

2009, May 20

## OPEN LETTER TO ALL FEI/AJG MARKET PARTICIPANTS

It has been a very long time—too long, actually—since the trustees of AJG’s natural estate have communicated openly with the FEI market. It has not been for lack of desire, or for lack of positive news to report. In this letter, we will:

- Explain why the Trust has been mostly incommunicado since 1999
- Address some of the myths, misconceptions, misinformation, and outright falsehoods that have circulated throughout the market over the past several years
- Briefly describe some of the Trust’s past, present, and future activities
- Provide a means of obtaining more information about subjects that may be of specific interest to you

### **Reformation of the Trust**

It was the intention of AJG and SJG that their natural estates be embodied in and administered by The Andrew J. Galambos and Suzanne J. Galambos Natural Estates Trust (“the Trust”). Those who understand the mechanism of the natural estate might have an appreciation of the difficulty in accommodating proprietary interests *in perpetuity* within the context of the flatland legal system.

AJG believed he had structured the Trust to adequately provide for his interests within such a hostile social context. Unfortunately, the realities of California law proved otherwise. Due to several flaws in the constitution of the original Trust agreement (through no fault of the attorney who drafted it), the Trust as a legal entity did not provide an adequate mechanism for the protection and perpetuation of AJG’s proprietary interests. For example, because the original Trust agreement made no provision for the continuation of the Trust as a legal entity beyond the lifetime of the original trustee plus 21 years, it was inconsistent with the V-201 specifications for a natural estate in perpetuity. What’s more, the structure of the Trust did not support the Trust agreement’s own explicitly articulated instructions to the trustees. As a result, the very survival of the Trust as the guarantor and protector of AJG’s interests was in jeopardy.

The trustees believed (and counsel advised) that their first duty as AJG’s fiduciaries imposed both a moral and a legal obligation to ensure the Trust’s survival as a legal entity. Consequently, the trustees were bound to revise the legal structure of the Trust to accommodate AJG’s intent as he articulated it in the Declaration of Trust. Initially, the Trust’s interpretation of AJG’s intent was challenged in the Martin litigation (see Litigation History, below), but the challenge was

eventually withdrawn by the litigant. The court subsequently upheld the Trust's interpretation of AJG's intent of the Declaration of Trust.

As a result, in 2004 the trustees began a long process of restructuring the Trust in accordance with AJG's intent as he originally expressed it in the Trust agreement, as authoritatively interpreted in accordance with the principles of V-201. The Trust has rectified the *legal* structural deficiencies in the original Trust agreement. The Trust is now structured correctly as a legal entity that is constituted to serve AJG's proprietary interests in perpetuity; however, there is still much to do in restructuring the Trust's *internal* operations for that purpose. We inherited a Trust structure that was ill equipped to fulfill its own purposes, but the work to remedy that deficiency is in progress.

## Litigation History

There is one principal reason why the Trust has not been in communication with the FEI market in recent years: *litigation*. In 1998, the Trust became involved in an action ("the Martin litigation") whose central issue was legal control over the Trust and its property, particularly the control over AJG's primary property (P<sub>1</sub>).

A provision in the original Declaration of Trust stated that the trustees must "consult with the literary executor" (the opposing party in the Martin litigation) regarding the publication of AJG's work. In October 1999, the court issued a decision stipulating that the Trust was not obligated to comply with any of the literary executor's instructions or demands, but was nonetheless required to "consult with" him. In effect, that decision required the Trust to disclose all information regarding its own efforts to publish any of AJG's work to the hostile litigant. Rather than provide any such proprietary information to a legal adversary whose avowed purpose was to usurp the legal and moral authority of the Trust, our attorneys advised that the trustees had no choice but to refrain from active efforts to produce Book 1,<sup>1</sup> or any other publication of AJG's work during that litigation.

Upon the further advice of counsel, the trustees refrained not only from all publication efforts, but also from making any public statements about the Trust's activities. The nature of the lawsuit was such that any information about the Trust's actions could be used by the opposing party to negatively affect the Trust's interests in the outcome of the case. For that reason, the Trust made no public statements of any kind about Trust operations for the duration of the lawsuit.

The Martin litigation was resolved in the Trust's favor in March 2004, at which time the Trust resumed its production efforts for Book 1.

Within approximately three months (in June, 2004) of the resolution of the Martin litigation, certain Pre-Publication Subscription Agreement (PPSA) subscribers began making demands that the trustees disclose proprietary information regarding the Trust's operations. The initial demands focused on the production and publication schedule for Book 1. At that time, the Trust

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<sup>1</sup> "Book 1" is the term AJG used to refer to the book in which he intended to write a thorough exposition of his theory.

was still developing its production schedule for Book 1; there was nothing to report except an approximate timetable, and that's not what the parties in question were demanding. They wanted a firm commitment to a publication date—something the Trust was not able to provide until the production planning was complete. What's more, they demanded that Book 1 must be published according to their own methods and specifications—something that was outside their right or authority to demand under the PPSA.

The trustees assured the inquiring subscribers that Book 1 would be delivered in accordance with the Trust's obligation to publish, protect, and perpetuate AJG's work. The subscribers responded that the protect and perpetuate requirements are "irrelevant" and "an interpretation". They insisted that the Trust's *only* obligation was to publish—in accordance with their specifications. They demanded that the Trust disclose its proprietary plans for Book 1 publication, with the implied threat that the only plans that they considered acceptable would be those that complied with their demands.

Although the Trust owed no contractual or fiduciary duty to those parties to make any such disclosures, the trustees recognized that a good-faith offer of a contractual disclosure that maintained the confidentiality of the proprietary information would demonstrate the Trust's willingness to cooperate with PPSA subscribers, who had very patiently waited for news about the publication of Book 1 throughout the protracted Martin litigation.

The Trust's offer of contractual disclosure of its proprietary information was summarily rejected by the hostile subscribers. They became increasingly antagonistic, insisting that they represented the interests of *all* PPSA subscribers, and that they had a self-appointed duty to report to all subscribers everything the Trust disclosed to them. They escalated their demands, further insisting that the trustees owed them full disclosure as to the Trust's finances and operations as a matter of fiduciary obligation. The trustees disagreed. The Trust's sole legal and moral obligations are the publication, protection, and perpetuation of AJG's work, as specified by the Declaration of Trust.

In response, the hostile parties further escalated their demands, insisting that the Trust relinquish control of AJG's primary property into their custody. Releasing control of AJG's P<sub>1</sub> and his natural estate's proprietary information regarding Trust operations would have constituted a blatant breach of our fiduciary duty to AJG's surviving proprietary interests. When the Trust refused to capitulate, the hostile parties declined arbitration and filed a lawsuit in May 2006 ("the Marks litigation") alleging breach of contract on the part of TUSPCO. The complaint petitioned the court either to compel the Trust to publish Book 1 in accordance with the plaintiffs' demands, or to transfer possession of AJG's P<sub>1</sub> to them so that they could publish the work themselves. Ironically, the lawsuit also alleged breach of fiduciary duty by the trustees, as well as other false allegations.

Because the Marks litigation did not impose any court-ordered limitations on the Trust's ability to prepare AJG's work for publication, Book 1 production planning continued throughout the early part of the litigation, although the work was greatly impeded by the lawsuit. Nevertheless, upon the advice of counsel, the trustees refrained from making any public disclosures about the Trust's operations in general or the Book 1 project in particular throughout the litigation.

In April 2008, the Marks litigation was resolved by the court in the Trust's favor on all causes of action. The plaintiffs dismissed their breach of fiduciary duty allegation before the case went to trial. In its final decision, the court ruled that TUSPCO had fully satisfied its PPSA Book 1 delivery obligation to the plaintiffs with the 1999 delivery of *Sic Itur Ad Astra (SIAA), Volume 1*. The court also ruled that the plaintiffs had failed to prove numerous other allegations contained in their original complaint, especially certain false allegations against the Trust and its trustees.

### **TUSPCO Pre-Publication Subscription Agreement (PPSA)**

The trustees have always had and still have every intention of fulfilling their fiduciary obligation to publish, protect, and perpetuate AJG's work. That specifically includes the proprietary production and distribution of Book 1 as the definitive, authoritative reference work on AJG's theory. There is a great deal to say on that subject—much more than is appropriate to include in a letter that discusses so many other subjects with the FEI market in general, which includes individuals who are not book subscribers. All individuals who have purchased books by advance subscription should inquire for further information using the contact information on page 8 of this letter.

### **Preservation of AJG/FEI Lectures**

The Trust is aware of persistent false allegations claiming that the content of AJG's lectures is in danger of being lost through improper storage of the audio tape recordings and other forms of neglect. Those claims are false. The master tapes have been stored properly and are in excellent condition. The more recent (polyester) tapes are in as-new condition; *none* of them have been afflicted by hygroscopic deterioration. Even the oldest (acetate) tapes remain flexible, with virtually no loss of oxide on playback.

Nevertheless, the trustees understand that magnetic tape is not a durable storage medium. In 1999, the Trust began a program of transferring the analog audio tapes to digital media. Since that time, the digital archiving technology has greatly improved, with the result that a competent engineer with state-of-the-art facilities can transfer analog lecture course tape content to digital media with increasing quality and decreasing cost. AJG's work is the beneficiary.

The digital archiving of AJG's lecture course tapes is an ongoing process. Preservation of AJG's P<sub>1</sub> is one of the Trust's highest priorities, and we have taken great care to ensure that the work is done diligently and expeditiously by qualified professionals. Contrary to false rumors, none of AJG's recordings have been lost.

We are dismayed that such false rumors ever began in the first place. We are especially dismayed that they are now being used by some individuals to justify their theft and unauthorized noncontractual disclosure of AJG's P<sub>1</sub>. No one has either a moral or a legal right to produce any version of any FEI/AJG course and offer it for sale or distribution without the approval of AJG's natural estate.

We urge all individuals who value AJG's work not to provide a market for such stolen property. The Trust is the sole owner of all FEI courses, and has not authorized anyone other than FEI to

make any general publication of FEI courses in any form whatsoever. None of AJG's P<sub>1</sub> has been released to ARD, and none is available for republication by others without the explicit authorization of the Trust.

### **FEI Courses on CD and DVD**

The increasing body of AJG's lecture courses in digital format provides the opportunity to recreate the courses on digital optical media. Toward that end, the Trust has begun production of FEI courses on CD or DVD as appropriate.

The quality of the courses on digital media is superb. The digital transfers were made from the original master tapes, recorded in 24-bit digital audio, and digitally processed for maximum clarity and intelligibility. The visual aids have been updated and enhanced. Many of the more detailed technical discussions have been augmented with commensurate explanatory detail in the slides, which are now much more precisely synchronized and integrated with the audio than was possible in the tape course presentations.

V-50DVD and V-201DVD are complete as audio lectures with accompanying visual aids. FEI has produced a special edition of the 1966, February V-76 presentation in a 7-disk CD set. Production of P-100/101DVD began in September 2008. The Trust will produce other FEI courses on DVD in response to market demand, and to support its market strategy.

### **Expanding the FEI Market**

The Trust recognizes the importance of expanding the market for AJG's work. The *proprietary* publication of Book 1 in accordance with primary property theory's specifications is a crucial long-term component of that market penetration strategy. Another component, which is important in the near-term, is the ongoing development of a growing body of individuals who have immediate access to AJG's work in a context that encourages working comprehension of both the theoretical and technological parts of that work. "Working comprehension" means that it is more than an academic exercise. Rather, the goal of such direct education is to encourage practical applications under NRD<sup>2</sup> licensure.

Moreover, the Trust is charged with the responsibility of continuing research and education as two of the principal functions of AJG's natural estate. In fulfillment of those objectives, the Trust has reactivated The Free Enterprise Institute (FEI) as a functioning educational entity, albeit with a focus on a much more direct and proactive relationship with FEI students than in the past.

To better implement that approach, the Trust has appointed Cheryl A. Cerell as FEI Marketing Director. Her many years of experience as an FEI course contractor, FEI contractual associate, and personal friend of both Professor and Mrs. Galambos uniquely qualify her for the task of rebuilding and expanding the FEI market.

The initial phase of FEI market redevelopment is the resumption of the basic, entry-level courses of the Institute. The first presentation of V-50DVD occurred in Fall 2007 by FEI contractor Bernice Mancebo-Stumps in Downey, California, followed by a Spring 2008 V-50DVD

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<sup>2</sup> "NRD" means "negotiated remoteness dilution", as defined in Course V-201. According to P<sub>1</sub> theory, NRD is the crucial first step in the ideological penetration of markets by *any* intellectual product. As AJG stated in V-201, "It is not proper *ever* to have any bypassing of NRD." (Session 32B) The Trust is the sole moral and legal licensing agent for AJG's P<sub>1</sub>.

presentation, as well as the first presentation of V-201DVD in Spring 2008. FEI contractor Ross Krumbholz has completed his Spring 2008 V-50DVD presentation in Australia. FEI is currently qualifying contractor candidates for additional market openings in numerous locations in California, as well as in Arkansas, Colorado, Massachusetts, Oregon, and Pennsylvania.

We are encouraged by the enthusiastic response of contractors and course enrollees; however, the Trust's focus in rebuilding and expanding the FEI market is specifically on *comprehension* of the courses, rather than simply trying to get as many people as possible to enroll in them. We are less interested in building enrollment numbers than in building a durable market of graduates who understand what they've heard well enough to actually *apply it consistently to their own behavior*—a condition that suffers when the focus is on quantity rather than quality.

### **The “Charitable Organization” Myth**

One of the falsehoods that has been popularized by those Olympian individuals who know nothing about the Trust and understand even less about its operations and obligations is the myth that the trustees reformed the Trust as a publicly supported, tax-exempt charitable organization, in direct violation of AJG's express wishes, and in violation of the principles of P<sub>1</sub> theory. We love that story, even though it's fiction. For those whose purpose is to find fault with the trustees, it will do as well as any of the other falsehoods in the FEI rumor mill. But for those who are interested in the truth, here it is.

The Trust is constituted as the only kind of California entity that will enable it to meet the explicitly stated intentions of the trustors, AJG and SJG. That conclusion has been tested in litigation, and confirmed by the court of jurisdiction. The type of entity involved happens to provide the *potential* for the Trust to accept tax-exempt charitable contributions, but the Trust has not elected to take the actions necessary to activate that potential. There has been no need to do so.

To those who understand and appreciate the proprietary nature of the trustees' risk as administrators of AJG's natural estate in a hostile flatland environment, we advise caution in accepting the hearsay assertions of others who have no such interest, and no such risk.

### **Trust Strategy and Operations**

The trustees are aware of a mindset that believes the sole purpose of the Trust is to publish AJG's work, make it available to the entire world via universal promiscuous disclosure, and provide no protection for AJG's proprietary interests into the bargain. The truth is that we are both morally and legally obligated *not* to do anything of the kind.

We realize that fact makes no difference to those who insist that their interpretation of “what the Professor wanted” supersedes all other considerations and interpretations. The Trust has already experienced the extent to which such individuals are willing to recidivate into using the coercive

mechanism of the state to resolve problems they are unwilling or unable to resolve contractually, or to use other forms of coercion, including plunder<sup>3</sup>, to advance their personal agendas.

Nevertheless, the Trust is more optimistic than ever about the outlook for the market success of AJG's theory. That optimism is tempered by the aforementioned disputes, but they constitute friction, not roadblocks. As we look to the future we are pleased to report successful development of some of the components of the Trust's strategy and operations in which we have made progress in recent years:

- A functional prototype clearinghouse mechanism—the single most important application of primary property theory—without which the gradual transition from NRD to ARD usage of AJG's theory is impossible. That clearinghouse mechanism will rationally and morally govern *all* disclosure and licensed usage of AJG's theory, precisely as his theory specifies it should.
- Supporting technologies that will foster proper applications under the aforementioned clearinghouse structure, including the following:
  - Development of crucial contract technologies necessary to implement proper applications
  - Development of clearing house applications, including P<sub>1</sub> registration, the P<sub>1</sub> credit mechanism, dispute resolution, production contracts, alligator technology<sup>4</sup>, and advances in contract stabilization technology
  - Enhanced methods for *proprietary* access to V-50 and V-201 for intensive study by qualified individuals
- An effective marketing strategy for AJG's theory—one that we believe will result in a significant growth in its market acceptance in the foreseeable future. We will not find ourselves in the position—as we did with *SIAA-Volume 1*—wherein we will have produced a book and then found ourselves without a realistic, profitable plan for its rational and moral market distribution, other than “Just get it out there...and damn the flatland torpedoes.” That's not a strategy; it's a prescription for primary theft. P<sub>1</sub> theory correctly predicted its failure for *SIAA-Volume 1*, and we have no intention of repeating that error.
- An integrated P<sub>1</sub>Co/P<sub>2</sub>Co/OpCo<sup>5</sup> structure that will impel its own future development of products based on applications of primary property theory and derivative theories and technologies. It will include a rational and moral P<sub>1</sub> investment structure that properly

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<sup>3</sup> For the sake of market justice, we recommend that you contact the FEI Marketing Director if you have any questions about whether someone who promotes or markets the work of AJG (or anyone claiming to have been affiliated with AJG) does so with the explicit contractual permission of his Natural Estate Trust. You should *not* purchase any such products or services from anyone who cannot provide you with a copy of written authorization from the Trust to promote or market AJG's intellectual property.

<sup>4</sup> “Alligator technology” is a contract stabilization application of P<sub>1</sub> theory described in course V-201.

<sup>5</sup> The tripartite “P<sub>1</sub> company/P<sub>2</sub> company/operating company” structure is an essential technological component of the theory disclosed in course V-201.

compensates AJG and other innovators who invest their  $P_1$  in those products, and a similarly constituted  $P_2$  investment structure that properly compensates those who invest their  $P_2$  in the supporting production mechanisms. For example, in response to inquiries by certain FEI graduates, we are currently considering the possibility of offering limited  $P_2$  investment shares in certain key products to properly qualified V-201 graduates.

- Direct participation by qualified V-201 graduates who are interested in applying their talents in three areas:
  - $P_1E$  – This includes individuals who have specific proposals for licensing the technology in primary property theory; that is, folks who have practical ideas about applying AJG’s theory under an NRD license.
  - $P_2E$  – This includes individuals who are interested in raising investment capital for projects directed or licensed by the Trust. There are many such projects waiting to be capitalized.
  - Others who are interested in establishing natural estate legacies that integrate with the primary mechanism<sup>6</sup>

We hope it is now evident to you that the scope of the Trust’s obligations involves considerably more than merely publishing the Book. In fact, the Book’s publication is only one aspect of a successful, integrated, long-term marketing strategy that protects and perpetuates AJG’s surviving proprietary interests. If you wish to discuss any of the subjects addressed in this letter, please contact Cheryl Cerell, FEI Marketing Director via e-mail at [info@fei-ajg.com](mailto:info@fei-ajg.com).

There is a great deal of work yet to be done, both by the Trust and by all of AJG’s students who have a genuine desire to apply his theory correctly. The trustees are working with a growing number of individuals in the FEI market in NRD applications of AJG’s theory. We have barely scratched the surface, but we are much further along than most of AJG’s existing market has realized or even suspected. Most importantly, we have joined many others in the FEI market in dropping our naïve, simplistic, Olympian assumptions that all we have to do is disclose AJG’s theory promiscuously, and then someone else will do what it takes to protect and perpetuate it. It’s not up to someone else. It’s up to us—all of us.

Sincerely,

*The Andrew J. Galambos and Suzanne J. Galambos Natural Estates Trust*



Wayne Joyner, Trustee

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<sup>6</sup> The “primary mechanism” is a technological application of  $P_1$  theory described in course V-201.