

Bridge sells E-Meters to Churches of Scientology at a discount of 50 percent of the suggested list price for bulk purchases of 10 E-Meters. Church bookstores sell almost exclusively to IAS members who are entitled to a 20-percent discount from the suggested retail price.

The costs prices and profits of the E-Meter are:

<u>Bridge's Net Profit:</u>	<u>Discounted</u>	<u>Retail</u>
Sales price	\$2,663.10	\$ 3328.88
50% bulk discount on sale of 10 E-Meters to bookstores	- <u>1,331.55</u>	- <u>1,664.44</u>
Wholesale price received by Bridge	\$1,331.55	\$ 1,664.44
Royalties paid to NEP	426.10	532.62
Parts	347.15	347.15
Manufacturing cost	38.87	38.87
Operating costs	- <u>308.47</u>	- <u>309.47</u>
Net profit retained by Bridge	\$210.96	\$ 437.33
Amortized lump-sum payment ^V	- <u>1.68</u>	- <u>1.63</u>
Effective net profit retained by Bridge	<u>\$ 209.28</u>	<u>\$ 435.65</u>

Church Bookstore Net Profit

Sales price	\$2,663.10	£3,328.83
Wholesale price to Bridge	- <u>1,331.55</u>	- <u>1,664.44</u>
Gross profit to bookstores	1,331.55	1,664.44
Sales commission (5%)	133.16	166.44
Average shipping and insurance	- 3.67	- 3.67
Net profit retained by bookstores [^] /	<u>\$1,194.72</u>	<u>\$1,494.33</u>

*/ If the Bridge's \$30,000 lump-sum payment to Mr. Hubbard, through NEP, is spread over the 17,900 E-Meters expected to be sold before the agreement expires in July 2001, Bridge's profit is effectively reduced by \$1.68 per unit.

**/ The Actual net profit retained by COS should be somewhat lower per unit than the amounts shown because, in addition to Bridge, Church bookstores also pay for the promotion of E-Meters. However, a per unit cost figure cannot be calculated accurately because the bookstores promote E-Meters, books, tapes, etc. from a single budget and often in the same materials.

The two experts who reviewed CSI's pricing method and prices for the E-Meter concluded that the discounted and undiscounted retail prices of the E-Meter are reasonable in light of its production and delivery costs. Exhibit G-12 at 112; Exhibit G-13 at #8.

Mr. Smith and Mr. Alexander also concluded that the list price of the E-Meter (\$3,328.88) is reasonable based upon the common manufacturing industry practice of setting retail prices at 300% to 400% above the total per unit cost of production and delivery." Specifically, the two experts found that the list price is about 385% over the per-unit production and delivery cost of \$ 864.60 (based on sales at the retail price). The experts also concluded that the IAS discounted price of the E-Meter (\$ 2,663.10) is reasonable because it is about 320% over the per-unit production and delivery costs of \$831.32 (based upon sales at the IAS price). (Exhibit G-12 at 124); (Exhibit G-13 at #19).