even though that matter was not covered on direct examination;
- iv) To impeach any witness regardless of which party first called him to testify;
- v) To rebut the evidence.

d) Action by the Commissioner. If based upon the testimony and evidence presented in the hearing, the Commissioner determines that a supplier or other person has committed or is committing a violation, it may issue an appropriate Order or take any other action authorized under the provisions of this Act. Any Order or other action taken by the Commissioner shall be reduced to writing and shall specify the findings of fact upon which the order or other action is based.

e) Service of Orders - Any supplier or other person affected by any order or other action by the Commissioner shall be notified either personally or by mail of such Order or other action, and unless waived, a copy of the final Order or action shall be delivered or mailed to such supplier or other person or to his attorney of record.

8) Judicial Review - Any person, firm, corporation, or agency aggrieved by any decision of the Commissioner may appeal to the courts as provided by general law within 20 days from the date of the decision sought to be reviewed; provided, however, that only final orders of the Commissioner may be so reviewed. Interlocutory procedural appeals are hereby specifically prohibited.

9) Enforcement of Orders - If the Commissioner determines that a party has failed to comply with the terms of an order within the time specified, he shall have the authority to initiate an appropriate action in the Circuit Court to compel compliance, including action for declaratory relief and actions seeking injunctive relief.

10) Enforcement of Subpoenas - Upon failure of a person without lawful excuse to obey a subpoena issued by the Commissioner and upon reasonable notice to all persons affected, the Commissioner may apply to the Circuit Court for an order compelling compliance.

11) Penalty for Violation of an Order - Any supplier or other person who violates an order of the Commissioner after it has become final, and while such order is in effect, shall forfeit and pay the City of Clearwater a civil penalty of not more than two thousand (\$2,000.00) dollars for every violation which shall accrue to the City and may be recovered by it in a civil action. Each separate violation of such order shall be a separate offense, except that in the case of a violation through continuing failure or neglect of obeying a final order of the Commissioner, every day of continuance of such failure or neglect shall be deemed a separate offense.

12) Penalties for Hindering or Obstructing Investigations
- Any person who shall hinder or obstruct in any way the Commissioner or an investigator in the performance of his official duties shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083, Florida Statutes.

13) Statute of Limitations - No action may be initiated by the enforcing authority under this act more than two (2) years after the occurrence of a violation.

14) Other Rights and Remedies - Nothing herein shall prevent any person from exercising any right or seeking any private remedy to which he might otherwise be entitled, or from filing any complaint with any other agency.

11) Penalty for Violation of an Order - Any supplier or other person who violates an order of the Commissioner after it has become final, and while such order is in effect, shall forfeit and pay the City of Clearwater a civil penalty of not more than two thousand (\$2,000.00) dollars for every violation which shall accrue to the City and may be recovered by it in a civil action. Each separate violation of such order shall be a separate offense, except that in the case of a violation through continuing failure or neglect of obeying a final order of the Commissioner, every day of continuance of such failure or neglect shall be deemed a separate offense.

12) Penalties for Hindering or Obstructing Investigations - Any person who shall hinder or obstruct in any way the Commissioner or an investigator in the performance of his official duties shall be guilty of a misdemeanor of the second degree punishable as provided in s. 775.082 or s. 775.083, Florida Statutes.

13) Statute of Limitations - No action may be initiated by the enforcing authority under this act more than two (2) years after the occurrence of a violation.

14) Other Rights and Remedies - Nothing herein shall prevent any person from exercising any right or seeking any private remedy to which he might otherwise be entitled, or from filing any complaint with any other agency.

C. STANDARDS FOR DETERMINING TAX-EXEMPTION AS
APPLIED TO SCIENTOLOGY

There are two primary issues confronting the City of Clearwater in deciding whether the property and the operations of Scientology within the City are properly taxable. The first issue relates to defining the respective power or authority of the State, County and Municipal government to impose and collect the various types of taxes that may be applicable to Scientology. The second issue is whether Scientology has conducted its affairs within the City in breach of the standards discussed in Section III - C of this Report as to warrant the conclusion that Scientology has not operated exclusively for religious purposes as required by said standards. This latter issue appears to be more easily resolved in favor of the power of the State, County or City to impose and collect taxes from Scientology. The former issue is less capable of clear resolution and the financial considerations involved warrant the conclusion that the City should conduct public hearings with respect to the proposed ordinances; and provide the results of those hearings to the State and County taxing authorities for purposes of collecting appropriate taxes.

Except in very limited areas of taxation, such as an occupational tax, the general power to levy and collect taxes lies within State and County jurisdiction. Taxation by a municipality must be expressly authorized by either the State Constitution or by legislature grant. City of Tampa v. Bridson Motors, Inc., 261 So. 2d 1 (1971). The City may, however, petition the State or County through a writ of memorandums to compel collection of a tax. See, Opa Locka v. Metropolitan Dade County, 247 So. 2d 755 (1971). Oftentimes, a City joins with the County seeking collection of taxes. See Winter Park, et al v. Presbyterian Homes, etc., 242 So. 2d 133 (1971).

In view of the traditional approach of the Florida appellate courts to vest taxing authority within the County and the State, the most rational and appropriate course for the City of Clearwater is to investigate and collect information regarding Scientology practices within the City and turn over such evidence to the State and County agencies. The hearings proposed in connection with the solicitation of funds ordinance and the consumer protection ordinance should provide the City a strong basis upon which to initiate State and County collection proceedings. These proceedings should include assessment and collection of sales, use, personal property, real property, meals and other taxes. In the event that the State and County taxing authorities resist collection, the City may petition the Court via a writ of mandamus to compel collection.

The activities of Scientology within the City of Clearwater conclusively warrant the position that Scientology has carried on within the City such commercial activities of such magnitude, and for such profit making purposes, and of such non-tax exempt character, that the Corporation was not operated exclusively for religious or other tax exempt purposes. A large part of the earnings of the Church of Scientology within Clearwater have inured to the benefit of Hubbard as a private individual. The money and money's worth of benefits traceable to Hubbard include: a) salaries, b) royalties, c) large sums of cash, d) unrestricted control (amounting to ownership), over large amounts of funds in a corporate bank account, Savings and Trust accounts, e) free room and board at the corporation's expense, and unlimited access to, and use of castles, mansions, villas, seagoing vessels, automobiles, motorcycles, and other facilities owned or supported by Scientology throughout the world, f) a large retinue of servants, valets, messengers, secretaries, couriers,

cooks, and other personal attendants, furnished and compensated by Scientology, g) the receipt, generally in disguised form, of a substantial percentage of Scientology's earnings, and h) the diversion of large sums from Scientology to Hubbard to sham entities which are completely controlled and dominated by Hubbard.

Also, the policies and activities of Scientology, some of which have been previously discussed in this Report, vitiate Scientology's entitlement to exemption, because the policies amount to substantial recurring violations of clearly defined public policy including:

- a) Conspiracy to impede and obstruct the I.R.S.;
- b) Wrongful and malicious divulgence of personal and intimate information confided to Scientology by its members during auditing sessions, in reliance upon Scientology's deliberately false representation that such information would be strictly confidential;
- c) Pervasive violations of the individual rights of human dignity by subjecting members to "amend projects", and "R.P.F.", which enforced performance of humiliating and degrading acts;
- d) The infliction of serious, deleterious, mental and psychic damages that are a direct result of Scientology's dangerous techniques;
- e) Depriving individuals of their own self-determination and ability to perform their own moral judgements through the use of brainwashing techniques;
- f) Recurrent and pervasive use of blackmail, intimidation, and other egregiously anti-social acts by way of implementing Scientology's "Fair Game" policy;
- g) Scientology's "Disconnect Policy", resulting in enforced dissolution of marriages and other close family relationships;
- h) Insistence upon and use of non-voluntary lie detector (E-Meter) and security checks as a condition of employment in direct violation of state laws;

- i) Involuntary detention (equivalent to false imprisonment);
- j) Drastic punishment of members and employees; and
- k) The use of telex devices for the purpose of carrying on illegal covert activities in violation of the Federal Communications Act, together with a conspiracy to further such purpose.

The commercial activities of Scientology permeate its entire operation. They include things such as extensive advertising and solicitation of business; the payment of commissions to persons who can produce customers, the granting of discounts; an ever-increasing accumulation of earnings; granting first priority to customers who make the largest cash payment, rather than the one who is in the greatest need of Scientology services; the use of drastic, arm-bending and emotionally crippling procedures for the collection of delinquent accounts; the use of enforcement policies which are designed to extort from a customer his avenues of legal redress by threats of disclosure of confidential auditing information, and finally a markup factor of as much as 789% on the sale of its goods.

The flagrantly commercial, profit motivated activities of Scientology are in violation of F.S.A. § 196. 195(4) which requires that all religious organizations maintain a non-profit character. Although the following examples intend to be typical illustrations of Scientology commercialism, and hardly exhaustive, such examples constitute compelling evidence of a profit motivated scheme.

- 1) Advertising vacation packages to an oceanside resort in Clearwater, The Fort Harrison and Sand Castle (Scientology properties). The advertisement is totally devoid of any religious suggestion and clearly demonstrates the organization's profit oriented motives.
- 2) Advertising and rental of rooms at the Fort Harrison Hotel and Sand Castle at exorbitant rates. For example:

a) VIP Apartment	.....	\$75.00 per day
b) Grand Suite	.....	100.00 per day
c) Dukes Chambers	.....	50.00 per day
d) Jade Palace Suite	.....	60.00 per day
e) Lotus Suite	.....	60.00 per day
f) Moon Garden Suite	.....	60.00 per day
g) Opal Suite	.....	60.00 per day

- 3) The sale of courses at astronomical rates which bear no relation to the service rendered. For example:

a) New Era Dianetics for OT Rundowns (50 Hours).....	\$19,547.19
b) Section OT III	9,021.78
c) OT I to OT VIII Package	26,614.42
d) New Vitality Rundown (25 Hours)	12,780.86
e) Full Org Exec Course (8 Volumes)	12,029.04
f) Flag Effective Public Relations Course (includes apprentice- ship)	10,525.41

- 4) The operation of a corporate entity, WISE, an acronym for World Institute of Scientology Enterprises, which is bereft of any religious purposes. The sole purpose of WISE is commercial not religious.
- 5) The commercial transactions (purchase of course and hotel room rentals) are encouraged by Scientology's acceptance of Master Charge and American Express.
- 6) Scientology now offers rebates and "package reductions" to stimulate cash purchases.
- 7) The inurement to L. Ron Hubbard of 10% - 50% of all funds collected in Clearwater, Florida.
- 8) Freeloader Debt - a concept designed by the Scientology corporation to extract monies from an individual who severs association with the Church, The debt is allegedly

incurred for services rendered. However, the debt bears no relation to any service and is imposed only when an individual seeks to terminate association with the Church. The Scientology organization threatens litigation to collect the "debt" thereby adding additional funds to Church coffers. Alternatively, threatened legal action prevents a dissatisfied individual from leaving the organization.

Each of the acts designated above constitute violations of the statutory criteria for non-profit religious organizations. Specifically, the cash purchases of courses and the hotel room rentals constitute violations of F.S.A. § 196.195(e), regulating a non-profit corporation's charge for services. This statute states that the taxing authority may examine,

- e) the reasonableness of charges made by the applicant for any services rendered by it in relation to the value of those services.

Again, all religious organizations are required to remain non-profit and must comply with the statutory criteria for non-profit organizations. F.S.A. § 196.195(1)-(4). The mercenary motives of the Scientology organization, illustrated by the unreasonable cost of services (supra), constitutes a per se violation of F.S.A. § 196.195(4) and should invalidate the religious exemption.

Likewise, Scientology's use of Clearwater as a central communications link for its incredible world-wide pattern of criminal activity including Operations "Goldmine", "Snowwhite", "Freakout", "Project Owl", and hundreds of other such operations, all carried on through the use of tax exempt funds, clearly demonstrates the non tax-exempt purpose. The recommended public hearings will provide the City Commission a solid basis to enact the proposed ordinances as well as create a documented record of Scientology's breach of the standards applied to

determine tax-exempt status as set forth in Section III - C of this Report.

The City's right to know whether Scientology is keeping adequate tax records, and whether it is using its funds exclusively for religious purposes is a compelling governmental interest. The recommended hearing and ordinances will provide a legitimate basis to secure this information. If Scientology fails to provide it, or if the documentary evidence acquired as a result of enforcement of the proposed ordinances indicates use of money for non-exempt purposes, the City may provide that evidence to the appropriate taxing authority.

The recommended hearings, possibly in conjunction with other proposed legislation, to examine the nature and extent of Scientology's activities in the City, would demonstrate the fraudulent, commercial and criminal activities carried on by Scientology in Clearwater, all of which are devoid of religious content. This evidence would demonstrate Scientology's failure to comply with the following tax regulating statutes:

- a) Failure to use property for exempt purposes as defined by F.S.A. 196.012 (1) (2);
- b) Failure to meet criteria for exemption based on non-profit status as defined in F.S.A. 196.195;
- c) Failure to meet criteria for exemption based on religious status as defined in F.S.A. 196.196.

The City could then present written findings together with exhibits to the County property appraiser with the recommendation of the City Commissioners and also to the State Sales and Use tax authorities, that Scientology properties be taxed, and that the organization present accurate and detailed records of its financial activities for each year it seeks qualification for exemption.

It is important to note that the long and detailed English inquiry (covering 182 printed pages) into Scientology ended with the following recommendations:

"Two further matters deserve mention. First, I am struck by the ease with which "non-profit making" companies or associations are able to escape the payment of taxes, even if they are not charities. An ordinary business pays tax on the whole of its income, after deducting only those expenses incurred "wholly and exclusively" for the purpose of the business, and the Inland Revenue authorities not unnaturally subject these expenses to close scrutiny. But in the case of an organization which renders paid services only to its members, the system is different: a principle of "mutuality" is applied, with the result that the full income from the members (in the form of fees) escapes taxation at that point, and so do donations from non-members. Moreover, if the organization then distributes its surplus by way of donations to associated companies, or even to individuals, these payments are still not assessable to tax because they are "voluntary" payments. If the services were sold to the general public who are not "members", such an organization would have to pay taxes like everyone else, and only legitimate business expenses would be deductible; but considering the ease with which one can enroll "members", the distinction strikes me as artificial. This aspect of our tax system is in my opinion ripe for review.

Payments such as those shown in the Scientology Companies' accounts as being made to other Scientology organizations, or to Mr. or Mrs. Hubbard, who are not residents of the sterling area, of course require the consent of the Bank of England under the Exchange Control Act.

The other matter which deserves attention is the failure of a number of the Scientology companies to file accounts and annual returns within the time prescribed by the law, without apparently incurring any sanction at the hands of the Registrar of Companies. These sanctions seem to me pointless if they are not enforced."

These recommendations should not go unheeded by the residents and officials of Clearwater.

VI. CONCLUSIONS AND RECOMMENDATIONS

The provable facts relating to Hubbard's background, the creation, operation, policies and activities of Scientology, the findings made by formal inquiries and courts of both foreign nations and the United States, as well as the serious implications - financial, mental, emotional, and societal, for Scientology's victims, all suggest that it is necessary, and legally permissible for the community of Clearwater, where Scientology maintains worldwide headquarters, to take appropriate action. This action must be reasonably related to legitimate public interests and it must be narrowly defined in order to avoid interference with the beliefs or doctrine of Scientology. Such beliefs, although ostensibly fanciful, dangerous or absurd, arguably fall within the domain of "religious beliefs", as that term is most broadly interpreted by American Courts.

In the final chapter of her work, "The Nazis and the Occult", the author draws many parallels between the Nazis, Hitler, Sun Myung Moon, Hubbard, and Scientology. Quoting from Sravepalli Radha Krishnan who stated, "If we believe absurdities, we shall commit atrocities", the author traces the development of irrational doctrines being enhanced by presumably sane and rational youth such as the "Hitler youth", leading to the abandonment of individual conscience, loss of objectivity and pathologically anti-social activity. Scientology's "OT III level" material, for which proselytes tens of thousands of dollars, and which represents for some the culmination of Scientology dogma, suggests that Hubbard is leading his followers into belief of "absurdities". OT III

material states that a Scientologist is a specially chosen "Thetan" from a civilization on the planet Helatrobus destroyed 40 trillion years ago by evil forces; and that Hubbard has united them on Earth where he is destroying evil through his "technology". Hubbard's "technology" exhorts his followers to do anything against an "enemy" of Scientology including destruction. These and similar doctrines are employed in a sufficiently rational and enticing sales technique to enlist the support of many rootless, unstable and troubled people. Many of these people, although not having yet committed atrocities akin to Jonestown or to Auschwitz, have engaged in a pattern of widespread and prolonged criminal activity challenging the fundamental precepts of our society, laws, and our government.

It is certain that the City of Clearwater cannot seek to prohibit or regulate Scientology beliefs or doctrine, including OTIII, R-2-45, or "Fair Game", however fanciful and dangerous such doctrines may be. However, "The Constitution is not a suicide pact" and the First Amendment "embraces two concepts, - freedom to believe and freedom to act. The first is absolute but, in the nature of things, the second cannot be." Cantwell v. Connecticut.

Where Scientology belief culminates in activities which are fraudulent, mentally, emotionally, and physically destructive, and violative of recognized civil and criminal law, then the City of Clearwater is free to act in order to protect its

citizenry. For example, if Scientology "scientifically guarantees" the cure of physical and mental ailments, which it does on a daily basis in order to make money, then such a representation is secular, not religious, and the City may prohibit or regulate such a fraudulent misrepresentation. See United States v. Article or Device, discussed herein. Or if Scientology employs the "disconnect" policy, or the "Freeloaders Debt" policy, or the "Attack the Attacker", or "Fair Game", in the face of representations that it is a religious, educational, charitable, non-profit organization, promoting family unity, etc. then the City may regulate or prohibit such activity. Or if Scientology violates the educational laws, the fire code, etc. then the City may investigate and regulate.

In the past, Scientology, under Hubbard's direction, has demonstrated flagrant disregard for the laws of our Society. It has instilled and encouraged this disregard in its followers. Although Scientology may eventually evolve to the point where it accepts traditional societal tenets and laws, Hubbard's "tech" is fanatically adhered to by many, including those who currently run the organization, and the "tech" absolutely forbids acceptance of "wog" or societal rules. A fervent Scientologist views himself, Hubbard, and the "tech", each as a law unto itself.

For example, one defector, who was "imprisoned" in the "R.P.F." in the Cedars of Lebanon complex in Los Angeles describes the following frightening sequence:

I walked and walked through tunnels I had never been in. Then I heard it. Inhuman screaming and ranting. It was coming from my right. There were four doors and someone was pounding on one of them. I ran over and tried to open the door. It was locked. I yelled, "Are you alright?" and got more screams. Suddenly someone touched my shoulder. I turned and looked at a man in clean overalls. "Hello", he said, "I'm the Ethics Officer for the RPF". "What are you doing to her?" I said. "Oh, she's just blowing off charge. When someone flips out on the RPF, we lock them up for a couple of hours. They calm down after a while." He smiled. I was stunned. "You lock them up in here?" "Sure, you know the tech. The tech always works." I looked at him. Totally triumphant, with Scientology tech on his side. I felt sick to my stomach, the corridor started spinning around me. So this was it. The final answer. Cold, calculated, step by step, at progression to stamp out anyone who questioned, rebelled, criticized, disliked Scientology. Break them, all of us."

It is apparent that the Clearwater community has a legitimate public interest in prohibiting activity such as that described above and cited throughout this Report. The authors of this Report have been involved in the investigation of Scientology for approximately two years and have collected thousands of documents proving that anti-social, criminal and tortious activity has been a daily event within Scientology. Although Scientology may claim that the perspective of the authors of this Report is biased and prejudiced, it is submitted that any sane, rational, human being, adhering to fundamental values, would be both repelled and "biased" upon having hundreds of individuals and parents relate facts describing how Scientology "processing" encompasses a type of patently commercial fraud, causes severe mental illness occasionally resulting in institutionalization and death, and fosters a pattern of criminal activity to destroy all those seeking to investigate it.

Based on the foregoing perspective, and the facts and analyses set forth in this Report, as documented in the Appendices, the authors recommend the following to the City Commission:

- (1) The Report should be submitted to 3 practising attorneys within the Tampa-St. Petersburg area who are deemed to have respective "expertise" in the areas of constitutional, tax and municipal law. The attorneys should be practitioners as opposed to strict academicians. They should be chosen by the Commission without influence from either the Church of Scientology or the public at large. They should be neither "liberal" nor "conservative" but should be chosen on their ability to analyze objectively existing case and statutory law in the three areas suggested. The Commission should request a short opinion of less than 5 pages from each attorney. It should conduct a public hearing on the matters, recommendations and proposals set forth in this Report and should weigh in its deliberations the contents of the Report as well as the opinions of the three independent attorneys.
- (2) The City Commission should anticipate that the Church of Scientology will litigate every aspect of this Report, their deliberations, the decision and the subsequent enforcement of ordinances and legal proceedings. The Church of Scientology will seek to delay, obstruct, and interfere with every decision made by the City Commission. It will "attack", "manufacture threat", and pursue a "black PR campaign" pursuant to its written policy, seeking to discredit the authors of the Report, the City of Clearwater, and all public officials involved. The Church of Scientology will seek to exploit the judicial system to "harass and discourage rather than to win", in accordance with its written policy, and will cause the City to expend large sums of money in order to deal with the problems it has created. It will immediately sue the authors of this Report as well as City officials pursuant to the aforesaid policy.

- (3) The City should proceed to the drafting and implementation of the ordinances proposed, should conduct public investigations and hearings pursuant to those ordinances and then institute appropriate legal proceedings in court to enforce the ordinances.
- (4) The City Commission should allocate at least \$300,000 to finance the anticipated legal costs necessary to develop, implement, enforce, and defend its action.
- (5) The City Commission should retain experienced trial lawyers, knowledgeable in Scientology litigation to present evidence at the recommended public hearings and to prosecute and defend anticipated litigation.
- (6) The residents of Clearwater should anticipate a costly and vituperative legal battle between the City government and the Church of Scientology during which the Church will utilize every conceivable technicality to delay, obstruct, and interfere with the judicial process as well as every weapon to attack and discredit City officials, its attorneys, and any residents who actively support the City.
- (7) The City should expect to be successful in the legal proceedings it institutes, and these proceedings should effectively prohibit the fraudulent practices and abuses cited in this Report. The evidence accumulated in such proceedings should result in a forfeiture of Scientology's tax-exempt status, in the appropriate tax proceedings, and the tax revenues generated should exceed the costs of any and all litigation.