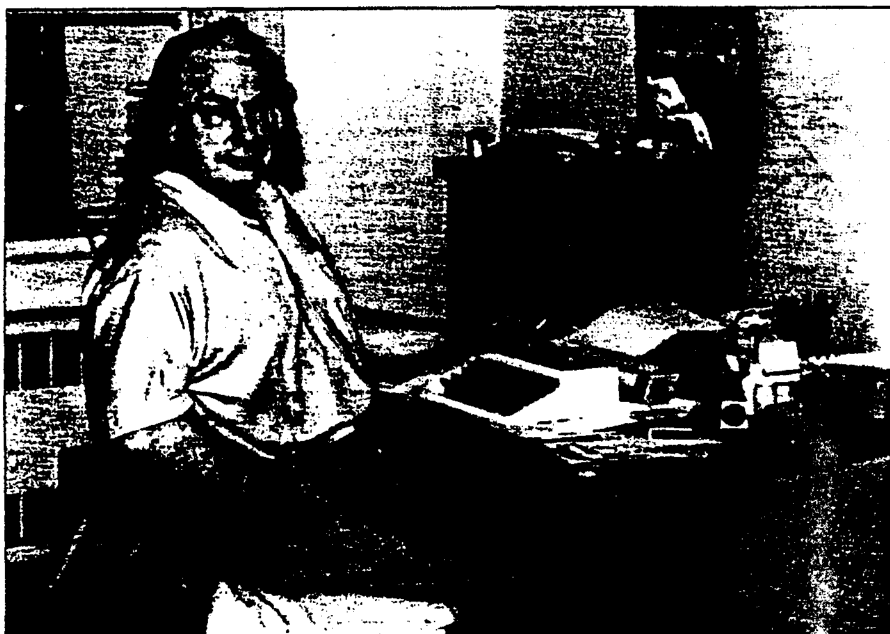
L. Ron Hubbard, one of the most bizarre entrepreneurs on record, proved cult religion can be big business. Now he's declared dead, and the question is, did he take $200 million with him?

The prophet and profits of Scientology

L. Ron Hubbard gone underground in New York City: 1973



By Richard Behar

ONLY A FEW CAN BOAST the financial success of L. Ron Hubbard, the science fiction storyteller and entrepreneur who reportedly died and was cremated last January at the age of 74.

For roughly three decades Hubbard ran the notorious Church of Scientology®, a "religion" he formed to "clear" mankind of misery. It came complete with finance dictators, "gang-bang secfurity) checks," lie detectors, "committees of evidence" and detention camps. In 1977 the FBI sent 134 agents, armed with warrants and sledgehammers, storming into Scientology centers in Los Angeles and Washington. Eleven top church officials,. including Hubbard's third wife, went to jail for infiltrating, burglarizing and wiretapping over 100 government agencies, including the IRS, FBI and CIA. Hubbard could hold his own with any of his science fiction novels.

Amid all the melodrama, at least $200 million in cash produced by his strange creation was gathered in Hubbard's name, and there is believed to be much more in organization assets: The Church of Scientology® has proved to be one of the most lucrative businesses around. If FORBES had known as much as it knows now, after interviewing dozens of eyewitnesses and examining sworn testimony and court records in both criminal and civil cases, Hubbard would have been included high on the Forbes Four Hundred.

There is something that FORBES still doesn't know, however. It is something no one may know outside a small, secretive band of Hubbard's followers: What is happening to all that money?

Hubbard himself has not been seen publicly since 1980, when he went underground, disappearing even from the view of high "church" officials.

That's in character: He was said by spokesmen to have retired from Scientology's management in 1966. In fact, for 20 years after, he maintained a grip so tight that sources say since his 1980 disappearance three appointed "messengers" have been able to gather tens of millions of dollars at will, harass and intimidate Scientology members, and rule with an iron fist an international network that is still estimated to have tens of thousands of adherents—all merely on his unseen authority.

How could Hubbard do all this? As early as the 1950s, officials at the American Medical Association were warning that Scientology, then known as Dianetics, was a cult. More recently, in 1984, courts of law here and abroad labeled the organization such things as "schizophrenic and paranoid" and "corrupt, sinister and dangerous," while Hubbard himself was described as "a pathological liar" and "a charlatan and worse."

But the central fact is the money: hundreds of millions of dollars last seen in the form of cold cash or highly negotiable securities. "It's a perfect story about greed and lust for power," says William Franks, who was driven out of the organization in 1981, when he was the church's chairman of the board and its executive director international, the post Hubbard officially relinquished 20 years ago. "If you un-

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Scientology world Headqiiarters building in Los Angeles
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demand it on that basis, and stay away from the 'religious' aspects, it makes perfect sense."

A few facts about Hubbard's early life are known. Lafayette Ronald Hubbard was bom in Tilden, Neb. on Mar. 13, 1911. After serving in World War II, he wrote a 1947 letter to the Veterans Administration in which he complained of his "seriously affected" mind and "suicidal inclinations" and pleaded for help. Hubbard was nevertheless a moderately successful science fiction writer. In 1949, addressing a writers' convention, he reportedly said, "If a man really wants to make $1 million, the best way would be to start his own religion." In 1950 he published the book that would ultimately make him rich beyond the dreams of avarice, *Dianetics: The Modern Science of Mental Health.* In 1951, during his second divorce, Hubbard's wife claimed that he was "hopelessly insane" and that he tortured her. Three years later, his "church" was born.

It did not act much like a church. Through the 1950s and much ot the 1960s, Hubbard emphasized the "scientific" nature of a therapeutic technique he invented. He called it "auditing." He said it could cute illness, restore sight to the blind and improve intelligence and appearance. Hubbard argued, in his bestselling book, that inner turmoil sprang from mental aberrations he called "engrams" caused by past traumatic events, and could be eliminated by identifying, recalling and reliving the events. Eliminate your engrams, eliminate your turmoil. A similar process is routine to most conventional methods of psychotherapy, a fact Hubbard presumably was aware of. On this unlikely base he built his S400 million empire.

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vice and zero in on Hubbard's engrams. Psychiatrists say a successful session of going over long-suppressed traumas can produce a sense of personal relief and euphoria. That brought the troubled subject back for more, money in hand. Lots of money. A large organization began to form, with "franchises" around the country. There are a lot of troubled people out there.

Side by side with his "scientific" treatments, Hubbard pitched a body of religious beliefs—reincarnation and the like *(see box, p. 322)*—and claimed tax-exempt status as a religion. It was not long before some of his auditing subjects were drawn into what became a fast-growing cult. Some of them became fanatics who would do virtually anything at Hubbard's command.

Unfortunately, the tax ploy and the big money drew the attention of the IRS: A ruling stripped him of his tax-exempt status in 1967.

But by then the money was so big Hubbard was able to buy a 342-foot oceangoing ship, the *Apollo.* On it, he withdrew from his government persecutors and cruised safely in international waters with an adoring retinue of followers. The IRS was later able to prove in court that he was meanwhile skimming money, at least $3 million in 1972 alone, and laundering it through schemes involving phony billings, a dummy corporation in Panama and secret Swiss bank accounts.

In 1971 a U.S. federal court finally upheld an FDA ruling that Hubbard's "scientific" claims were bogus and that E-meter auditing would no longer be labeled as a scientific treatment. But Hubbard was resourceful. The way around the ruling was to call the meters and auditing strictly "religious sacraments" and therefore beyond the FDA's reach. Hubbard's Scientology counselors had already begun calling themselves ministers. Now they took to wearing black and clerical collars. Chapels were constructed in Scientology centers around the country. "Franchises" became "missions," "fees" became "fixed donations," and "theories" became "sacred scriptures." The money got even bigger.

The system works like this: Prospects, normally spoken of as "raw meat," are offered a free 200-question "personality test" to determine whether counseling (which means auditing) is needed. ("Auditing is always needed," says one former counselor.) Scientology services range from a communications workshop for S50 to the more popular one-on-one auditing sessions that soon cost anywhere from, get this, S200 to more than $1,000 an hour. Special training courses go for $12,000 and up.

How can anyone, except the very rich, afford to spend $200 to $ 1,000 an hour on counseling? Plus pay for the books and other materials in which Hubbard did a lively side business? Some newcomers are encouraged to become "field staff members," who recruit new raw meat on the streets for commissions to pay for their own services—they get 10% to 15% of all services rendered to the piece of meat they bring in. Others go into the business side for a piece of the action. Since it is not uncommon for people to spend more than $100,000 over a decade for their salvation, "The registrars were making good bucks, buying Porsches and Mercedes-Benzes," says one defector, Bent Corydon, "and the best counselors were paid on a performance scale." Corydon, who once ran the biggest single Scientology mission, left in 1982 to start his own auditing religion.

For the less enterprising, another way to afford the religion is to sign a contract for up to a billion years (reincarnation, remember) and join church staff. After signing a note obligating themselves to pay for all services rendered in the event they break their employment contracts and waiving all right to sue, these members receive free auditing, room and board, a structured and controlled environment, and a small allowance—less than $25 per week in the early 1980s—in return for labor that can average as much as 15 hours per day.

Hubbard and friends in 1974 (Pat Broeker, seated r.; eventual defector Armstrong, l.)
***Life became very peculiar aboard the good, ship* Apollo.**

Ultimately subjects are "cleared"—that is, pronounced cured of engrams. But Hubbard was no dummy. He added more and more steps, each usually more expensive than the last, for his cult followers. Already, in the early 1950s, Hubbard found that the prior lives of individuals also required auditing by the hour. In the late 1960s, Hubbard had another revelation: Humans are actually composed of clusters of spiritual beings, stemming back millions of years. Now those spiritual beings had to be audited! Preposterous? Perhaps, but "eventually you lose the ability to even form a belief about these things," says a former high-level Hubbard aide, Gerald Armstrong. "Hubbard says, 'Jump,' you say, 'How high?' Hubbard says, 'I have new technology,' you say, 'How wonderful.' "

The "meat" would have successive, increasingly strange levels of "clearing" revealed to them only gradually, of course, and only as they seemed ready to "flow up the bridge," in the peculiar jargon that developed within the organization. In 1981 yet more new revelations were issued, but only after income from existing levels had dropped off. "If you don't have the money, you're a slave," sums up

Howard Rower, a successful New York real estate developer who ran a Manhattan "mission" until 1983. "And if you have money, you're fawned all over until you don't have any money."

The good ship *Apollo* got filled with hundreds of the most thoroughly programmed of Hubbard's signees. On board, life became very peculiar. Frank Watson, a chiropractor then in his 50s, told FORBES he was thrown overboard five times, sometimes blindfolded, for minor infractions. The drop was 26 feet. One Tanja Burden testified she was required to serve at the age of 13 (both parents were Scientologists) as Hubbard's personal slave, helping him dress and preparing his toiletries. There are many more such tales.

And the money kept pouring in. But things started to get too hot for Hubbard. One by one, foreign countries began closing their ports. England, Greece, Spain, Portugal. France convicted him in absentia for fraud.

In 1975 he gave up the *Apollo* and touched down in Clearwater, Fla., which became another headquarters to go with the first one in Los Angeles. Hubbard evidently essayed a counterattack on his main persecutors: Former insiders say he had already gone underground for a year in a modest apartment in New York's borough of Queens *(see photo, p. 314)* while he planned a campaign dubbed Operation Snow White. This operation planted Scientologists in low-level positions in government agencies, It also sent followers to burglarize and rifle files or plant wiretaps. Adroit Freedom of Information Act filings by Scientologists caused the government to bring much of its evidence from its Scientology investigations into one office in Washington; his people then repeatedly burglarized the government's office, obtaining even those documents the government had no intention of releasing.

It was the discovery of this campaign that sent the startled G-men to Scientology headquarters, search warrants and sledges in hand.

Even though his fall guys insulated Hubbard from jail that time, he knew he was in trouble. "Hubbard told me at one time the biggest mistake we made was going religious and that we should have kept it straight as a business," says a former high "church" official who doesn't want his name used. "That would have avoided all the trouble with the IRS."

Besides the feds, Hubbard and his organization were getting sued by disaffected former Scientologists. In 1980 Hubbard went underground again, supposedly at a ranch in the small California town of Creston, a $3\frac{1}{2}$-hour drive north of Los Angeles. Not even Chairman and Executive Director William Franks, then administrator of the entire Church of Scientology®, could speak to him or see him. All communications were via telex or written or oral messages carried back and forth by three trusted messengers—David Miscavige and. Patrick and Anne Broeker, a husband-and-wife team. All three were young adults who had been indoctrinated for four or more years. According to defectors, Miscavige, whose father was a Scientologist, grew up in suburban Philadelphia and then England. Miscavige is said to have joined church staff at age 16, and reportedly has only a ninth-grade education. They say he is mean, a bully who acquired power through an ability to intimidate and an image he created that he represented Hubbard's wishes. In the early 1980s he was claiming to see Hubbard once a week. He joined with the Broekers, with whom Hubbard was presumably living at the time, and is now said to share power with them. Anne reportedly has a sixth-grade education and joined the organization when she was 11 (Bill Franks says he once taught the three Rs to Anne and others). She is said to be as ruthless as Miscavige. Pat, however, is said to have finished high school. He has been married at least three times and is said to have married his way up the hierarchy, with one Hubbard female aide after another.

Their credibility in the organization, however, was not total. "I truly believe that Hubbard really died in 1980 and that this involves a scam on top of a scam," the now-disaffected Chairman Franks told FORBES.

Now things really started hopping. The messengers and their agents—more formally, the Commodore's Messenger Organization, or CMO—soon took two major steps. One was an extensive two-year purge of the organization that drove away hundreds of longtime adherents. It was not hard. "Wild paranoia permeates the whole organization," says Don Larson, who served as the church's 525-per-week "finance ethics officer," for which read "enforcer." Larson claims he alone brought nearly 300 recalcitrant Scientologists to "Rehabilitation Project Forces" at Scientology centers around the world over a period of 14 months, until his own detention and departure in late 1983. "I was the hatchet man," says Larson. "I was responsible for all sorts of Gestapo-type stuff."

In these sadistic detention programs, staff members would be coerced into performing hard labor, eating leftovers out of buckets and sleeping on floors. Some were reportedly kept against their will.

The other move was to step up the flow of money dramatically. Among Larson's duties were levying fines on wealthy auditing subjects, whose inti-

"May be ... lied to or destroyed."

It can be unpleasant crossing Hubbard's organization. Dr. John G. Clark, assistant clinical professor of psychiatry at Harvard Medical School, testified as an expert against the Church of Scientology®. He reports that, in apparent retaliation, false complaints were circulated against his practice, phone threats were made to him, and ads placed in the Boston *Herald* offering $25,000 for evidence leading to his criminal conviction. This went on, he says, for ten years, during which two Church of Scientology® suits against him were dismissed. Clark is suing for $35 million. Other cases of harassment of critics have been documented. Such crude intimidation tactics are a systematic policy of the Church of Scientology.® Why? Hubbard, in 1967, wrote the following with regard to church enemies: "[They] 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."—R.B.

Rick Friedman/Black Star

Harvard's Dr. John G. Clark

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mate auditing sessions had been transcribed in writing, and forcibly dunning mission holders (franchisees) for millions of additional dollars for Hubbard agents. "In 1983," says Larson, "I manipulated a half-million-dollar inheritance out of Bob B...... He was naive as hell. D.M. (David Miscavige) called me up in the middle of the night [about Bob B......]. ... He wanted the money.

"What's all this got to do with religion?" Larson muses. "I can't believe the things I did."

"The question was always how to get more money into Hubbard's pocket and how to hide that from the IRS," says Franks, who was responsible for investing about $150 million of church reserves in 1980, most of it held in foreign currencies. "There was literally cash all over the place. There would be people leaving from Florida for Europe with bags of cash on a weekly basis. There were hundreds of bank accounts." In 1981 Franks started taking Hubbard's name off these accounts as signatory—15 years after Hubbard was said to have retired from the church—to hide the connection to church funds they represented.

Instead, much of the organization's cash reportedly wound up in the Religious Research Foundation (RRF), which former church members say was a Liberian shell corporation with bank accounts in Luxembourg and Liechtenstein. RRF was set up by three otherwise unimportant board members who had submitted their resignations in advance. The RRF was used as a way station for money from the church to the unseen Hubbard's own accounts in Switzerland and Liechtenstein. Franks claims that RRF accounts alone totaled well over S100 million by 1981. "RRF was as good as Hubbard," says he.

In 1980 Laurel Sullivan, for seven years Hubbard's principal public relations official, was put in charge of an internal operation called Mission Corporate Category Sortout (Hubbard liked military jargon and organization), at the behest of Miscavige. Sullivan says she planned ways to juggle *the chmch's corporations to shield* the unseen Hubbard from legal liability and to ensure that the income lines to Hubbard from the church could not be traced.

A separate corporation called Author Services, Inc. (ASI) was formed to manage Hubbard's financial affairs and, apparently, those of the church as well. According to Howard Schomer, ASI's treasury secretary in 1982, he sent up through Hubbard's messengers weekly updates on Hubbard's net worth from ASI. Schomer says Hubbard was pulling in well over SI million a week through ASI when he, Schomer, left and that Hubbard's net worth, through ASI alone, had risen more than $30 million in a nine-month period in 1982. Schomer, who never saw or spoke to Hubbard after 1975, says that when he became visibly troubled about these matters, he himself was subjected to a ten-hour "gang-bang sec check," an increasingly common experience among church members, which in this case included being accused of being a CIA spy, threatened with jail and physical harm and spat upon by Miscavige. *Schomer is now suing* Hubbard'5 estate, Miscavige, the Broekers and ASI for S225 million.

A particularly handy device to get money to Hubbard was back-billing the church for Hubbard's past services. According to Schomer and others, Hubbard's weekly gross income was the most important statistic kept by ASI, and it was ordained that the income keep rising. Explains Schomer: "(Say) last week's income for Hubbard was $750,000 and this week is down. In order to keep the graph on its vertical trend to $800,000, they would come up with the figure to be used and then find something that would justify that kind of money to Hubbard, like special courses or E-meters that he had once designed. Each item had potential values put on them."

Stewart Lamont Harrap

Auditing transcripts describing intimate life histories, in a Scientology storeroom in Clearwvater, Fla. ***Something to think about a lot. should you consider being audited.***

The most remarkable transaction of all took place in 1982, when sources say Hubbard or his agents sold some of his copyrights for a reported S85 million (including S35 million said to be earmarked for his projected mausoleum) and donated his trademarks, which were also valued at $85 million, to still another corporation, Religious Technology Center. (This dual transaction created an offsetting deduction, thanks to the donation, which made the sale effectively tax-free.) The head of Religious Technology Center also happens to be the very same man who notarized the document that authorized a key part of the transaction—David Miscavige.

Altogether, FORBES can total up at least $200 million gathered in Hubbard's name through 1982. There may well have been much more. All this time Hubbard remained unseen by anyone in the church, from Franks on down. Only the three messengers were seen.

Yet the money machine was still grinding on nationwide and in some foreign countries. It soon developed that Hubbard had other books to sell—a seemingly endless succession of science fiction novels started appearing in 1982, reviewed by critics in less than admiring terms. Church officials publish these under the name Bridge Publications, paying Hubbard a royalty on each sale. Harvey Haber, who served as Hubbard's personal literary representative, says the order went out in *1982 to local Scientology* missions and individual members to buy up specified numbers of copies. It added up, he reports, to tens of thousands of

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Hubbard's cosmology

The upper levels of sacred scientological doctrine are said to be so powerful that one could die of pneumonia if he tried to absorb them without proper training. Although the Church of Scientology® has taken legal action against outsiders who possess the information, FORBES has obtained access to some of Hubbard's secrets of the universe. Summarized (we assume no responsibility for any who read further), his cosmology goes like this:

Seventy-five million years ago there was a "galactic confederation" of more than 70 planets. Then, as now, there were "income taxes and suppressive governments." But the chief problem was overpopulation. There were 200 billion to 500 billion people per planet. The boss was a mean titan, Xenu. He sent people to Earth (called Teegeeach) *to* blow them up, thus resolving the overpopulation.

Rounded up among the victims were "artists," "revolutionaries," "criminals" and "those considered too smart." After capture, these beings "had their lungs shot with alcohol or glycol" and were transported by spaceships to earth. Xenu then dropped nuclear bombs into volcanos. After the explosions, the individual spirits (or thetans), deprived of physical body, were packaged (or clustered) by Xenu through electronic and mechanical means in places like Hawaii and the Canary Islands.

In a nutshell, each human today is made up of a cluster of these thetans, with one dominant, and this is the cause of human unhappiness and internal conflict. Only through costly Scientology auditing can the less dominant thetans be removed. (What happens to them after that is not clear.) And Xenu? To this day, Xenu is situated on a mountaintop somewhere stuck in an "electronic trap."—R.B.

copies, many of them bought only to be warehoused by the church. Sometimes single orders for 20 or 30 copies would be placed. But usually neatly dressed young adults would appear in bookstores and buy 2 or 3 copies apiece of Hubbard's books, usually for cash. The first such novel, *Battlefield Earth,* soon began appearing on bestseller lists. Battalions of neatly dressed customers have been buying ever since. By now, most Hubbard books have appeared on several bestseller lists. Much of the buying seems concentrated on the B. Dalton's and Waldenbooks chains, which seem to be doing a land-office business, even while other bookstores nearby report little interest in Hubbard's novels. Millions in royalties were taken after 1981 in this fashion. All of this money went to Author Services, controlled by the messengers.

But Hubbard's old nemeses had not forgotten him. In late September 1985, the Internal Revenue Service sent a letter to the Church of Scientology®, warning that it might indict Hubbard for tax fraud. But Hubbard may have had the last laugh.

Ian. 23, 1986 was the date on Hubbard's new will. It dealt with copyrights he still owned. They and any royalties would belong to a special L. Ron Hubbard trust. Hubbard's third wife was provided for. (Hubbard's son from an earlier marriage was long ago disaffected and disinherited.) And it set instructions for dealing with his remains. The body was to be cremated immediately following death, his ashes scattered. No autopsy was to be allowed.

Hubbard died the next day, on Jan. 24, according to followers who were at his deathbed. They called the coroner early on the 25 th. The doctor who signed the death certificate, citing as cause of death a "cerebral vascular accident," gave as his address a medical center in Los Angeles that was founded by Scientologists. But there are those who believe Hubbard died in 1980, and still others who believe he died sometime in between. We may never know.

Shortly thereafter, the Associated Press reported that the Church of Scientology® had announced that 99% of Hubbard's estate had been left "to the Church." Sources say a policy letter was posted in Scientology offices across the country announcing who was now officially in charge: Pat and Anne Broeker and David Miscavige.

Since then, the Church of Scientology® has been on a big marketing blitz, with heavy promotions on television and thick color inserts in newspapers on the life of Hubbard "the greatest humanitarian in history." This promotes the books, the royalties on which go into the Hubbard trust.

The "church" itself, meanwhile, faces its strongest challenge for survival. Annual income, reportedly about S150 million in the early 1980s, is now thought to be half that in the wake of the purges. Membership is down. The church claims more than 6 million active members, a figure it has used for 15 years. But some defectors put the real figure at less than 50,000. Moreover, an IRS criminal investigation is gathering momentum in Los Angeles, and new litigation has flooded the courts. Awards for damages and personal suffering are being made, some in the tens of millions of dollars, to former members as well as external critics *(see box, p. 318).* One attorney alone, Boston-based Michael Flynn, has represented 25 ex-Scientologists and is giving advice on a class-action suit.

Hundreds of defectors worldwide have formed their own religions or for-profit auditing businesses, generally charging rates under $100 an hour. Among the new competitors is the man who once served as Hubbard's personal auditor, the much-revered David Mayo, who coauthored some of Hubbard's sacred texts and is now writing his own scriptures.

So, as the original enterprise shrinks, a new, ungovernable cottage industry grows up around it. It was created by the messengers' purges, and it further undermines the organization that the messengers inherit. If psychotherapy by lie detector really is a useful technique, there is plenty of competition around now, in effect called into being by the messengers' own deeds.

Hubbard—or his messengers—or both together, no one may ever quite know which, brought their troubles on themselves. It would all make Lafayette Ronald Hubbard turn over in his grave, if he had one. •

Bill Nation/Picture Group

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Category	Magazine Article
Title	The richest People in America - The Forbes Four Hundred The Prophet and Profits of Scientology
Source	"Forbes"
Author	Richard Behar
Date	October 27th, 1986

Description:

The article summarizes the history of Scientology during the 1970s and 1980s and speculates on the financial wealth of the organization and its founder L. Ron Hubbard.

The Prophet and Profits of Scientology

Witnesses

Speaking still further of research, for this year's edition Staff Writer Richard Behar documented the remarkable career of the notorious L. Ron Hubbard and his Church of Scientology. Some of our sources are clearly embittered against Hubbard's organization, some confessed to systematic lies and other unsavory acts in its service. How credible are they? The issue has been raised. Here's Judge Paul Breckenridge Jr., Superior Court of California, who presided over one Scientology lawsuit: "In all critical and important matters, their testimony was precise, accurate, and rang true. … Each of these persons literally gave years of his or her respective life. … Each has manifested a waste and loss or frustration which is incapable of description. Each … is still bound by the knowledge that the Church has in its possession his or her most inner thoughts and confessions, all recorded in … security files of the organization, and that the Church or its minions is fully capable of intimidation or other physical or psychological abuse if it suits their ends." Judge for yourself. See page 314.

The prophet and profits of Scientology

L. Ron Hubbard, one of the most bizarre entrepreneurs on record, proved cult religion can be big business. Now he's declared dead, and the question is, did he take $200 million with him?

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Scientology centers in Los Angeles and Washington. Eleven top church officials, including Hubbard's third wife, went to jail for infiltrating, burglarizing and wiretapping over 100 government agencies, including the IRS, FBI and CIA. Hubbard could hold his own with any of his science fiction novels.

Amid all the melodrama, at least $200 million in cash produced by his strange creation was gathered in Hubbard's name, and there is believed to be much more in organization assets: The Church of Scientology has proved to be one of the most lucrative businesses around. If FORBES had known as much as it knows now, after interviewing dozens of eyewitnesses and examining sworn testimony and court records in both criminal and civil cases, Hubbard would have been included high on The Forbes Four Hundred.

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But the central fact is the money: hundreds of millions of dollars last seen in the form of cold cash or highly negotiable securities. "It's perfect story about greed and lust for power," says William Franks, who was driven out of the organization in 1981, when he was the church's chairman of the board and its executive director international, the post Hubbard officially relinquished 20 years ago. "If you understand it on that basis, and stay away from the 'religious' aspects, it makes perfect sense."

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Modern Science of Mental Health. In 1951, during his second divorce, Hubbard's wife claimed that he tortured her. Three years later, his "church" was born.

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Unfortunately, the tax ploy and the big money drew the attention of the IRS: A ruling stripped him of his tax-exempt status in 1967.

But by then the money was so big Hubbard was able to buy a 342-foot oceangoing ship, the Apollo. On it, he withdrew from his government persecutors and cruised safely in international waters with an adoring retinue of followers. The IRS was later able to prove in court that he was meanwhile skimming money, at least $3 million in 1972 alone, and laundering it through schemes involving phony billings, a dummy corporation in Panama and secret Swiss bank accounts.

In 1971 a U.S. federal court finally upheld an FDA ruling that Hubbard's "scientific" claims were bogus and that E-meter auditing would no longer be labeled as a scientific treatment. But Hubbard was resourceful. The way around the ruling was to call the meters and auditing strictly "religious sacraments" and therefore beyond the FDA's reach. Hubbard's Scientology counselors had already begun calling themselves ministers. Now they took to wearing black and clerical collars. Chapels were constructed in Scientology centers around the country. "Franchises" became "missions," "fees" became "fixed donations," and "theories" became "sacred scriptures." The money got even bigger.

The system works like this: Prospects, normally spoken of as "raw meat," are offered a free 200-question "personality test" to determine whether counseling (which means auditing) is needed. ("Auditing is always needed," says one former counselor.) Scientology services range from a communications workshop for $50 to the more popular one-on-one auditing sessions that soon cost anywhere from, get this, $200 to more than $1,000 an hour. Special training courses go for $12,000 and up.

How can anyone, except the very rich, afford to spend $200 to $1,000 an hour on counseling? Plus pay for the books and other materials in which Hubbard did a lively side business? Some newcomers are encouraged to become "field staff members," who recruit new raw meat on the streets for commissions to pay for their own services - they get 10% to 15% of all services rendered to the piece of meat they bring in. Others go into the business side for a piece of the action. Since it is not uncommon for people to spend more than $100,000 over a decade for their salvation, "The registrars were making good bucks, buying Porsches and Mercedes-Benzes," says one defector, Bent Corydon, "and the best counselors were paid on a performance scale." Corydon, who once ran the biggest single Scientology mission, left in 1982 to start his own auditing religion.

For the less enterprising, another way to afford the religion is to sign a contract for up to a billion years (reincarnation, remember) and join church staff. After signing a note obligating themselves to pay for all services rendered in the event they break their employment contracts and waiving all right to sue, these members receive free auditing, room and board, a structured and controlled environment, and a small allowance - less than $25 per week in the early 1980s - in return for labor that can average as much as 15 hours per day.

Ultimately subjects are "cleared" - that is, pronounced cured of engrams. But Hubbard was no dummy. He added more and more steps, each usually more expensive than the last, for his cult followers. Already, in the early 1950s, Hubbard found that the prior lives of individuals also required auditing by the hour. In the late 1960s, Hubbard had another revelation: Humans are actually composed of clusters of spiritual beings, stemming back millions of years. Now those spiritual beings had to be audited! Preposterous? Perhaps, but "eventually you lose the ability to even form a belief about these things," says a former high-level Hubbard aide, Gerald Armstrong. "Hubbard says, 'Jump,' you say, 'How high?' Hubbard says, 'I have new technology,' you say, 'How wonderful.'"

The "meat" would have successive, increasingly strange levels of "clearing" revealed to them only gradually, of course, and only as they seemed ready to "flow up the bridge," in the peculiar jargon that developed within the organization. In 1981 yet more new revelations were issued, but only after income from existing levels had dropped off. "If you don't have the money, you're a slave," sums up Howard Rower, a successful New York real estate developer who ran a Manhattan "mission" until 1983. "And if you have money, you're fawned all over until you don't have any money."

The good ship Apollo got filled with hundreds of the most thoroughly programmed of Hubbard's signees. On board, life became very peculiar. Frank Watson, a chiropractor then in his 50s, told FORBES he was thrown overboard five times, sometimes blindfolded, for minor infractions. The drop was 26 feet. One Tanja Burden testified she was required to serve at the age of 13 (both parents were Scientologists) as Hubbard's personal slave, helping him dress and preparing his toiletries. There are many more such tales.

And the money kept pouring in. But things started to get too hot for Hubbard. One by one, foreign countries began closing their ports. England, Greece, Spain, Portugal. France convicted him in absentia for fraud.

In 1975 he gave up the Apollo and touched down in Clearwater, Fla., which became another headquarters to go with the first one in Los Angeles. Hubbard evidently essayed a counterattack on his main persecutors: Former insiders say he had already gone underground for a year in a modest apartment in New York's borough of Queens (see photo, p. 314) while he planned a campaign dubbed Operation Snow White. This operation planted Scientologists in low-level positions in government agencies. It also sent followers to burglarize and rifle files or plant wiretaps. Adroit Freedom of Information Act filings by Scientologists caused the government to bring much of its evidence from its Scientology investigations into one office in Washington; his people then repeatedly burglarized the government's office, obtaining even those documents the government had no intention of releasing.

It was the discovery of this campaign that sent the startled G-men to Scientology headquarters, search warrats and sledges in hand.

Even though his fall guys insulated Hubbard from jail that time, he knew he was in trouble. "Hubbard told me at one time the biggest mistake we made was going religious and that we should have kept it straight as a business," says a former high "church" official who doesn't want his name used. "That would have avoided all the trouble with the IRS."

Besides the feds, Hubbard and his organization were getting sued by disaffected former Scientologists. In 1980 Hubbard went underground again, supposedly at a ranch in the small California town of Creston, a 3 1/2-hour drive north of Los Angeles. Not even Chairman and Executive Director William Franks, then administrator of the entire Church of Scientology, could speak to him or see him. All communications were via telex or written or oral messages carried back and forth by three trusted messengers - David Miscavige and Patrick and Anne Broeker, a husband-and-wife team. All three were young adults who had been indoctrinated for four or more years. According to defectors, Miscavige, whose father was a Scientologist, grew up in suburban Philadelphia and then England. Miscavige is said to have joined church staff at age 16, and reportedly has only a ninth-grade education. They say he is mean, a bully who acquired power through an ability to intimidate and an image he created that he represented Hubbard's wishes. In the early 1980s he was claiming to see Hubbard once a week. He joined with

the Broekers, with whom Hubbard was presumably living at the time, and is now said to share power with them. Anne reportedly has a sixth-grade education and joined the organization when she was 11 (Bill Franks says he once taught the three Rs to Anne and others). She is said to be as ruthless as Miscavige. Pat, however, is said to have finished high school. He has been married at least three times and is said to have married his way up the hierarchy, with one Hubbard female aide after another.

Their credibility in the organization, however, was not total. "I truly believe that Hubbard really died in 1980 and that this involves a scam on top of a scam," the now-disaffected Chairman Franks told FORBES.

Now things really started hopping. The messengers and their agents - more formally, the Commodore's Messenger Organization, or CMO - soon took two major steps. One was an extensive two-year purge of the organization that drove away hundreds of longtime adherents. It was not hard. "Wild paranoia permeates the whole organization," says Don Larson, who served as the church's $25-per-week "finance ethics officer," for which read "enforcer." Larson claims he alone brought nearly 300 recalcitrant Scientologists to Rehabilitation Project Forces" at Scientology centers around the world over a period of 14 months, until his own detention and departure in late 1983. "I was the hatchet man," says Larson."I was responsible for all sorts of Gestapo-type stuff."

In these sadistic detention programs, staff members would be coerced into performing hard labor, eating leftovers out of buckets and sleeping on floors. Some were reportedly kept against their will.

The other move was to step up the flow of money dramatically. Among Larson's duties were levying fines on wealthy auditing subjects, whose intimate auditing sessions had been transcribed in writing, and forcibly dunning mission holders (franchisees) for millions of additional dollars for Hubbard agents. "In 1983," says Larson, "I manipulated a half-million-dollar inheritance out of Bob B --. He was naive as hell. D.M. [David Miscavige] called me up in the middle of the night [about Bob B --] … He wanted the money.

"What's all this got to do with religion?" Larson muses. "I can't believe the things I did."

"The question was always how to get more money into Hubbard's pocket and how to hide that from the IRS," says Franks, who was responsible for investing about $150 million of church reserves in 1980, most of it held in foreign currencies.

"There was literally cash all over the place. There would be people leaving from Florida for Europe with bags of cash on a weekly basis. There were hundreds of bank accounts." In 1981 Franks started taking Hubbard's name off these accounts as signatory - 15 years after Hubbard was said to have retired from the church - to hide the connection to church funds they represented.

Instead, much of the organization's cash reportedly wound up in the Religious Research Foundation (RRF), which former church members say was a Liberian shell corporation with bank accounts in Luxembourg and Liechtenstein. RRF was set up by three otherwise unimportant board members who had submitted their resignations in advance. The RRF was used as a way station for money from the church to the unseen Hubbard's own accounts in Switzerland and Liechtenstein. Franks claims that RRF accounts alone totaled well over $100 million by 1981. "RRF was as good as Hubbard," says he.

In 1980 Laurel Sullivan, for seven years Hubbard's principal public relations official, was put in charge of an internal operation called Mission Corporate Category Sortout (Hubbard liked military jargon and organization), at the behest of Miscavige. Sullivan says she planned ways to juggle the church's corporations to shield the unseen Hubbard from legal liability and to ensure that the income lines to Hubbard from the church could not be traced.

A separate corporation called Author Services, Inc. (ASI) was formed to manage Hubbard's financial affairs and, apparently, those of the church as well. According to Howard Schomer, ASI's treasury secretary in 1982, he sent up through Hubbard's messengers weekly updates on Hubbard's net worth from ASI. Schomer says Hubbard was pulling in well over $1 million a week through ASI when he, Schomer, left and that Hubbard's net worth, through ASI alone, had risen more than $30 million in a nine-month period in 1982. Schomer, who never saw or spoke to Hubbard after 1975, says that when he became visibly troubled about these matters, he himself was subjected to a ten-hour "gang-bang sec check," an increasingly common experience among church members, which in this case included being accused of being a CIA spy, threatened with jail and physical harm and spat upon by Miscavige. Schomer is now suing Hubbard's estate, Miscavige, the Broekers and ASI for $225 million.

A particularly handy device to get money to Hubbard was back-billing the church for Hubbard's past services. According to Schomer and others, Hubbard's weekly gross income was the most important statistic kept by ASI, and it was ordained that the income keep rising. Explains Schomer: "[Say] last week's income for Hubbard was $750,000 and this week is down. In order to keep the graph on its vertical trend to $800,000, they would come up with the figure to be used and then find something that would justify that kind of money to Hubbard, Like special courses or E-meters that he had once designed. Each item had potential values put on them."

The most remarkable transaction of all took place in 1982, when sources say Hubbard or his agents sold some of his copyrights for a reported $85 million (including $35 million said to be earmarked for his projected mausoleum) and donated his trademarks, which were also valued at $85 million, to still another corporation, Religious Technology Center. (This dual transaction created an offsetting deduction, thanks to the donation, which made the sale effectively tax-free.) The head of Religious Technology Center also happens to be the very same man who notarized the document that authorized a key part of the transaction - David Miscavige.

Altogether, FORBES can total up at least $200 million gathered in Hubbard's name through 1982. There may well have been much more. All this time Hubbard remained unseen by anyone in the church, from Franks on down.Only the three messengers were seen.

Yet the money machine was still grinding on nationwide and in some foreign countries. It soon developed that Hubbard had other books to sell - a seemingly endless succession of science fiction novels started appearing in 1982, reviewed by critics in less than admiring terms. Church officials publish these under the name Bridge Publications, paying Hubbard a royalty on each sale. Harvey Haber, who served as Hubbard's personal literary representative, says the order went out in 1982 to local Scientology missions and individual members to buy up specified numbers of copies. It added up, he reports, to tens of thousands of copies, many of them bought only to be warehoused by the church. Sometimes single orders for 20 or 30 copies would be placed. But usually neatly dressed young adults would appear in bookstores and buy 2 or 3 copies apiece of "Hubbard's books, usually for cash. The first such novel, Battlefield Earth, soon began appearing on best-seller lists. Battalions of neatly dressed customers have been buying ever since. By now, most Hubbard books have appeared on several best-seller lists. Much of the buying seems concentrated on the B. Dalton's and Waldenbooks chains, which seem to be doing a land-office business, even while other bookstores nearby report little interest in Hubbard's novels.Millions in royalties were taken after 1981 in this fashion. All of this money went to Author Services, controlled by the messengers.

But Hubbard's old nemeses had not forgotten him. In late September 1985, the Internal Revenue Service sent a letter to the Church of Scientology, warning that it might indict Hubbard for tax fraud. But Hubbard may have had the last laugh.

Jan. 23, 1986 was the date on Hubbard's new will. It dealt with copyrights he still owned. They and any royalties would belong to a special L. Ron Hubbard trust. Hubbard's third wife was provided for. (Hubbard's son from an earlier marriage was long ago disaffected and disinherited.) And it set instructions for dealing with his remains. The body was to be cremated immediately following death, his ashes scattered. No autopsy was to be allowed.

Hubbard died the next day, on Jan. 24, according to followers who were at his deathbed. They called the coroner the death certificate, citing as cause of death a "cerebral vascular accident," gave as his address a medical center in Los Angeles that was founded by Scientologists. But there are those who believe Hubbard died in 1980, and still others who believe he died sometime in between. We may never know.

Shortly thereafter, the Associated Press reported that the Church of Scientology had announced that 99% of Hubbard's estate had been left "to the Church." Sources say a policy letter was posted in Scientology offices across the country announcing who was now officially in charge: Pat and Anne Broeker and David Miscavige.

Since then, the Church of Scientology has been on a big marketing blitz, with heavy promotions on television and thick color inserts in newspapers on the life of Hubbard, "the greatest humanitarian in history." This promotes the books, the royalties on which go into the Hubbard trust.

The "church" itself, meanwhile, faces its strongest challenge for survival. Annual income, reportedly about $150 million in the early 1980s, is now thought to be half that in the wake of the purges. Membership is down. The church claims more than 6 million active members, a figure it has used for 15 years. But some defectors put the real figure at less than 50,000. Moreover, an IRS criminal investigation is gathering momentum in Los Angeles, and new litigation has flooded the courts. Awards for damages and personal suffering are being made, some in the tens of millions of dollars, to former members as well as external critics (see box, p. 318). One attorney alone, Boston-based Michael Flynn, has represented 25 ex-Scientologists and is giving advice on a classaction suit.

Hundreds of defectors worldwide have formed their own religions or for-profit auditing businesses, generally charging rates under $100 an hour. Among the new competitors is the man who once served as Hubbard's personal auditor, the much-revered David Mayo, who coauthored some of Hubbard's sacred texts and is now writing his own scriptures.

So, as the original enterprise shrinks, a new, ungovernable cottage industry grows up around it. It was created by the messengers' purges, and it further undermines the organization that the messengers inherit. If psychotherapy by lie detector really is a useful technique, there is plenty of competition around now, in effect called into being by the messengers' own deeds.

Hubbard - or his messengers - or both together, no one may ever quite know which, brought their troubles on themselves. It would all make Lafayette Ronald Hubbard turn over in his grave, if he had one.

GRAPHIC: Picture 1, L. Ron Hubbard gone underground in New York City, 1973; Picture 2, Scientology world headquarters building in Los Angeles, Bill Nation/Picture Group; Picture 3, Hubbard and friends in 1974 (Pat Brokers, seated r.; eventual defector Armstrong, l.), Life became very peculiar aboard the good ship Apollo; Picture 4, Auditing transcripts describing intimate life histories, in a Scientology storeroom in Clearwater, Fla., Something to think about a lot, should you consider being audited., Stewart Lamont/Harrap Picture 5, no caption, Bill Nation/Picture Group

"May be … lied to or destroyed."

It can be unpleasant crossing Hubbard's organization. Dr. John G. Clark, assistant clinical professor of psychiatry at Harvard Medical School, testified as an expert against the Church of Scientology. He reports that, in apparent retaliation, false complaints were circulated against his practice, phone threats were made to him, and ads placed in the Boston Herald offering $25,000 for evidence leading to his criminal conviction. This went on, he says, for ten years, during which two Church of Scientology suits against him

were dismissed. Clark is suing for $35 million. Other cases of harassment of critics have been documented. Such crude intimidation tactics are a systematic policy of the Church of Scientology. Why? Hubbard, in 1967, wrote the following with regard to church enemies: "[They] 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."

GRAPHIC: Picture, Harvard's Dr. John G. Clark, Rick Friedman/Black Star

Hubbard's cosmology

The upper levels of sacred scientological doctrine are said to be so powerful that one could die of pneumonia if he tried to absorb them without proper training. Although the Church of Scientology has taken legal action against outsiders who possess the information, FORBES has obtained access to some of Hubbard's secrets of the universe. Summarized (we assume no responsibility for any who read further), his cosmology goes like this:

Seventy-five million years ago there was a "galactic confederation" of more than 70 planets.Then, as now, there were "income taxes and suppressive governments." But the chief problem was overpopulation. There were 200 billion to 500 billion people per planet. The boss was a mean titan, Xenu. He sent people to Earth (called Teegeeach) to blow them up, thus resolving the overpopulation.

Rounded up among the victims were "artists," "revolutionaries," "criminals" and "those considered too smart." After capture, these beings "had their lungs shot with alcohol or glycol" and were transported by spaceships to earth. Xenu then dropped nuclear bombs into volcanos. After the explosions, the individual spirits (or thetans), deprived of physical body, were packaged (or clustered) by Xenu through electronic and mechanical means in places like Hawaii and the Canary Islands.

In a nutshell, each human today is made up of a cluster of these thetans, with one dominant, and this is the cause of human unhappiness and internal conflict. Only through costly Scientology auditing can the less dominant thetans be removed. (What happens to them after that is not clear.) And Xenu? To this day, Xenu is situated on a mountaintop somewhere stuck in an "electronic trap."

Category	Magazine Article
Title	Naked came the Short-Sellers
Source	"Forbes"
Author	Phyllis Berman & Ronit Addis
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Contents:

Naked came the short-sellers

Red of tooth and claw, naked short-sellers prey on small company stocks. But are their victims all that innocent?

Many over-the-counter stocks were weak even before the Oct. 19 crash, some losing as much as 80% and 90% of their market values during 1987. Last year provided a rich harvest for a handful of short-sellers, many of them naked shorts.

Naked shorts? It's Wall Street jargon. In ordinary short-selling, real shares change hands. Thus: Jack sells short 100 shares of IBM, and Jane buys the stock. In order to deliver the shares to Jane, Jack's broker must borrow stock from a third party. So actual shares change hands - or at least the appropriate blips are made on the computer tapes.

But in naked short-selling, the second step - borrowing of stock - is eliminated. The short-seller is selling stock that doesn't exist. He is making a naked rather than a traditional short sale. In theory - although rarely in practice - the short position in a stock could actually exceed the floating supply.

How can people get away with naked shorting? Not only can they, but it's perfectly legal for broker-dealers, though not for the investing public. Here's how it works:

The buyer's broker simply doesn't demand delivery of the shares from the seller's broker. If the above example were a thinly traded o-t-c stock rather than a Big Board stock, Jane's broker might be tempted to credit her account as holding the stock even though her broker doesn't have the stock. Why would the broker be so careless? Because there is a tacit agreement over-the-counter: If the seller's broker doesn't deliver, don't insist unless the customer actually demands delivery of the physical certificates, which few people do. "In all the 16 years I've been shorting stock, I've only once been bought in, that is, only once has somebody demanded delivery of the stock," confirms Drake Securities' head trader, Barry Adler.

As it turns out, this is a nice deal for Jane's broker. The broker gets cash from the buyer almost immediately. But he has to deliver that cash to the seller's broker only when the latter delivers the shares. As long as no stock is delivered to him, he can keep the cash for

his own use. So he is perfectly happy to sit with a "fail-to-deliver." In other words, though Jack's broker owes to Jane, Jane's broker has no incentive to ask for it. The broker already has Jane's cash.

Complicated? A bit, but this is the kind of thing that is possible in a world where most assets are little more than computer entries.

Naked short-selling lends extra power to shorts determined to drive a stock down, since they are relieved of the necessity of trying to find shares to borrow in what are frequently thin markets. This strengthens a short's hand in the over-the-counter market. Remember, there is also no uptick rule on Nasdaq; that is, one can sell short continually without waiting for an uptick in the price. In the absence of such a rule, the short-seller can keep relentless downward pressure on a stock.

The whole business of naked shorts is rather a dirty little secret, and few participants will talk openly about it. Requesting anonymity, the manager in charge of the stock loan department at one of the largest brokerage firms concedes that short positions in some Nasdaq stocks appear to be far larger than the outstanding float could possibly support. Meaning, of course, that a good part of the short position is naked.

Naked short-selling is relatively new. It started only around five years ago. Prior to that, there was relatively little traditional short-selling in Nasdaq stocks. Why not? Because it was too difficult to borrow these relatively thing stocks - and unless they can be borrowed, they cannot be shorted in the normal way.

The major exchanges had introduced the continuous net settlement system in 1974, and that paved the way. Previously shorts physically had to deliver to buyers the shares they borrowed. But now, transactions are recorded in each participant's account electronically. There is no essential reason to ask for delivery of securities, especially since they are marked to the market daily. Meaning: If a shorted stock goes up, the short-seller's broker has his account debited - indirectly, through the clearinghouse - and the purchaser's broker has his account credited to reflect the change in price. That ensures that the short-seller's broker will make good on his client's bet.

Under these conditions, so-called fails-to-deliver rarely carry a penalty. Once broker-dealers began to tolerate fails-to-deliver among themselves, short-selling in thin stocks became easy. No longer needing to find shares to borrow, you could short to your heart's content.

In the following few years, o-t-c stocks were pretty cheap and offered few targets for short-sellers, but then came the 1980s and the great bull market. Small stocks got hot again and new issues proliferated, offering targets for short-sellers.

It's a nasty business, naked shorting. And ghoulish. The name of the game is to destroy market value, cause other people losses so you can reap gains. Only a few people practice

it, but some of those who do have reaped substantial fortunes. Reputed leaders of this small wolf pack are the Feshbach family of Palo Alto, Calif.

The Feshbachs are relative newcomers to stock trading. Until 1981 none of them was in the investment business. Kurt Feshbach, then 28, the eldest of the three brothers, was a diamond broker. Matthew, 27, a high school dropout, was running a tennis school and a small store selling tennis rackets and tennis clothes in Menlo Park. His twin brother, Joe, who dropped out of the Utah State University, had become a full-time volunteer minister for the infamous Church of Scientology (FORBES, Oct. 27, 1986).

Their father, Bernard Feshbach, ran a small business touting oil and gas stocks and providing public relations services to small companies. The clan simply stumbled into the short-selling business business.

In 1981 the brothers joined Dad's business. On a visit to a potential client, Joe Feshbach was startled: Here was a company with a market capitalization of $ 45 million - market price times number of shares outstanding - and yet it had insignificant sales and a deficit in its working capital account. How could this operation actually be worth $ 45 million?

The brothers shorted the stock and made money. This was easy. This was fun. Much better than peddling tennis shoes or touting stocks. The three sons set up a brokerage firm, Stockbridge Partners. Now they could trade for others who liked their ideas, and thus earn commissions as well as trading profits.

A scant six years later the Feshbachs are kings of the small-stock shorts. Jointly, they operate the brokerage firm and a $ 200 million investment partnership, which was recently short some 70 stocks. "We are far and away the best in the business," proclaims 34-year-old Joe. They are diligent researchers, searching out situations where there are yet-to-be-revealed diasters and where the stock is in weak hands. They hire private detectives. The sons use the public relations skills they learned from their father, putting out the bad news instead of the good, whispering into columnists' and reporters' ears.

The Feshbach reputation and power has become awesome. They are the tontons macoutes of the stock market. Let the word get out that the Feshbachs are short a stock, and a good many otherwise bullish investors will dump it. They are a kind of self-fulling prophecy. That's especially true with fledgling enterprises that aren't yet widely covered by Wall Street analysts. In these cases the virtues of the company are little known, and there aren't lots of institutions willing to buy the stock on a dip. The o-t-c shorts operate in less-than-perfect market.

Their victims have made quite a feast for the Feshbach family. The brothers brag about their results, even though they are reluctant to document them. They say that they made 248% on their capital in 1984. Last year looked tough. With the market chugging relentlessly upward, they were caught in a costly squeeze when they shorted Reebok. But even after swallowing a few such losses, they claimed an 8% return through the first nine

months of 1987. For them, October and November were manna from heaven, giving them an overall annual return of 60%.

Even if these claims are exaggerated, the family must be doing something right. Smart operators like Robert Wilson, the centimillionaire stock trader, and Howard Stein's Dreyfus Corp. have put money with the Feshbachs. Gilder, Gagnon & Co., the secretive Manhattan money management fir, does lots of deals with the boys. The legendary money manager George Soros reportedly put $ 25 million with them but pulled it out after a squabble over fees.

While October brought bad news to most investors, the Feshbachs probably increased their net assets by a third by covering positions in stocks like Drexler Technology, Worlds of Wonder and Allegheny International.

How much naked shorting do the Feshbach do? When FORBES first asked them, they denied - amplifying their point with four-letter words - that they did any at all. One of Joe Feshbach's milder denials: "That is such bullshit that I can't even describe it."

But later Joe admitted the brothers had naked shorted a stock called Sunrise Savings & Loan. But he added: "That was four years ago, when we only had $ 9 million or $ 10 million under management." FORBES asked for clarification. Feshbach abruptly ordered FORBES reporters out of his office. The logical inference: Many Feshbach short positions are essentially naked.

There are many other, less visible players in the same game. Gene Finn, chief economist for the NASD, reports that some 80% to 85% of all shoring is done by broker-dealers for their own accounts. Certainly, some of this shorting is the “technical” shorting that broker-dealers have to do in the course of making a market. But it is common gossip -- though we can't prove it - that a lot of broker-dealers take naked speculative short positions.

Irving Pollack, a former crusading SEC commissioner, conducted a study on short-selling for the NASD. How did he identify naked short-selling? By looking for situations where short positions exceed 100,000 shares and where fails-to-deliver also exceed 100,000 shares. (Nasdaq short positions are reported monthly in the newspapers. Data on fails-to-deliver are not publicly disclosed by the National Securities Clearing Corp.) His study, covering the spring of 1986, found there were 30 companies in which those two circumstances occurred simultaneously. Among them was Sunrise Savings, a Boynton Beach, Fla. chain of savings and loans: 65% of its short interest reportedly changed hands but was never delivered. This stock was one of the Feshbachs' early triumphs.

Can ordinary investors play this game of naked shorting? Until recently they could, with their broker's connivance. But in October 1986 the SEC slightly curtailed naked shoring in response to complaints from o-t-c companies. The NASD required its broker-dealers to mark their order tickets long or short. It also requires the broker to determine whether or not a stock is borrowable before shorting a customer.

However, that left a giant loophole: Broker-dealers are still free to short for their own accounts, whether or not any borrowable stock exists. In short, they banned naked shoring by individual investors but not by broker-dealers. The Feshbachs are broker-dealers - even though investing customers' money through their partnership, Feshbach Bros., is their real business. As Anatole France once said of French law: "The law, in its majestic equality, forbids the rich as well as the poor to sleep under bridges, to beg in the streets and to steal bread."

At any rate, naked shorting is now a game strictly for the pros. Gilder, Gagnon is closely associated with short-sellers, including the Feshbachs, who don't do their own trading. The Feshbachs mostly use Gilder, Gagnon, whose o-t-c trader, Dick Banakus, is a close business associate. Gilder, Gagnon's Richard Gilder is a socially well-connected Yale graduate who serves as a member of New York Mayor Edward Koch's Central Park Conservancy committee, charged with raising money for that park. Gilder refused to talk with FORBES, but it's common knowledge that his firm is a large short-trader for its own account.

Sources tell FORBES that frequently when Gilder, Gagnon "pops up on the box" - which in trader jargon means becomes a marketmaker in a stock - a large short position often follows.

Besides having NASD's blessing, there are other advantages for a broker-dealer in the business of shorting and naked shorting. Any marketmaker quotes both a bid and ask price on the stocks it makes markets in. By periodically quoting the lowest bid and ask prices - compared with the rest of the marketmakers in a stock - a short-inclined marketmaker can exert downward pressure on the stock. That, of course, serves the interests of the shorts.

There's yet another payoff for the marketmaker. Shorting stocks for its own account - remember, any broker-dealer is free to do this without borrowing stock - earns a spread on the transaction. Here's how this works:

Imagine XYZ Co. The marketmakers are quoting 10 bid, 11 offered. Let's say Gilder, Gagnon becomes a marketmaker in XYZ and quotes a price of 10 (bid), 10 3/4 (offer). If it then shorts the stock, it sells at its own offer price, instead of having to sell at another marketmaker's bid. Gilder thus gets a better price on the short sale than a nonmarketmaker could get.

Not surprisingly, naked shorting and massive bear raids have sparked a nasty debate. Small struggling companies claim that naked short-selling can destroy them. The price of their stock slips initially under the pressure of naked selling, which creates margin calls that force some holders to sell, which then causes other investors to lose confidence. The shorts loosen a stone and an avalanche ensues. A promising company is snuffed out.

The short-sellers reply that this is nonsense. Take Sunrise Savings. Its assets grew from almost nothing to $ 1.2 billion in four years. The stock rose from 3 to 26.

Investors were sucked in by this story of growth, but the Feshbachs found out what lay behind the growth: Sunrise was making 100% loans to developers who put no money down on land purchased at inflated prices (FORBES, Feb. 27, 1984). On a tip from a mortgage banker, they hired a real estate consultant to investigate sites supposedly under development by Sunrise Savings' loan customers. The situation looked riper and riper. In 1984 the Feshbachs shorted the stock at an average price of 11. Shorting nakedly and otherwise, the Feshbachs finally covered at 37 cents a share. They made million. Sunrise went into receivership - as it well deserved. Sunrise Savings was doomed; it was raping its shareholders.

Of course, not all the cases are so clear-cut, which makes it doubly difficult to render a judgment on this kind of short-selling. Some companies have tried to fight back. TSO Financial, for example, which offers financial services to individuals, claims to be suffering an attack by naked shorts and has asked the NASD to investigate. The NASD's report is ten weeks overdue, and its spokesman refused to comment.

So the argument about the rectitude or evil or short-selling goes on and has its journalistic reflection. Alan Abelson, the curmudgeonly editor of Barron's, has long delighted in printing negative news on smallish, overinflated o-t-c stocks - a jab of his sharp pen has punctured many an investment balloon. To some Abelson is Dracula, to others Robin Hood. Some of his victims charge that he is carrying water for short-sellers. Replies Abelson: “I don't remember a single case where an attack [by shorts] has taken place where in some fashion the company wasn't susceptible. Few of them had those essentials: a product, a profit or real prospect.”

Robert Flaherty, editor of the small but lively OTC Review, quarrels with those shorts who bend and break the rules. Flaherty says that heavy short-selling activity - naked and otherwise - can sink struggling companies that might well have grown into healthy job providers and good investments.

Where lies the truth? Is naked short-selling a sin against free enterprise?

One needn't admire the Feshbachs - they are not easy people to like – to understand that they do help make the market more efficiently priced. It would be difficult to wreck a stock unless that stock were uneconomically priced - and probably doomed anyhow. Unless it was selling on hope or hype rather than on hard numbers. Yet the answer is not as clear-cut as it might seem. Many of the Feshbach targets are less-than-innocent victims, way overpriced to begin with and ready to collapse anyhow. Several companies they have shorted have ended up in various stages of bankruptcy, including Worlds of Wonder, Sunrise Savings and ZZZZ Best, a notorious fraud.

But there is a gray area between overinflated stocks and companies that are so strong they cannot suffer damage from a short attack. These may be simply struggling small

companies where a lot of stock is held on margin. Margin is to shorts what carrion is to vultures. Margined stock can be easily forced out on the market, thus reinforcing the initial decline. With its stock in ruins, the firm is unable to do further financing. In such cases investors get hurt along with the companies. Has this actually happened? It's difficult to say.

One reason there are so many short-selling targets among smaller Nasdaq stocks goes back to fundamentals. It has a lot to do with the way companies go public. In a not untypical example, the principals will put up almost no money and keep 70% or 80% of the stock. The public puts up 98% of the money and gets 20% or 30% of the stock. If the company survives but doesn't prosper, the principals are in fairly good shape, but the public loses money.

When we last spoke with the Feshbachs, they reported that they were 70% in cash. Why? Because with the markets down a third and with many o-t-c stocks almost obliterated, they apparently can't find enough “bargains” – overpriced small stocks - to sell short. So, when you get down to it, many short-sellers are really fundamentalists. If there are no overpriced stocks, shorts will lack for targets.

What is the lesson in all this? Essentially that small investors - the public - are relatively unprotected in the over-the-counter market both from predatory shorts and from greedy brokers and corporate managements. It might help if the NASD were to ask questions about broker-dealer fails-to-deliver that remain open for more than a month. Maybe the question of permitting margin on thin stocks is also worth reexamining. If these stocks are so vulnerable to downside and upside manipulation, should they be marginable? Margin buying puts small investors at extra risk in extraordinarily volatile stocks.

Until Oct. 19 hit us, a long, uninterrupted bull market made most people forget that it's a jungle out there. With visibly bloody claws, the Feshbachs and friends serve to remind us that markets are dangerous. Is it worse if naïve investors lose money to naked shorts instead of to hypsters? In the argument between shorts and longs, there are few true innocents. A plague on both their houses.

GRAPHIC: Illustrations, 1 through 8, no caption, Gary Hallgren; Picture, The Feshbach Bros. offices in Palo Alto, The tontons macoutes of the market. Judy Reed

Category	Magazine Article
Title	Scientologizing
Source	“Forbes”
Author	Dyan Machan
Date	September 14th, 1992

Contents:

Applied Scholastics, Inc., the management consulting group, bases its work on the writings of L. Ron Hubbard, founder of the Scientology cult (Forbes, Oct. 27, 1986).

Based in Fremont, Calif., the firm boasts a client list that includes IBM, Hewlett-Packard and Memorex. Among its least satisfied recent clients is $ 639 million (sales) Applied Materials, which makes the equipment used to manufacture computer-chip wafers.

In 1987 the Santa Clara-based company hired Applied Scholastics to conduct training seminars for its employees. Three employees subsequently sued Applied Materials, claiming that they were driven out of the company after they complained about the courses.

Applied Materials settled out of court with the three ex-employees on Aug. 12 for an estimated $ 600,000 or more. In a press release, the company admitted it “lacked sensitivity with regard to the controversial nature of L. Ron Hubbard.”

Says Applied Scholastics: “In ten years of business, we’ve never had anything

Category	Magazine Article
Title	Libertarian.net
Source	"Forbes", Vol. 163, Issue 12
Author	Seth Lubove
Date	June 14th, 1999

Description:

The article focuses on EarthLink Network founder and Scientologist Sky Dayton. His view of competitors in the Internet service provider business (ISP)as of spring 1999, the EarthLink's sales for 1998, the number of subscribers to the United States second-largest pure ISP, why Dayton wants no part of the openNET Coalition, the lobby for government intervention in the Internet economy.

While other Internet service providers plead for government relief, EarthLink's Sky Dayton likes his chances in wide-open competition.

Earthlink Network founder Sky Dayton, another postpubescent winner of the technology lottery, hides a skateboard under his office coffee table. He absentmindedly flings a plastic ball at a little hoop. He prefers the music, if you can call it that, of the Beastie Boys. He says "Duh!" a lot. But 27-year-old Dayton, who's worth $139 million even after a recent dip in EarthLink's stock, has a very mature issue with his competitors in the Internet service provider business. At the moment several of them, including America Online, MindSpring Enterprises and U S West, are haranguing Congress to force AT&T (which owns TCI) and other cable companies to carry all Internet service providers alongside their own At Home and RoadRunner services. The petitioners fear that, as cable spreads its broadband tentacles into more homes, they'll be marginalized to old copper wires. Ridiculous, scoffs Dayton, who more than doubled EarthLink's sales last year to $176 million. Unbridled capitalism will determine the winners of the Internet, not help from the government. EarthLink, the nation's second-largest pure ISP, with 1.16 million subscribers, wants no part of the so-called openNET Coalition, the lobby for government intervention in the Internet economy. "Consumers are the arbiters of success in a free market," says the rail-thin Dayton, a fan of libertarian thinkers Henry Hazlitt, Frederic Bastiat and Ayn Rand. "It never occurred to me to go to the government for a solution. It seems barbaric. A medieval solution to a Net-age problem."

Dayton proudly recounts a dinner he hosted in March at his Pasadena, Calif. home for William Kennard, the head of the Federal Communications Commission and point man on deciding whether to force the cable companies to provide open access. Not once in the two hours that Kennard sat at his elbow did Dayton lobby for any sort of regulatory relief. (The tale is confirmed by Kennard's office.) "I had no agenda other than I thought he was a cool guy," Dayton says. He really has no desire to hang out with the cable

companies, which he dismisses in wiseacre fashion as the “guys who come into your house with their cracks showing.” Rather, Dayton’s confidence in the marketplace comes from the way he views the Internet: as a collection of distinct providers of the various necessary on-line tools. There are access providers like EarthLink, MindSpring and AT&T; there are content providers like AOL, Yahoo and Excite. And there are the folks who furnish the pipelines, such as AT&T, Sprint and MCI WorldCom. These companies get into trouble when they try to expand beyond their specialties, such as an ISP that dreams of being a content provider, or a pipeline owner that tries to run an ISP. Sprint, in fact, gave up trying to run its own ISP and handed over its membership list to EarthLink last year in exchange for 28% of the company.

Dayton predicts that consumers, without any help from the FCC, will eventually tell the cable companies to exit the ISP business since that’s not their strength. Do you buy Lexus tires for your Lexus car? EarthLink, on the other hand, does nothing else but get people onto the Internet, then provides plenty of service once they’re on-line.

“You have this incredible medium at your fingertips,” he says, bounding around his desk. “You can use it to order pizza or to overthrow a government. The choice is yours. It’s $20 a month either way.” Just to hedge his bets, he’s set up deals with one of Paul Allen’s cable companies, a digital subscriber line service and a wireless outfit, as well as Sprint, so that he’ll be able to maneuver his customers to whatever pipeline offers the fastest service. He seems to relish taking jabs at AOL. “If EarthLink is the Rebel Empire, then AOL is the Borg,” he rails, referring to the centrally controlled villains in Star Trek. “Communism versus capitalism. A closed, vertically integrated society where they watch everything.” AOL is the destination for amateurs who later migrate to real ISPs when they’re ready to grow up. A toll-free number, 888-784-8265 (888-QUITAOL), lures new members. Once they arrive, they’re presented with “A guide for AOL graduates” illustrated by a robot taking the training wheels off his bike.

Is there not a paradox in Dayton’s association with Scientology, a pseudo-religion that keeps an autocratic grip on its members and its holy writings? Yes and no. The celebrity-studded church is also famous for its run-ins with the government. Dayton doesn’t see a connection to his business. He’s come upon many of his beliefs, including the libertarian economic theory, as part of his self-education, begun when the haughty California Institute for the Arts turned him down after high school.

One thing he knows: Pleading for political assistance-what Bastiat would call “plunder”-is more than he could stomach. “We wake up every morning knowing we have to create our business, and if we don’t, someone will take it from us. That’s a great feeling.” Dayton stares at two ceremonial shots of himself woodenly shaking hands with Bill Clinton and Al Gore. “These shouldn’t be near my wife’s photos,” he grumbles, blaming an assistant for putting them there while he was traveling. He sticks them on another bookshelf, behind a size 22 sneaker signed by basketball’s Shaquille O’Neal.

By the Numbers

- 117% EarthLink revenue growth in 1998
- $59.8 million EarthLink 1998 net loss
- 1.16 million EarthLink membership March 1999

- 5,939 EarthLink membership June 1995

PHOTO (COLOR): Earthlink’s Dayton: loves the Beastie Boys, L. Ron Hubbard and Ayn Rand. Hates government handouts.